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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 2017

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 2017 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 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		For the six months ended 30 June	
	Notes	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
REVENUE	4	42,299	69,475
Cost of sales		(38,112)	(54,688)
Gross profit		4,187	14,787
Other income, gains and losses	4	2,019	3,357
Selling and distribution costs		(2,103)	(5,407)
Administrative expenses		(10,231)	(12,550)
Other expenses		(542)	(135)
(LOSS)/PROFIT BEFORE TAX	5	(6,670)	52
Income tax expense	6	(657)	(3,412)
LOSS FOR THE PERIOD		(7,327)	(3,360)
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(9)	9
Net movement in fair value reserve for available-for-sale investment		864	—
OTHER COMPREHENSIVE INCOME		855	9
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(6,472)	(3,351)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(7,327)	(3,360)
Non-controlling interests		—	—
		(7,327)	(3,360)

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

For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Notes			
TOTAL COMPREHENSIVE INCOME			
ATTRIBUTABLE TO:			
Owners of the Company		(6,472)	(3,351)
Non-controlling interests		<u>—</u>	<u>—</u>
		(6,472)	(3,351)
LOSS PER SHARE ATTRIBUTABLE TO			
OWNERS OF THE COMPANY			
Basic and diluted	7	<u>(1.13 cents)</u>	<u>(0.52 cents)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		91,677	95,382
Prepaid land lease payments		64,316	65,231
Available-for-sale investment		9,755	8,891
Deferred tax assets		6,626	7,031
Total non-current assets		172,374	176,535
CURRENT ASSETS			
Inventories		39,214	43,204
Trade and notes receivables	9	57,392	65,767
Prepayments, deposits and other receivables		6,177	7,787
Financial assets at fair value through profit or loss		36,000	59,000
Pledged deposits		2,500	–
Cash and cash equivalents		131,129	95,818
Total current assets		272,412	271,576
CURRENT LIABILITIES			
Trade and bills payables	10	33,443	27,297
Other payables and accruals		14,056	15,881
Provision		1,081	1,355
Government grants		2,021	2,021
Tax payable		618	515
Total current liabilities		51,219	47,069
NET CURRENT ASSETS		221,193	224,507
TOTAL ASSETS LESS CURRENT LIABILITIES		393,567	401,042

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Government grants	2,080	3,091
Deferred tax liabilities	585	577
Total non-current liabilities	2,665	3,668
Net assets	390,902	397,374
EQUITY		
Equity attributable to owners of the Company		
Issued capital	5,406	5,406
Reserves	234,541	233,686
Retained earnings	150,950	158,277
	390,897	397,369
Non-controlling interests	5	5
Total equity	390,902	397,374

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

1. CORPORATE INFORMATION

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

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

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

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

2.1 Basis of presentation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 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 2016.

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 2016, 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 2017 as disclosed in note 2.3 below.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

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

2.3 Impact of new and revised HKFRSs

The HKICPA has issued the following amendments to HKFRSs that are first effective as of 1 January 2017 and relevant to the Group:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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

3. OPERATING SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has two reportable operating segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Design, development, manufacture and sale of parts of auto air – conditioners
- Sales of automotive lubricants and express auto repairs and maintenance services

Segment assets exclude available-for-sale investment, financial assets at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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3. OPERATING SEGMENT INFORMATION (CONTINUED)

(a) Business Segments

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Central revenue and expenses are not allocated to the operating segments as they are not included in the measurement of the segments' (loss)/profit that is used by the chief operating decision-maker for assessment of segment performance.

	Design, development, manufacture and sale of parts of auto air-conditioners For the six months ended 30 June		Sales of automotive lubricants and express auto repairs and maintenance services For the six months ended 30 June		Total For the six months ended 30 June	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Revenue from external customers	41,855	68,670	444	805	42,299	69,475
Inter-segment revenue	-	-	-	-	-	-
Reportable segment revenue	41,855	68,670	444	805	42,299	69,475
Reportable segment (loss)/profit	(8,871)	1,474	(1,130)	(3,491)	(10,001)	(2,017)
Bank interest income	452	218	3	4	455	222
Unallocated bank interest income					391	191
Total bank interest income					846	413
Foreign exchange gain/(loss), net	2,368	(1,958)	-	-	2,368	(1,958)
Unallocated foreign exchange (loss)/gain, net					(2,976)	2,842
Total foreign exchange (loss)/gain, net					(608)	884
Depreciation and amortisation	(6,068)	(3,568)	(90)	(80)	(6,158)	(3,648)
Unallocated depreciation and amortisation					-	(1,774)
Total depreciation and amortisation					(6,158)	(5,422)
Reversal of impairment on property, plant and equipment	-	16	-	-	-	16
Reversal of impairment on inventories	176	1,796	-	-	176	1,796
Impairment on trade receivables	(480)	(11)	-	-	(480)	(11)
Income tax expense	657	3,412	-	-	657	3,412

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

3. OPERATING SEGMENT INFORMATION (CONTINUED)

(a) Business Segments (Continued)

	Design, development, manufacture and sale of parts of auto air-conditioners		Sales of automotive lubricants and express auto repairs and maintenance services		Total	
	30 June 2017 RMB'000	31 December 2016 RMB'000	30 June 2017 RMB'000	31 December 2016 RMB'000	30 June 2017 RMB'000	31 December 2016 RMB'000
Reportable segment assets	351,445	332,068	12,314	13,221	363,759	345,289
Additions to non-current assets	1,205	1,200	348	33	1,553	1,233
Reportable segment liabilities	(53,439)	(50,506)	(379)	(196)	(53,818)	(50,702)

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Revenue		
Reportable segment revenue	42,299	69,475
Elimination of inter-segment revenue	—	—
Consolidated revenue	42,299	69,475
For the six months ended 30 June		
	2017	2016
	RMB'000	RMB'000
(Loss)/profit before tax		
Reportable segment loss	(10,001)	(2,017)
Unallocated other income, gains and losses	4,138	4,550
Corporate and other unallocated expenses	(807)	(2,481)
Consolidated (loss)/profit before tax	(6,670)	52

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Assets		
Reportable segment assets	363,759	345,289
Available-for-sale investment	9,755	8,891
Financial assets at fair value through profit or loss	36,000	59,000
Unallocated	35,272	34,931
Consolidated total assets	444,786	448,111
	30 June 2017 RMB'000	31 December 2016 RMB'000
Liabilities		
Reportable segment liabilities	(53,818)	(50,702)
Unallocated	(66)	(35)
Consolidated total liabilities	(53,884)	(50,737)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

3. OPERATING SEGMENT INFORMATION (CONTINUED)

(c) Geographical information

Revenue from external customers

	For the six months ended	
	30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC (place of domicile)	30,729	51,670
The United States of America	4,620	9,710
The Canada	4,590	2,437
Asia	2,043	5,191
Others	317	467
	42,299	69,475

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

Non-current assets

All non-current assets of the Group are located in the PRC (place of domicile). The Company's country of domicile is the PRC where most of the Group's operations are located.

Information about major customers

For the six months ended 30 June 2017, revenue from four customers accounted for more than 10% of the Group's total revenue individually. Revenue from these customers were RMB10,545,551, RMB8,824,707, RMB6,619,862 and RMB4,590,198 respectively.

For the six months ended 30 June 2016, revenue from two customers accounted for more than 10% of the Group's total revenue individually. Revenue from these customers were RMB10,124,364 and RMB8,362,344, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

4. REVENUE, OTHER INCOME, GAINS AND LOSSES

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

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

	For the six months ended	
	30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
REVENUE		
Sales of goods	42,299	69,475
Other income, gains and losses		
Government grants	1,011	1,011
Bank interest income	846	413
Interest income on investments at fair value through profit or loss	770	1,045
Gain on disposal of property, plant and equipment	–	4
Foreign exchange (loss)/gain, net	(608)	884
	2,019	3,357

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

5. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Cost of inventories sold	38,112	54,688
Depreciation	5,243	4,511
Amortisation of prepaid land lease payments	915	911
Research and development costs	–	1,017
Operating lease expenses	582	721
Product warranty provision written back	(270)	(480)
Auditor's remuneration	–	45
Employee benefit expenses (including directors' and chief executive's remuneration): Wages and salaries	5,390	9,274
Pension scheme contribution	1,729	3,140
Staff welfare expenses	542	954
	<u>7,661</u>	<u>13,368</u>
Reversal of impairment on property, plant and equipment	–	(16)
Reversal of impairment on inventories	(176)	(1,796)
Impairment on trade receivables	480	11

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

6. INCOME TAX EXPENSE

The income tax expense of the Group during the period are analysed as follows:

	For the six months ended	
	30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – charge for the period	(244)	(1,508)
Deferred – tax charge	(413)	(1,904)
Total tax charge for the period	(657)	(3,412)

7. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic and diluted loss per share is based on the loss for the period attributable to ordinary equity holders of the Company of RMB7,327,000 (30 June 2016: RMB3,360,000), and the weighted average number of ordinary shares of 650,000,000 (30 June 2016: 650,000,000) in issue during the period.

Diluted loss per share for the period ended 30 June 2017 and 2016 are the same as the basic loss per share as there were no dilutive potential ordinary shares in issue in both periods.

8. DIVIDENDS

The Board did not recommend the payment of a final dividend in respect of the year ended 31 December 2016 and an interim dividend in respect of the six months ended 30 June 2017.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

9. TRADE AND NOTES RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables	35,935	41,631
Notes receivable	25,096	27,295
	61,031	68,926
Impairment	(3,639)	(3,159)
	57,392	65,767

The Group's trading terms with its customers are mainly on credit. The credit period for trade receivables is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. As the Group's trade and notes receivable relate to a large number of diversified customers, it does not have a significant concentration of credit risk. As at 30 June 2017, the Group's notes receivable of RMB8,570,000 (31 December 2016: RMB3,600,000) and pledged deposit of RMB2,500,000 (31 December 2016: Nil) are pledged to secure bills payable of RMB10,070,000 (31 December 2016: RMB3,488,000). Trade and notes receivables are non-interest-bearing.

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 1 month	18,005	19,469
1 to 3 months	7,959	13,232
3 to 12 months	30,960	32,351
Over 12 months	468	715
	57,392	65,767

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

10. TRADE AND BILLS PAYABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade payables	23,373	23,809
Bills payable	10,070	3,488
	33,443	27,297

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Within 1 month	10,695	6,711
1 to 3 months	8,859	7,073
3 to 12 months	10,905	10,705
Over 12 months	2,984	2,808
	33,443	27,297

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2017, sales of automobile heat exchangers of Shuanghua Holdings Limited (“Shuanghua” or the “Company”; collectively with its subsidiaries referred to as the “Group”) were still in a downward trend. During the six months ended 30 June 2017 (the “period”), the Group achieved revenue of RMB42.3 million, representing a decrease of RMB27.2 million from the same period of last year. The slowdown in global economies and the shrinking demand of traditional automobiles led to a dramatic decrease in sales volume during the period. The Group reported a net loss of RMB7.3 million during the first half of 2017, and recorded a net loss of 3.4 million for the same period of last year.

SALES TO THE DOMESTIC MARKET

During the period, the average unit selling price of evaporators and condensers in the domestic market maintained at the same level of the corresponding period in 2016, while sales volume of evaporators and condensers decreased by 28.9% and 48.4% respectively as compared to the same period in 2016. Revenue generated by sales of evaporators and condensers decreased by 25.8% and 49.3% respectively, comparing to the same period of last year. The change mentioned above was attributable mainly to (i) poor economic and market conditions (ii) customers reduced their purchase from the Group as they enlarged the proportion of their self-manufactured production.

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

SALES TO INTERNATIONAL MARKET

Our sales to international markets comprised primarily sales to the North American market, with condensers and evaporators as our major sales products. For the six months ended 30 June 2017, the average unit selling price of evaporators and condensers increased by 19.8% and 12.1%. While sales volume of evaporators and condensers decreased by approximately 16.5% and 50.9% respectively as compared to the same period of last year. Revenue generated by sales of evaporators maintained at the same level of the corresponding period in 2016. Revenue generated by sales of condensers decreased by 44.9%, comparing to the same period of last year.

Other revenue from sales to international markets comprised primarily self-manufactured heaters, oil coolers, intercoolers, oil-water separators, evaporators and condenser cores, pipes and thermostats.

OUTLOOK AND STRATEGY

Facing the downtrend of the sales and gross profit, management exert themselves in struggle for reversing the unfavorable situation and try their best to seek proper direction and opportunities for the Group’s transformation. In future, apart from maximising the shareholders’ value, the Group will also endeavour to maintain the profitability of its old businesses and at the same time fully utilise its existing resources including technologies and manpower to establish its presence in the capital market. Also, the Group will actively identify opportunities for acquisitions, joint ventures, investment, or co-operation to play a greater effect of its assets and get better development.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2017, revenue was approximately RMB42.3 million, representing a decrease of RMB27.2 million, or 39.1%, from RMB69.5 million in the same period of 2016.

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

Revenue	For the six months ended 30 June			
	2017		2016	
	RMB'000	% of revenue	RMB'000	% of revenue
Domestic				
Evaporators	19,493	46.1%	26,266	37.8%
Condensers	7,680	18.2%	15,140	21.8%
Others	2,198	5.2%	8,633	12.4%
Sub-total	29,371	69.5%	50,039	72.0%
International				
Evaporators	6,610	15.6%	6,605	9.5%
Condensers	4,894	11.6%	8,888	12.8%
Others	980	2.3%	3,138	4.5%
Sub-total	12,484	29.5%	18,631	26.8%
Lubricants	444	1.0%	805	1.2%
Sub-total	444	1.0%	805	1.2%
Total	42,299	100.0%	69,475	100.0%

Gross profit and gross margin

For the six months ended 30 June 2017, overall gross profit was approximately RMB4.2 million (six months ended 30 June 2016: RMB14.8 million). Gross profit for the period dropped by RMB10.6 million, or 71.7%. Gross profit from sales to domestic market was approximately RMB1.4 million, representing a decrease of RMB9.8 million over the same period of last year. Gross profit from sales to international market was approximately RMB2.6 million, representing a decrease of RMB0.8 million over the same period of last year. Decrease in sales in both the domestic and international markets and depreciation of assets remain at the same level as last year which led to a significant decrease of the Group's gross profit during the reporting period as compared to the same period of last year.

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

	For the six months ended	
	30 June	
	2017	2016
	RMB'000	RMB'000
Gross Profit		
Domestic		
Evaporators	1,579	7,558
Condensers	382	3,013
Others	(585)	603
Sub-total	1,376	11,174
International		
Evaporators	2,157	2,740
Condensers	459	230
Others	(16)	479
Sub-total	2,600	3,449
Lubricants	211	164
Sub-total	211	164
Total	4,187	14,787

For the six months ended 30 June 2017, overall gross margin was 9.9%, representing a decrease of 11.4% as compared to the overall gross margin of 21.3% for the same period of last year.

Other income, gains and losses

Other income, gains and losses were approximately RMB3.4 million during the six months ended 30 June 2016, while other income, gains and losses during the six months ended 30 June 2017 were approximately RMB2.0 million, representing a decrease of RMB1.4 million (39.9%) from the same period of last year. For the six months ended 30 June 2017, other income, gains and losses mainly represent government grants of approximately RMB1.0 million and interest income on financial assets at fair value through profit or loss of approximately RMB0.8 million.

Selling and distribution costs

Selling and distribution costs comprised primarily staff-related costs, transportation fees, operating lease rental expenses, travelling expenses and other miscellaneous expenses. Selling and distribution costs decreased during the six months ended 30 June 2017 mainly because of the decrease in sales of the Group, causing a decrease in sales-related transportation and staff expenses.

Administrative and other expenses

Administrative and other expenses comprised primarily of provision for asset impairment, staff-related costs, various local taxes and education surcharges, depreciation, amortisation of land use rights, operating lease rental payments, agency service fees, research and development expenses and miscellaneous expenses. Administrative and other expenses during the six months ended 30 June 2017 significantly decreased by 15.1%. The administrative and other expenses decreased during the six months ended 30 June 2017 mainly because of the decrease in headcount.

Income tax expense

For the six months ended 30 June 2017, our overall income tax charge was approximately RMB0.7 million (30 June 2016: RMB3.4 million). Income tax expenses decreased mainly because our subsidiary, namely Shanghai Shuanghua Autoparts Co., Ltd. incurred a net loss during the period.

Loss for the period

Loss attributable to the owners of the Company was approximately RMB7.3 million for the six months ended 30 June 2017, while loss attributable to the owners of the Company over the same period of last year was approximately RMB3.4 million.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

Our net current assets decreased from approximately RMB224.5 million as at 31 December 2016 to approximately RMB221.2 million as at 30 June 2017. Net current assets remained basically stable from the same period of last year.

Financial position and bank borrowings

As at 30 June 2017, the Group's total cash and bank balances including pledged deposits, most of which were denominated in RMB and USD, amounted to approximately RMB133.6 million. As at 31 December 2016, the Group's total cash and bank balances including pledged deposits, most of which were denominated in RMB and USD, amounted to approximately RMB95.8 million. The increase in cash and bank balance is primarily attributed to the decrease in investment in financial assets at fair value through profit or loss. As at 30 June 2017, the Group had no interest-bearing bank borrowings balance (31 December 2016: nil). As at 30 June 2017, our gearing ratio, presented as a percentage of total interest-bearing liabilities divided by total assets, was 0 (31 December 2016: 0).

Save as aforesaid or otherwise disclosed in the notes to the financial statements, and apart from intra-group liabilities, as at the close of business on 30 June 2017, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or loans or similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

The directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of our Group in the reporting period.

Working capital

As at 30 June 2017, our inventories, mainly comprising raw materials, work in progress and finished products, amounted to approximately RMB39.2 million, as compared to approximately RMB43.2 million as at 31 December 2016. Our marketing team reviews and monitors our inventory level on a regular basis. For the six months ended 30 June 2017, the average inventory turnover days increased to 194.6 days as compared to 165.3 days for the year ended 31 December 2016. 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 2017: 365 days).

For the six months ended 30 June 2017, average turnover days of trade and notes receivables increased to 262.0 days as compared to 227.5 days for the year ended 31 December 2016. 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 for the relevant period by revenue of the same period and multiplying the quotient by 180 days (for the year ended 31 December 2016: 365 days).

For the six months ended 30 June 2017, average turnover days of trade and bills payables were 129.2 days (for the year ended 31 December 2016: 133.8 days). Trade and bills payables days 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 2016: 365 days).

CAPITAL EXPENDITURES, CAPITAL COMMITMENTS AND HUMAN RESOURCES

For the six months of 2017, capital expenditures were approximately RMB1.6 million, as compared to approximately RMB0.2 million for the same period in 2016. Payment of capital expenditures increased by approximately RMB1.4 million as compared to the same period of 2016.

As at 30 June 2017, the Group had approximately 166 full-time employees including management, sales, manufacture, logistics supports and other ancillary personnel. The Group's total wages and salaries of employees amounted to approximately RMB5.4 million for the six months ended 30 June 2017. Our remuneration policy on employees is primarily based on the job responsibilities, work performance and number of years of services of each employee and the current market conditions.

Pursuant to the relevant PRC labour laws and regulations, the Group has to pay contributions to a number of staff social insurance schemes (including medical, maternity, work injury, unemployment and pension insurances) and staff housing reserve funds. We provide social insurances and pay contributions to housing reserve funds for our employees in accordance with the interpretations to the relevant PRC labour laws and regulations given, and policies and measures executed by local government departments. We have established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government. Welfare benefits expenses for the six months ended 30 June 2017 amounted to approximately RMB2.3 million. We have complied, in all material respects, with all statutory requirements on retirement contribution in the jurisdictions where our Group operates.

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

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

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

Significant Investment, Material acquisitions and disposals

For the six months ended 30 June 2017, the Group has no significant investment or material acquisition or disposal.

Foreign exchange risk

The Group's operations are located in the PRC with RMB as the functional and presentation currency. The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the unit's functional currency. For the six months ended 30 June 2017, approximately 30.4% of the Group's sales and none of its costs were denominated in currencies other than the functional currency of operating units making the sales and purchases. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, the management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

Contingent liabilities

As at 30 June 2017, the Group did not have any material contingent liabilities.

Pledge of assets

As at 30 June 2017 and 30 June 2016, the Group had not pledged any of its land and buildings to secure its banking facilities.

As at 30 June 2017, the Group's notes receivable of RMB8,570,000 and pledged deposits of RMB2,500,000 were pledged to secure bills payable of RMB10,070,000. As at 31 December 2016, notes receivable of RMB3,600,000 were pledged to secure bills payable of RMB3,488,000.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFER BY THE GROUP

As at 30 June 2017, a balance of approximately RMB10.0 million of the proceeds from the Initial Public Offer of the Company remained unutilised.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2017.

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 2017.

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 2017 except for the following:

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

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

Under the code provision A.4.1, all independent non-executive Directors are appointed for a specific term of not more than 3 years. Under the Company's Articles of Association, one-third of the Directors must retire and be eligible for re-election at each annual general meeting, and any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting. As at 30 June 2017, Ms. Tang Lo Nar, executive Director, Mr. He Binhui, independent non-executive director, and Mr. Chen Lifan, independent non-executive director, retired from office at the annual general meeting on 26 June 2017, at which Mr. Tang Lo Nar was re-elected as executive director, Mr. He Binhui

and Mr. Chen Lifan were re-elected as independent non-executive Directors. Mr. Chen Ke resigned as an independent non-executive director, chairman of the remuneration committee, a member of the audit committee and a member of the nomination committee of the company on 19 July 2017. In addition, the Company announced that Ms. Zheng Fei was appointed as an executive director and vice Chairman (Ms. Zheng Fei is the daughter of the Company's chairman and executive director, Mr. Zheng Ping and the non-executive director, Ms. Kong Xiaoling), and Ms. Guo Ying was appointed as an independent non-executive director on 19 July 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. The Company, having made specific enquiries with all Directors, confirms that its Directors have complied with the required standard set out in the Model Code during the six months ended 30 June 2017 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 Covenantors") entered into a deed of non-competition with the Company which is still in force during the reporting period. The Covenantors confirmed that they have complied with the deed of non-competition.

NOMINATION COMMITTEE

The Company established a Nomination Committee which is primarily responsible for making recommendations to the Board regarding the Group's engagement of appropriate directors and managerial personnel (including the skills, knowledge and experience) to complement the Company's corporate strategies. The Nomination Committee comprises Mr. Chen Lifan, Mr. He Binhui and Mr. Chen Ke (resigned on 19 July 2017), Ms. Guo Ying (appointed on 19 July 2017), and is chaired by Mr. Chen Lifan.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee which is primarily responsible for making recommendations to the Board regarding the Group's policy and structure for remuneration of Directors and senior management and determining the specific remuneration packages of all executive Directors and senior management of the Company. The Remuneration Committee comprises Mr. Chen Ke (resigned on 19 July 2017), Ms. Guo Ying (appointed on 19 July 2017), Mr. He Binhui and Mr. Chen Lifan, and was chaired by Mr. Chen Ke, and Ms. Guo Ying from 19 July 2017.

AUDIT COMMITTEE

The Company established an Audit Committee (the “Audit Committee”) comprising three independent non-executive Directors, namely Mr. He Binhui, Mr. Chen Ke (resigned on 19 July 2017), Ms. Guo Ying (appointed on 19 July 2017) and Mr. Chen Lifan, and is chaired by Mr. He Binhui. The written terms of reference which describe the authorities and duties of the audit committee were prepared and adopted with reference to “A Guide for the Formation of an Audit Committee” published by the Hong Kong Institute of Certified Public Accountants. The Audit Committee provides an important link between the board of directors and the Company’s auditor in matters coming within the scope of the Group audit. It also reviews the financial reporting process and the adequacy and effectiveness of the Group’s internal control and risk management system. The Audit Committee is of the view that the risk management and internal control system at present have been valid and adequate.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited consolidated results and this interim report of the Company for the six months ended 30 June 2017. 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 statements for the six months ended 30 June 2017.

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

Shanghai, 25 August 2017

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