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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 2014

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 2014 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 2014

		For the six months ended 30 June	
	Notes	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
REVENUE	4	109,445	150,775
Cost of sales		<u>(83,483)</u>	<u>(122,730)</u>
Gross profit		25,962	28,045
Other income and gains	4	7,218	2,272
Selling and distribution costs		(5,624)	(5,928)
Administrative expenses		(15,788)	(16,949)
Other expenses		(1,376)	(1,054)
Finance costs		–	(190)
Share of profits of an associate		<u>–</u>	<u>3,898</u>
PROFIT BEFORE TAX	5	10,392	10,094
Income tax expense	6	<u>(2,906)</u>	<u>(4,954)</u>
PROFIT FOR THE PERIOD		<u>7,486</u>	<u>5,140</u>
Attributable to:			
Owners of the parent		7,486	5,140
Non-controlling interests		<u>–</u>	<u>–</u>
		<u>7,486</u>	<u>5,140</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT			
Basic and diluted	7	<u>1.15 cents</u>	<u>0.79 cents</u>

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	7,486	5,140
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	<u>2</u>	<u>(26)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	2	(26)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	7,488	5,114
Attributable to:		
Owners of the parent	7,488	5,114
Non-controlling interests	<u>—</u>	<u>—</u>
	7,488	5,114

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		145,543	146,242
Prepaid land lease payments		72,695	73,687
Advance payments for property, plant and equipment		98	101
Available-for-sale investments		262	262
Deferred tax assets		2,638	2,802
Total non-current assets		221,236	223,094
CURRENT ASSETS			
Inventories		73,628	83,304
Trade and notes receivables	9	97,237	105,421
Prepayments, deposits and other receivables		4,970	12,655
Financial assets at fair value through profit or loss		8,000	26,000
Pledged deposits		5,168	5,459
Cash and cash equivalents		205,611	174,581
Total current assets		394,614	407,420
CURRENT LIABILITIES			
Trade and bills payables	10	45,967	66,279
Other payables and accruals		11,150	14,317
Due to related parties		1,962	1,970
Provision		2,013	2,335
Government grants		1,504	1,337
Tax payable		2,674	416
Total current liabilities		65,270	86,654
NET CURRENT ASSETS		329,344	320,766
TOTAL ASSETS LESS CURRENT LIABILITIES		550,580	543,860

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Notes		
NON-CURRENT LIABILITIES		
Government grants	10,295	11,214
Deferred tax liabilities	590	439
Total non-current liabilities	10,885	11,653
Net assets	539,695	532,207
EQUITY		
Equity attributable to owners of the parent		
Issued capital	5,406	5,406
Reserves	223,205	223,203
Retained earnings	311,080	303,594
	539,691	532,203
Non-controlling interests	4	4
Total equity	539,695	532,207

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2014

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, KY1-1111, 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 2014 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 2013.

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 2013, 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 2014 as disclosed in note 2.3 below.

2.3 Impact of new and revised HKFRSs

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

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Leases*

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

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	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Mainland China	85,699	98,772
United States of America	7,232	20,876
Canada	11,081	15,748
Asia	4,267	10,093
Others	1,166	5,286
	<u>109,445</u>	<u>150,775</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 2013 and 2014.

Information about major customers

For the six months ended 30 June 2014, revenue from one customer accounted for more than 10% of the Group's total revenue individually. Revenue from the customer was RMB29,281,319.

For the six months ended 30 June 2013, revenue from three customers accounted for more than 10% of the Group's total revenue individually. Revenue from these three customers was RMB29,643,000, RMB18,030,000 and RMB15,474,000, 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	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
REVENUE		
Sales of goods	109,445	150,775
Other income		
Government grants	2,897	777
Bank interest income	2,703	195
Others	235	229
	5,835	1,201
Gains		
Gain on disposal of financial assets at fair value through profit or loss	76	674
Gain on disposal of items of property, plant and equipment	–	397
Foreign exchange gain, net	1,307	–
	1,383	1,071
	7,218	2,272

5. PROFIT BEFORE TAX

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

		For the six months ended	
		30 June	
	Notes	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Cost of inventories sold		83,483	122,730
Depreciation		5,200	5,770
Amortisation of prepaid land lease payments		992	849
Research and development costs		3,387	3,536
Operating lease expenses		1,094	818
Gain on disposal of items of property, plant and equipment	9	–	(397)
Product warranty provision		601	658
Auditors' remuneration		100	430
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		15,783	16,540
Pension scheme contribution		3,518	3,630
Staff welfare expenses		565	1,064
		19,866	21,234
Foreign exchange differences, net		(1,307)	851
(Reversal of impairment)/Impairment of inventories		(275)	1,297
Impairment of trade receivables		501	163
Bank interest income		(2,703)	(195)

6. INCOME TAX EXPENSE

The major components of income tax expense are:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – charge for the period	2,591	4,535
Deferred	315	419
Total tax charge for the period	2,906	4,954

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 2014.

The calculations of basic earnings per share are based on:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to owners of the parent	7,486	5,140
	Number of shares	
	2014	2013
	'000	'000
Shares		
Weighted average number of ordinary shares in issue during the period	650,000	650,000

8. DIVIDENDS PAID AND PROPOSED

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends on ordinary shares declared and paid during the six-month period:		
Final dividend – Nil	–	–

The Board does not recommend the payment of any interim dividend in respect of the six months ended 30 June 2014 (30 June 2013: Nil).

9. TRADE AND NOTES RECEIVABLES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Trade receivables	73,354	75,198
Notes receivable	25,507	31,346
	98,861	106,544
Impairment	(1,624)	(1,123)
	97,237	105,421

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 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 1 month	36,955	46,275
1 to 2 months	18,234	19,739
2 to 3 months	19,476	11,398
3 to 12 months	20,884	27,420
Over 12 months	1,688	589
	97,237	105,421

10. TRADE AND BILLS PAYABLES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Trade payables	31,317	50,979
Bills payable	14,650	15,300
	45,967	66,279

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 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 1 month	10,532	22,329
1 to 2 months	14,465	17,091
2 to 3 months	8,330	10,434
3 to 6 months	10,661	15,276
6 to 12 months	942	605
12 to 24 months	572	28
Over 24 months	465	516
	45,967	66,279

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

As at 30 June 2014, the Group's bills payable of RMB14,650,000 (31 December 2013: RMB15,300,000) were secured by certain of the Group's notes receivables balance of RMB9,500,000 (31 December 2013: RMB9,850,000) along with certain of the Group's cash and bank balances of RMB5,168,161 (31 December 2013: RMB5,459,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Shuanghua Holdings Limited (“Shuanghua” or the “Company”; collectively with its subsidiaries referred to as “the Group”) achieved during the six months ended 30 June 2014 (“the period”) a revenue of RMB109.4 million, representing a decrease of RMB41.4 million, or 27.5% from the same period of last year. During the first half of 2014, the Group’s net profit was RMB7.5 million, as compared to a net profit of RMB5.1 million for the same period of last year, representing a 47.1% growth.

The decline in the Group’s operating revenue was mainly attributable to: (1) significant decrease in the selling price and sales volume of evaporators and condensers manufactured by the Group owing to intense competition in the domestic and international automotive markets; and (2) the suspension of the Group’s production and sales of self-manufactured compressors since March 2013 as part of the Group’s adjustments to its compressor project.

The increase in the Group’s net profit was mainly attributable to (1) the increase in interest income in tandem with the increase in bank deposits for the period; (2) exchange gains arising from RMB appreciation; (3) the Group’s adoption of various measures to control the increase in costs; and (4) the increase in government subsidies income.

SALES TO THE DOMESTIC MARKET

For the six months ended 30 June 2014, the average selling prices of evaporators, condensers and heaters in the domestic market decreased variously comparing to the corresponding period of 2013. There was a slight increase in the sales volume of evaporators, while the volume of condensers and heaters sold fell by 18.4% and 41.3%, respectively, as compared to the same period in 2013. Revenue generated by sales of evaporators was largely unchanged from the corresponding period of last year, while revenue generated by sales of condensers and heaters decreased by 20.0% and 44.2%, respectively, comparing to the corresponding period of last year. The decline in the Group’s sales in the domestic result was mainly attributable to intense market competition.

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

SALES TO INTERNATIONAL MARKETS

Our sales to international markets are primarily to the North American and Asian markets. For the six months ended 30 June 2014, the average unit selling price of the Group's of self-manufactured evaporators and condensers in the international market declined variously comparing to the corresponding period of 2013, and the sales volume decreased by 37.4% and 36.4%, respectively, as compared to the same period last year. As a result, revenue from sales of self-manufactured evaporators and condensers to international markets decreased by approximately 42.4% and 38.3%, respectively, from the same period of 2013. For the six months ended 30 June 2014, revenue from the sales of self-manufactured heaters to the international market grew by approximately 31.7%. The significant increase in average sales revenue comparing to the corresponding period of 2013 was mainly attributable to the substantial increase in sales volume by 33.0% as compared to the corresponding period of 2013 on stable unit selling prices.

For the six months ended 30 June 2014, the Group did not record any revenue from sales of self-manufactured compressors to international markets, as the Group's production and sales of self-manufactured compressors had been suspended since March 2013 as part of the Group's adjustments to its compressor project.

For the six months ended 30 June 2014, the Group's revenue from sales of trading compressors to international markets fell substantially by approximately 49.0% from the same period of 2013. The Group maintained only a minimal amount of trading compressors sales in 2014. Sales of trading compressors substantially decreased mainly because the main trading compressors supplier of the Group has commenced its own compressors trading business since the second half of 2012, and hence the Group substantially reduced its purchase of compressors from this supplier. For the six months ended 30 June 2014, sales volume of the Group's trading compressors to international markets decreased by approximately 50.5% as compared to the corresponding period in 2013.

Other revenue from sales to international markets comprised primarily oil coolers, intercoolers, liquid-gas separators and thermostats.

OUTLOOK AND STRATEGY

The after-sales auto market is expected to expand in tandem with the continued growth of private automobile ownership in China, with prospects of generating higher profitability than the auto manufacturing market. For suppliers of auto parts and components and after-sales services, this would mean enormous market niche and growth opportunities.

To address changes in the automotive after-sales market and secure greater growth opportunities, the Group intends to adjust its development strategy. While consolidating our existing principal businesses and enhancing production efficiency, we will seek to expand the range of products on offer to include products such as auto lubricants and petrochemicals, develop our distribution network and identify new niches for profit growth. The Company will soon be setting up joint venture companies with a third party to develop the aforesaid businesses.

In the future, the Group will embark on gradual transformation to a service-based enterprise focused on the market. We will continue to vigorously pursue joint venture opportunities for compressor projects to alleviate our loss; and we will also make ongoing efforts to improve corporate group management, achieve cost-savings, enhance production efficiency and increase Group profitability. Leveraging its access to the capital market, the Group will continue to actively identify opportunities for acquisitions, investments, joint ventures or strategic alliances to drive its strategy of vertical as well as horizontal expansion.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2014, revenue was approximately RMB109.4 million, representing a decrease of RMB41.4 million, or 27.5%, from RMB150.8 million in the same period of 2013.

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

Revenue	For the six months ended 30 June			
	2014		2013	
	RMB'000	% of revenue	RMB'000	% of revenue
Domestic				
Evaporators	50,125	45.8%	52,459	34.8%
Condensers	24,975	22.8%	31,225	20.7%
Heaters	3,148	2.9%	5,643	3.7%
Others	7,451	6.8%	9,445	6.3%
Sub-total	85,699	78.3%	98,772	65.5%
International – self manufactured				
Evaporators	9,037	8.3%	15,687	10.4%
Condensers	9,672	8.8%	15,665	10.4%
Heaters	1,566	1.4%	1,189	0.8%
Compressors	–	0.0%	1,797	1.2%
Others	1,106	1.0%	3,517	2.3%
Sub-total	21,381	19.5%	37,855	25.1%
International-trading				
Compressors	368	0.4%	722	0.5%
Others	1,997	1.8%	13,426	8.9%
Sub-total	2,365	2.2%	14,148	9.4%
Total	109,445	100.0%	150,775	100.0%

Gross profit and gross margin

For the six months ended 30 June 2014, overall gross profit was approximately RMB26.0 million (six months ended 30 June 2013: RMB28.0 million). Gross profit of the period dropped by 7.1%. Gross profit from sales to domestic market was approximately RMB21.2 million, representing a decrease of RMB0.2 million over the same period of last year. Gross profit from sales to international market was approximately RMB4.7 million, representing a decrease of approximately RMB1.9 million from the same period of last year. Decreases in sales to both domestic and international markets led to an overall decrease during the period in the Group's gross profit of RMB2.1 million from the same period of last year.

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

	For the six months ended	
	30 June	2013
Gross Profit	2014	2013
	RMB'000	RMB'000
Domestic		
Evaporators	18,331	17,070
Condensers	1,880	2,676
Heaters	612	1,160
Others	410	502
Sub-total	21,233	21,408
International – self manufactured		
Evaporators	2,348	4,483
Condensers	1,669	2,221
Heaters	224	331
Compressors	–	(2,871)
Others	300	170
Sub-total	4,541	4,334
International – trading		
Compressors	65	86
Others	123	2,217
Sub-total	188	2,303
Total	25,962	28,045

For the six months ended 30 June 2014, overall gross margin was 23.7%, representing an increase of 5.1% as compared to the overall gross margin of 18.6% for the same period of last year.

Other income and gains

During the period under review, other income and gains was approximately RMB2.3 million during the six months ended 30 June 2013, while other income and gains during the six months ended 30 June 2014 was approximately RMB7.2 million, representing an increase of 213.0% from the same period of last year. For the six months ended 30 June 2014, other income and gains mainly represents subsidies income of approximately RMB2.9 million, foreign exchange gain of approximately RMB1.3 million and bank interest income of approximately RMB2.7 million.

Share of profits of an associate

Our share of profits of an associate decreased from approximately RMB3.9 million for the six months ended 30 June 2013 to nil for the six months ended 30 June 2014, which was primarily attributable to the Group selling its 49% equity interest in Macs (Baoding) Auto A/C Systems Co., Ltd. ("Macs Baoding") on 6 September 2013, and thus such company was no longer considered as an associate of the Group.

Selling and distribution costs

Selling and distribution costs comprised primarily staff-related costs, transportation fees, operating lease rental expenses, travelling expenses and other miscellaneous expenses. Selling and distribution costs decreased 5.1% during the six months ended 30 June 2014 mainly because the drastic decrease of sales revenue has caused a substantial decrease in sales-related transportation expenses.

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, agency service fees, research and development expenses and miscellaneous expenses. Administrative and other expenses during the six months ended 30 June 2014 decreased 6.9%.

Finance costs

Finance costs was nil for the six months ended 30 June 2014 and RMB0.2 million for the corresponding period in 2013. The decrease in finance costs was mainly because the Group did not have any new bank loans after repaying the bank loans in full which was due this period. The Group reduced bank borrowings to economise on finance costs.

Income tax expense

For the six months ended 30 June 2014, our overall income tax expense was approximately RMB2.9 million, representing 28.0% of the profit before tax. For the six months ended 30 June 2013, income tax expense was RMB5.0 million, including the withheld and remitted Enterprise Income Tax made for the dividends declared by Macs Baoding in 2013 amounting to approximately RMB3.2 million. Excluding its impact, the overall income tax expense was 17.6% of the profit before tax for the six months ended 30 June 2013.

Profit for the period

Profit attributable to the owners of the parent of the Group was approximately RMB7.5 million for the six months ended 30 June 2014, and approximately RMB5.1 million for the corresponding period of last year, representing an increase of 47.1%.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

Our net current assets increased from approximately RMB320.8 million as at 31 December 2013 to approximately RMB329.3 million as at 30 June 2014. The increase in net current assets was mainly because the balance of cash and cash equivalents as at 30 June 2014 increased RMB31.0 million from 31 December 2013, whilst as at 30 June 2014, current liabilities included trade and bills payables of approximately RMB46.0 million, representing a decrease of approximately RMB20.3 million from 31 December 2013.

Financial position and bank borrowings

As at 30 June 2014, the Group's total cash and bank balances, most of which were denominated in RMB, amounted to approximately RMB205.6 million. As at 31 December 2013, the Group's total cash and bank balances, most of which were denominated in RMB, amounted to approximately RMB174.6 million. As at 30 June 2014, the Group's total interest-bearing bank borrowings were nil (31 December 2013: nil). As at 30 June 2014, our gearing ratio, presented as a percentage of total interest-bearing liabilities divided by total assets, was 0% (31 December 2013: 0). As the Group received dividends declared from Macs Baoding and proceeds from disposal of 49% interest of Macs Baoding in the second half of 2013, which resulted a relatively sufficient amount of cash and bank balances, therefore, after the repayment of all interest-bearing borrowings, the Group did not have any new interest-bearing borrowings. Thus the Group's interest-bearing bank borrowings and gearing ratio were nil as at 30 June 2014.

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 2014, 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 of the Company (the “Directors”) have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group since 31 December 2013.

Working capital

As at 30 June 2014, our gross inventories, mainly comprising raw materials, work in progress and finished products, amounted to approximately RMB73.6 million, as compared to approximately RMB83.3 million as at 31 December 2013. Our marketing team reviews and monitors our inventory level on a regular basis. For the six months ended 30 June 2014, the average inventory turnover days were 169.2 days (for the year ended 31 December 2013: 141.6 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 2013: 365 days). The increase in inventory turnover days was mainly attributable to the fact that sales declined amidst weak market sentiments.

For the six months ended 30 June 2014, average turnover days of trade and notes receivables were 166.7 days (for the year ended 31 December 2013: 151.5 days). Trade and notes receivable turnover days are arrived at by dividing the arithmetic means of the opening and ending balances of trade and notes receivable and due from an related party for the relevant period by revenue of the same period and multiplying the quotient by 180 days (for the year ended 31 December 2013: 365 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 customers used notes receivables with maturity period of 6 months to settle their outstanding amounts.

For the six months ended 30 June 2014, average turnover days of trade and bills payables were 136.7 days (for the year ended 31 December 2013: 104.1 days). The actual payment period for our purchases was extended, as the Group slowed down its payment to suppliers in tandem with the slowdown of the Group’s collection 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 2014, capital expenditures were approximately RMB5.0 million, as compared to approximately RMB6.4 million for the same period in 2013. The Group's capital expenditures are primarily related to construction of production facilities and expenditures for plant, machinery and equipment for business expansion at our Shanghai production base.

As at 30 June 2014, the Group had approximately 530 full-time employees including the management, sales, logistics supports and other ancillary personnel. The Group's total wages and salaries of employees amounted to approximately RMB15.8 million for the six months ended 30 June 2014. Our remuneration policy of employees is primarily based on the job responsibilities, work performance and number of years of services of each employee and the current market conditions.

Pursuant to the relevant PRC labour laws and regulations, the Group has to pay contributions to a number of staff social insurance schemes (including medical, maternity, work injury, unemployment and pension insurances) and staff housing reserve funds. We provide social insurances and pay contributions to housing reserve funds for our employees in accordance with the interpretations to the relevant PRC labour laws and regulations given, and policies and measures executed by local government departments. We have established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government. Welfare benefits expenses for the six months ended 30 June 2014 amounted to approximately RMB4.1 million. We have complied, in all material respects, with all statutory requirements on retirement contribution in the jurisdictions where our Group operates.

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

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

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

Significant Investment, Material acquisitions and disposals

For the six months ended 30 June 2014, we did not have any significant investment, material acquisitions or disposals relating to our subsidiaries and associates which had not been publicly disclosed. The Group did not make any substantial investment in or acquisition of capital assets save as disclosed in the section headed “Use of Proceeds From the Initial Public Offering by the Company” below and the investments mentioned in the Company’s announcement dated 7 August 2014.

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 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 2014, approximately 21.7% of the Group’s sales and 4.6% 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 of the Group 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 2014, the Group did not have any material contingent liabilities.

Pledge of assets

As at 30 June 2014, the Group’s notes receivables of RMB9,500,000 and bank balances of RMB5,168,000 were pledged to secure bills payables of RMB14,650,000. As at 31 December 2013, the Group’s notes receivables of RMB9,850,000 and cash and bank balances of RMB5,459,000 were pledged to secure bills payables of RMB15,300,000.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFER BY THE GROUP

Taking into account the need for providing complementary service for China automobile assembly market (“OEM”), the Group decided to relocate the compressor segment, develop new varieties in order to look for new economic growth source. As such, a non-wholly owned subsidiary of the Company, namely Shanghai Shuanghua Machinery Manufacturing Co., Ltd. (“Shuanghua Machinery”) and Shanghai Shuanghua Autoparts Co., Ltd (“Shanghai Shuanghua”) entered into an agreement with the purpose of transferring the production equipment to Shanghai Shuanghua and relocating them to the production plant in Shanghai Shaunghua. As set out in the announcement of the Group dated 18 June 2013, the Group will use the remaining proceeds from the Initial

Public Offer of approximately RMB20.0 million for the relocation project described above. The specific uses are as follows: Main plant construction of RMB9.0 million, supporting facilities of water and electricity security of RMB3.0 million, equipment relocation and upgrading of RMB3.0 million and liquidity of complementary service of RMB5.0 million.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013: 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 six months ended 30 June 2014.

CORPORATE GOVERNANCE CODE

The Company had complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 2014 except for the followings:

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

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

Under the code provision A.4.1, all independent non-executive Directors are appointed for a specific term of not more than 3 years. Under the Company's Bye-laws, one-third of the Directors must retire and be eligible for re-election at each annual general meeting. As at 30 June 2014, Mr. Zheng Ping, executive Director, Ms. Kong Xiaoling, non-executive

Director, and Mr. Zhao Fenggao, independent non-executive Director, retired from office at the annual general meeting on 9 June 2014, at which Mr. Zheng Ping was re-elected as executive Director, Ms. Kong Xiaoling was re-elected as non-executive Director and Mr. Zhao Fenggao was re-elected as independent non-executive Director.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. The Company, having made specific enquiry of all Directors, confirms that its Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2014 regarding directors' securities transactions.

NON-COMPETITION UNDERTAKING

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

NOMINATION COMMITTEE

The Company established a Nomination Committee which is primarily responsible for making recommendations to the Board regarding the Group's engagement of appropriate directors and managerial personnel (including the skills, knowledge and experience) to complement the Company's corporate strategies. The Nomination Committee comprises Mr. 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 (the “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 has reviewed the unaudited consolidated results of the Company for the six months ended 30 June 2014. In particular, the Audit Committee has reviewed with the management of the Company on the accounting principles and practices adopted by the Group and held meetings to discuss the internal controls and financial reporting matters regarding the Group’s unaudited consolidated financial statements for the six months ended 30 June 2014.

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, 25 August 2014

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.