SHUANGHUA HOLDINGS LIMITED
雙樺控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1241)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "Board") of directors (the "Directors") of Shuanghua Holdings Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019, together with comparative figures as follows.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	5	**28,616**	55,166
Cost of sales		**(34,354)**	(44,313)
Gross (loss)/profit		**(5,738)**	10,853
Other income and gains	5	**15,117**	9,688
Selling and distribution expenses		**(1,120)**	(4,788)
Administrative expenses		**(29,224)**	(21,726)
Other expenses		**(12,187)**	(7,742)
Interest expense	7	**(128)**	–
Share of gain/(loss) of a joint venture		**181**	(231)
LOSS BEFORE TAX	6	**(33,099)**	(13,946)
Income tax credit	8	**1,551**	701
LOSS FOR THE YEAR		**(31,548)**	(13,245)
Attributable to:			
Owners of the parent		**(31,377)**	(13,245)
Non-controlling interests		**(171)**	–
		(31,548)	(13,245)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	**RMB(4.8) cents**	RMB(2.0) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019	2018
	RMB'000	*RMB'000*
LOSS FOR THE YEAR	**(31,548)**	(13,245)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**4**	12
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(31,544)**	(13,233)
Attributable to:		
Owners of the parent	**(31,373)**	(13,233)
Non-controlling interests	**(171)**	–
	(31,544)	(13,233)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**89,196**	75,816
Right-of-use assets		**70,316**	–
Advance payments for property, plant and equipment		**1,620**	–
Prepaid land lease payments		**–**	61,581
Investment in a joint venture		**–**	6,519
Financial assets at fair value through profit or loss	*10*	**8,576**	7,779
Total non-current assets		**169,708**	151,695
CURRENT ASSETS			
Inventories		**20,465**	37,491
Trade and bills receivables	*11*	**16,266**	40,069
Prepayments, other receivables and other assets		**4,040**	6,860
Financial assets at fair value through profit or loss	*10*	**–**	10,058
Pledged deposits		**136,782**	53,177
Cash and cash equivalents		**17,995**	109,825
Total current assets		**195,548**	257,480
CURRENT LIABILITIES			
Trade and bills payables	*12*	**7,096**	22,254
Other payables and accruals		**14,319**	14,853
Lease liabilities		**1,037**	–
Provision		**1,245**	2,212
Government grants		**–**	1,070
Tax payable		**1,090**	637
Total current liabilities		**24,787**	41,026
NET CURRENT ASSETS		**170,761**	216,454
TOTAL ASSETS LESS CURRENT LIABILITIES		**340,469**	368,149

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2019

	2019	2018
	RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**340,469**	368,149
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**2,208**	3,342
Total non-current liabilities	**2,208**	3,342
Net assets	**338,261**	364,807
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**5,406**	5,406
Reserves	**328,023**	359,396
	333,429	364,802
Non-controlling interests	**4,832**	5
Total equity	**338,261**	364,807

NOTES TO FINANCIAL STATEMENTS

31 December 2019

1. CORPORATE AND GROUP INFORMATION

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

During the year, the "Group" was principally involved in the business of trading, manufacturing and research and development of automobile parts and components.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets of fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

Except for the amendments to HKFRS 9, amendments to HKAS 19 and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

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

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

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has a lease contract for office rental. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for elective exemption for leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (continued)

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

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liabilities separately in the statement of financial position. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 as at 1 January 2019 was as follows:

	Increase/(decrease) *RMB'000*
Assets	
Increase in right-of-use assets	67,136
Decrease in prepaid land lease payments	(61,581)
Decrease in prepayments, other receivables and other assets	(1,825)
Increase in total assets	3,730
Liabilities	
Increase in lease liabilities	3,730
Increase in total liabilities	3,730

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(a) (continued)

***Financial impact at 1 January 2019* (continued)**

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

	RMB'000
Operating lease commitments as at 31 December 2018	**4,011**
Weighted average incremental borrowing rate as at 1 January 2019	4.75%
Discounted operating lease commitments at 1 January 2019	3,730
Lease liabilities as at 1 January 2019	**3,730**

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

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

4. OPERATING SEGMENT INFORMATION

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

Geographical information

Revenue from external customers

	2019	2018
	RMB'000	*RMB'000*
Mainland China	**25,156**	45,264
Asia	**2,013**	5,285
United States of America	**973**	3,715
Canada	**–**	202
Others	**474**	700
	28,616	55,166

The place of domicile of the Group's operation entities is in the PRC and the revenue information above is based on the location of the customers.

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

Information about major customers

For the year ended 31 December 2019, revenue from one customer (2018: two) accounted for more than 10% of the Group's total revenue individually.

	2019	2018
	RMB'000	*RMB'000*
Customer A	**3,195**	6,499
Customer B	**–***	5,691
	3,195	12,190

* Less than 10%

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**28,616**	55,166

Revenue from contracts with customers

(i) Disaggregated revenue information

For the years ended 31 December 2019 and 2018

	2019 RMB'000	2018 RMB'000
Timing of revenue recognition		
Goods transferred at a point in time	**28,616**	55,166

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**3,570**	3,319

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

At 31 December 2019, the remaining performance obligations (unsatisfied or partially unsatisfied) are expected to be recognised within one year. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

	2019	2018
	RMB'000	*RMB'000*
Other income		
Interest income	**4,564**	4,246
Government grants	**1,070**	2,021
Gross rental income	**986**	278
Dividend income from financial assets at fair value through profit or loss	**313**	253
Investment income from financial assets at fair value through profit or loss	**168**	1,015
	7,101	7,813
Gains		
Gain on disposal of items of property, plant and equipment	**3,429**	–
Gain on disposal of a subsidiary	**2,447**	–
Foreign exchange gains, net	**1,277**	1,067
Fair value gain on financial assets at fair value through profit or loss	**797**	796
Fair value gain on previously held joint venture under the step acquisition of a subsidiary	**49**	–
Others	**17**	12
	8,016	1,875
	15,117	9,688

6. LOSS BEFORE TAX

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

	2019 *RMB'000*	2018 *RMB'000*
Cost of inventories sold	**34,354**	44,313
Depreciation of property, plant and equipment	**6,202**	8,977
Impairment of property, plant and equipment	**–**	6,665
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	**3,029**	1,825
Impairment of trade receivables	**3,747**	2,158
Impairment/(reversal of impairment) of other receivables and other assets	**695**	(1,293)
Product warranty provision, net of reversal	**(916)**	739
Minimum lease payment under an operating lease	**–**	1,231
Lease payments not included in the measurement of lease liabilities	**68**	–
Auditor's remuneration	**811**	811
(Gain)/loss on disposal of items of property, plant and equipment, net	**(3,429)**	118
Loss on disposal of items of inventories	**5,362**	–
Fair value gain on financial assets at fair value through profit or loss	**(797)**	(796)
Fair value gain on previously held joint venture under the step acquisition of a subsidiary	**(49)**	–
Gain on disposal of a subsidiary	**(2,447)**	–
Foreign exchange differences, net	**(1,277)**	(1,067)
Employee benefit expense (excluding Directors' and chief executive's remuneration):		
Wages and salaries	**6,806**	7,745
Pension scheme contributions	**1,440**	2,061
Staff welfare expenses	**5,240**	1,124
	13,486	10,930

7. INTEREST EXPENSE

	2019 *RMB'000*	2018 *RMB'000*
Interest on lease liabilities	**128**	–

8. INCOME TAX

	2019 *RMB'000*	2018 *RMB'000*
Current tax:		
Overprovision	**(381)**	–
Deferred tax	**(1,170)**	(701)
Total tax credit for the year	**(1,551)**	(701)

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the number of ordinary shares of 650,000,000 (2018: 650,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2019 and 2018.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 *RMB'000*	2018 *RMB'000*
Listed equity investments, at fair value	**8,576**	7,779
Investments in bank financial products, at fair value	**–**	10,058
	8,576	17,837

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

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

11. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**21,840**	35,629
Bills receivable	**3,566**	9,833
	25,406	45,462
Impairment	**(9,140)**	(5,393)
	16,266	40,069

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

The Group's bills receivable of RMB2,123,000 (2018: RMB3,700,000) were pledged to secure bills payable of RMB2,123,000 (2018: RMB6,857,000).

As at 31 December 2019, bills receivable of RMB3,566,000 (2018: RMB9,833,000) whose fair values approximate to their carrying values were classified as financial assets at fair value through other comprehensive income under HKFRS 9. The fair value changes of these bills receivable at fair value through other comprehensive income were insignificant during the year.

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

	2019	2018
	RMB'000	*RMB'000*
Less than 1 month	**840**	4,803
1 to 3 months	**2,297**	11,763
3 to 12 months	**6,815**	12,049
Over 12 months	**2,748**	1,621
	12,700	30,236

12. TRADE AND BILLS PAYABLES

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**4,973**	15,397
Bills payable	**2,123**	6,857
	7,096	22,254

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

	2019	2018
	RMB'000	*RMB'000*
Less than 1 month	**566**	2,769
1 to 3 months	**641**	3,840
3 to 6 months	**1,047**	3,419
6 to 12 months	**80**	504
Over 12 months	**2,639**	4,865
	4,973	15,397

As at 31 December 2019, the Group's bills payable of RMB2,123,000 (2018: RMB6,857,000) were secured by certain of the Group's bills receivable of RMB2,123,000 (2018: RMB3,700,000) and pledged deposits of Nil (2018: RMB3,177,000), respectively.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the context of China's slowing economic growth and increasing global political uncertainty, the automotive industry continued its downward trend in 2019. In response to the changing market conditions, the Group mainly adjusted its sales strategies, with an aim to reduce its risk exposure to potentially adverse or unfavorable conditions in the market (details of which are set out below). As a result, the Group's business volume reduced considerably compared to the same period of last year. For the year ended 31 December 2019, the Group achieved sales revenue of approximately RMB28.6 million, a decrease of approximately RMB26.6 million as compared to the same period of last year.

As the slowdown in China's economic growth spreads to the upstream and downstream automotive companies of the Group, our management conducted evaluation on different customers and sub-sectors in the automotive industry, reviewed the profitability of different product types and orders, and took the initiative to reduce orders/products with low or negative profitability or with customers that had delayed or defaulted in payment to the Group, resulting in a decline in the Group's sales in China (or referred to as the "domestic market").

For the year ended 31 December 2019, the Group's revenue from sales to the domestic market amounted to approximately RMB25.2 million, in which the sales revenue of evaporators and condensers amounted to approximately RMB16.7 million and RMB7.0 million, respectively. Other revenue from sales to the domestic market comprised primarily of the sales of heaters, intercoolers and lubricants.

On the other hand, a battle of tariff started between China and the United States ("U.S.") (the "Sino-U.S. trade war"), in which the U.S. government imposed, among others, a 10% tariff on imports of aluminum products (aluminum is one of the raw materials for production of the Group's products) in March 2018 and raised the tariff to 25% on all imports of automobiles, including SUVs, vans, trucks and automotive parts imported from China in May 2019. Due to the continued Sino-U.S. trade war, the Group assessed the impact of the change in trade policies and carefully selected sales orders to reduce the potential risk of credit default in payment and loss of gross margins of our products, which led to a reduction in the Group's export business to the U.S. and overseas market (collectively, the "international market").

For the year ended 31 December 2019, the Group's revenue from sales to the international market amounted to approximately RMB3.5 million, in which the sales revenue of evaporators and condensers amounted to approximately RMB3.2 million and RMB0.2 million, respectively. Other revenue from sales to the international market comprised primarily of the sales of heaters, intercoolers, liquid-gas separators, evaporators and condenser cores, pipes and thermostats.

The Group's management, however, believe that the aforementioned adjusted sales strategies would benefit the Group's development in the long term, as they would not only control and reduce the downside risks amidst the recent downturn in the automotive industry, growth pressure in economy and various uncertainties in the external environment, but also allow the Group to improve on its internal management and focus its internal resources on carefully selected markets and products that are more credible, profitable and sustainable (details of which are set out below and more under the section headed "Outlook and Strategy").

During the year of 2019, the Group focused on (i) upgrading the Group's business model and structure, consolidating its market position in the growing domestic aftermarket; (ii) expanding sales network and enhancing cooperation with large-sized original equipment manufacturers ("OEMs"); (iii) adjusting the Group's cost structure and working capital management; and (iv) enhancing the Group's core technology, product design and research and development ("R&D") capabilities (collectively, the "Turnaround Plans"). Additionally, since the main construction of the new factory owned by Anhui Shuanghua Heat Exchange System Co., Ltd. ("Anhui Shuanghua", a 86.49%-owned subsidiary of the Company as at the date of this announcement) (the "Anhui Plant") has been completed, the Group accelerated the process of relocating its production base from its factory in Shanghai (the "Shanghai Plant") to the Anhui Plant located in Anhui Province where the production costs would be lower (the "Relocation"). The Group has completed the transfer and installation of the Shanghai Plant's main production lines to the Anhui Plant, which has resumed operation as at the date of this announcement.

Meanwhile, the Group increased its efforts in collecting account receivables, monitoring inventory levels in a timely manner, adjusted production plans and streamlined personnel according to actual needs. Before the provision for impairment of inventories, the Group still recorded a gross profit for the year ended 31 December 2019. The Group is of the view that the decline in the Group's business volume is of a temporary nature, and the Group will achieve a turnaround through the implementation of the Turnaround Plans (with further adjustments in accordance with the actual situation).

Nevertheless, as a result of the combined effects of the decrease in sales, the provision for impairment of inventories and account receivables, and the costs and loss on disposal of inventories due to the Relocation, the Group recorded a net loss of approximately RMB31.4 million, an increase from the net loss of approximately RMB13.2 million for the year ended 31 December 2018.

The Group will continue to conduct comprehensive evaluation on the market conditions and be prudent in adjusting the Group's strategies and business plans in a timely manner to manage and optimize its existing business and achieve a sustainable business development.

OUTLOOK AND STRATEGY

In formulating the Group's business strategies, the Company has considered a number of factors, including but not limited to the change in market landscape, the market potential of the Group's products and the Group's position and competitiveness in the automotive industry. In particular, the Company has reviewed the industry trends and the Group's business prospects by making reference to, among others, the independent research report prepared by Frost & Sullivan Limited, an independent industry research consultant engaged by the Group in October 2019, in relation to the market of China and global passenger vehicle heating, ventilation and air-conditioning ("HVAC") components and other automotive parts (the "F&S Report").

According to the F&S Report, the domestic small to medium-sized OEMs, which mainly engage in manufacturing small to medium level small displacement models, have weaker brand names and product strengths, as compared to those of other premium local brands or foreign brands. As the primary customer sources of small and medium-sized OEMs are consumers from third and fourth tier cities whose purchasing power and willingness are largely influenced by the rising housing price and the economic downturn, the small and medium sized OEMs experienced a significant decline in sales and a negative growth from 2015 to 2019 of which the compound annual growth rate ("CAGR") was –9.3% and –10.9%, respectively. In order to expand sales, they cut prices to make profits and forced suppliers to lower prices or delay payment to transfer part of the profit pressure to suppliers.

The large-sized OEMs usually have strong financial strength, brand strength or product strength and can leverage on the effect of economy of scale, which bring them stronger competitiveness as compared to the small to medium-sized OEMs. Even during the industry downturn, the average sales growth of the large-sized OEMs declined modestly, and the CAGR from 2015 to 2019 was 1.1%. Although facing downward pressure, the large-sized OEMs normally have a wide range of car models and a steady stream of development plans for new car models in the coming years. It is expected that sales volume of the large-sized OEMs will maintain a stable growing trend.

According to the F&S Report, the new car sales market in China has entered into the saturation stage. Going forward, the aftermarket will be the key growth point of China automotive industry which is primarily attributed to the immense car ownership scale and growing average car age. Driven by the quick growth of new car sales for the past several years, the ownership of passenger vehicles in China also grew quickly. Total ownership of passenger vehicles will reach 219.5 million units in 2019, grew by 10.5% annually since 2015. The demand in the aftermarket is highly related to the number of vehicles in use and therefore is less prone to the economic cycle.

Due to the change in business environments in the OEM market and the aftermarket, the Group has re-evaluated its business strategies, plans and resources in various endeavors. Leveraging on the substantial relevant experience of the management of the Group and the reputation of the Group in the industry, the Group focuses on (i) optimizing the Group's business model and structure, consolidating its market position in the growing domestic aftermarket; (ii) expanding sales network and enhancing cooperation with large-sized OEMs; (iii) improving the Group's cost structure and diversifying business portfolio; and (iv) enhancing the Group's core technology, product design and R&D capabilities. The Group targets to transform its current business from a low value-added automotive part manufacturing company to a high value-added automotive part manufacturing company, with an aim to become a leading listed company with sustainable growth driven by its management and expertise, business cooperation, competitive cost structure and advanced technological strengths and capabilities.

Optimizing the Group's business model and structure, consolidating its market position in the growing domestic aftermarket

(1) Establishing a joint venture engaged in air conditioning compressor business

Automotive air conditioning compressor is a key component of the automotive HVAC system where an automotive air conditioning compressor plays a large part in determining the effectiveness and efficiency of an automotive HVAC system as a whole. Over the years, the Group has endeavored to improve its sales of automotive air conditioning compressors in the domestic market by seeking business cooperation with other enterprises and institutions to expand its sales network.

On 15 November 2019, the Group formed a joint venture company, Huangshan Shuanghua Donglin Compressor Co., Ltd. ("Huangshan Shuanghua") with Taizhou Donglin Automotive Air Conditioning Compressor Co., Ltd. ("Taizhou Donglin"), a company principally engaged in the business of research, development, manufacturing and sales of automotive air conditioning compressors. Huangshan Shuanghua has enabled the Group to integrate the R&D and technological strengths of the Group and Taizhou Donglin, Taizhou Donglin's competitive advantage in its quality control, timely delivery and a comprehensive product line of the automotive air conditioning compressors and the Group's product range, among others, in the HVAC components. Moreover, the establishment of Huangshan Shuanghua would enable the Group to leverage on the customer base of Taizhou Donglin to further expand the Group's sales network in the domestic market. The compressors will enrich the range of the Group's products and consolidate its market position in the growing domestic aftermarket. For further details of Huangshan Shuanghua, please refer to the announcement of the Company dated 10 November 2019.

(2) Enhancing collaboration with major distributors to steadily increase market share in the aftermarket

The Group plans to enhance collaboration with major distributors in different regions of China and develop new businesses with those customers that have credible history with the Group and well-established sales and distribution networks on the ground. To this end, the Group has promoted the following sales strategies, including some specific measures to strengthen the Group's sales promotion efforts in the following aspects:

- assisting its distributors to develop and establish second and third tier sales networks, and utilising the experience accumulated at each regional hub to further expand the sales and distribution networks through the whole region;

- utilising the technological strength and supply chain advantage of the Company to help distributors with the procurement and supply of different kinds of automotive components to achieve comprehensive supply of a wide varieties of products, thereby enhancing collaboration between the Group and each distributor in multi-levels; and

- encouraging distributors to leverage on the Group's brand name "Shuanghua (雙樺)" which is highly recognised in the domestic and international automotive industry and participate together in trade fairs or exhibitions in various regions to promote sales.

Additionally, the Group believes that its status as a Hong Kong listed company will enhance its credibility with suppliers and customers, and thus enhance the level of competitiveness in acquiring customers, securing customers' orders and contracts and increasing market share. The status of being a listed company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") will also raise the Group's reputation amongst its competitors, which will help implement its business strategies and expand its customer base and market share within the industry. As a Hong Kong listed company, the Group can be differentiated from other competitors during the contracting process, which will enhance the Group's ability to attract and engage customers with sizeable operations. The listing status will also increase the Group's ability to attract strategic investors for potential investments and forming strategic partnership.

Expanding sales network and enhancing cooperation with large-sized OEMs

Over the past years, in view of the market downturn for the domestic small to medium-sized OEMs, the Group's strategy was to reduce the loss arising from the sales to these OEMs, by reducing orders with losses or low profits or with those customers that had delayed or defaulted in payment to the Group. Nonetheless, the Group has maintained its relationship with some of the large-sized OEMs and their tier one suppliers, and is aiming to further enhance and develop direct cooperation with those large-sized OEMs.

The Group intends to expand its current automotive HVAC business by increasing the variety of its compressor products. The Group intends to increase its sales volume to the existing tier one supplier customers that supply mainly to the large-sized OEMs with a greater variety of the HVAC component products and better quality. The Group has explored strategic co-operation with other automotive part manufacturers for synergies and to expand its scope of services. The establishment of Huangshan Shuanghua would enable the Group to leverage on the customer base of Taizhou Donglin to further expand the Group's sales network in the large-sized OEM market.

According to the F&S Report, it is easier for the suppliers who have already been on a large –sized OEM's supplier list to earn recognition from other large-sized OEMs, as compared to those suppliers without any cooperation experiences with large-sized OEMs. It is also critical for suppliers to continuously innovate in and introduce high value-added and differentiated products, enhance products' competitiveness and improve service offerings. As such, coupling with the Group's strategy to enhance the Group's core technology and competitiveness, the Group has explored strategic cooperation with other suppliers that have already been on the large-sized OEMs' supplier lists to develop high value-added and more technologically advanced products, such that it would enable the Group and the Group's products to earn recognition and sales volume from the large-sized OEMs.

Furthermore, the Group has been actively cooperating with an international supplier of automotive parts to the world's leading OEMs, such as BMW, Volkswagen, Audi, General Motors, SAIC, etc., and experts from Huangshan United Applied Technology Research Institute (黃山聯合應用技術研究院), to participate in the development of new energy-saving and emission-reducing automotive heat exchanger products for supplying to the large-sized OEM market. At present, three projects are undergoing the feasibility study process, and it is expected that these three projects will be launched as business resumes after the outbreak of the novel coronavirus ("COVID-19") is contained.

The Group will also continue to extend business cooperation with other enterprises and institutions to expand its sales network. To this end, the Group intends to recruit more sales engineers at the late stage of the R&D process of the New Products (as defined below) as appropriate to increase its effort to promote sales.

Improving the Group's cost structure and diversifying business portfolio

(1) The Relocation

In view of the increasing wages and the rising costs in raw materials, the Group is minded to reduce costs in different ways. The Group has compared the major costs between Shanghai and Anhui and learned that labor costs, being one of the major production costs, are substantially lower in Anhui than that in Shanghai. Furthermore, the costs of utility, water and sewage treatment are also lower in Anhui than those in Shanghai.

On 25 October 2019, Shanghai Shuanghua Autoparts Co., Ltd. ("Shuanghua Autoparts"), an indirect subsidiary of the Company, entered into (i) two equity transfer agreements with the two then shareholders of Anhui Shuanghua; and (ii) a supplemental joint venture agreement with the other joint venture partners of Anhui Shuanghua, pursuant to which Shuanghua Autoparts made a capital contribution of RMB22 million to Anhui Shuanghua and Shuanghua Autoparts' shareholding in Anhui Shuanghua further increased to 86.49%. For further details of the above equity transfers and capital contribution to Anhui Shuanghua, please refer to the announcement of the Company dated 25 October 2019. The Directors believe that the Relocation will bring the following benefits to the Group's cost structure:

(a) *Reduction in labor costs* – according to the F&S Report, the average labor cost in Shanghai is higher than most other provinces or cities in China. The average annual wage of employees in Anhui Province is lower than that in Shanghai for about RMB15,000 to RMB20,000 between 2014 and 2018. There has been a trend in China that companies in manufacturing industries set up production facilities in regions with lower labor costs.

(b) *Lower production costs* – according to the F&S Report, the production cost will be lowered as the labor costs in Anhui Province and the average selling price of electricity are lower when compared with the same in Shanghai. It is expected that the average selling price of electricity in Huangshan City will see a downward trend due to increasing power generation capacity.

For the avoidance of doubt, the Group's headquarter and major departments (such as the Finance and Accounting Department, Human Resources Department (mainly for recruitment of senior management) and Sales Department) will remain based in Shanghai (the "Shanghai Headquarter"), while the R&D, human resources (mainly for recruitment and training of R&D professionals and production staff) and production and distribution of automotive parts and components will be relocated to the Anhui Plant.

(2) Diversifying business portfolio

Following the completion of the Relocation, the Group considers to lease the vacated properties in Shanghai and the presumed rental income to be generated would enable the Group to partially fund its working capital both for the Shanghai Headquarter and the Anhui Plant, as well as the R&D projects as set out below.

Apart from leasing, the Group may also explore other options as appropriate by cooperating with third party(ies) to develop the vacant properties with an aim to maximize the shareholders' return. The Group plans to upgrade and transform some of its vacant properties into large cold storage bases, with an aim to further diversify the Group's business portfolio and operations, by developing cold storage and cold chain supply businesses. The Group plans to leverage on its expertise in ventilation and cooling, and cooperate with professional refrigeration warehouses and cold chain supply companies. The Group intends to integrate its vacant properties in Shanghai into a smart support system for urban cold chain supply, to meet the growing demand for city-wide and inter-city cold chain logistics and warehouse services, especially in mega-cities and trade ports like Shanghai.

(3) Broaden the range of selection of suppliers

Over the past years, the Group has gradually outsourced some of its products which had generated low or negative profit margins from the production in the Shanghai Plant. While the Relocation is in process, the Group plans to locate suppliers as recommended by its customers or from nearby provinces and liaise for better terms to enhance its cost structure. Also, through the formation of Huangshan Shuanghua, the Group intends to make use of Taizhou Donglin's supplier network in Zhejiang Province, which would enable the Group to access to a wider range of selection of suppliers to diversify risks.

Enhancing the Group's core technology, product design and R&D capabilities

As part of the Group's strategies, the Group will develop more new and advanced products in order to obtain new customers and sales orders with an aim to achieve a sustainable business development in the long run. Furthermore, the Group also aims at transforming its business model from being a low value-added automotive parts manufacturer to a high value-added automotive parts manufacturer. The Group is minded to increase its efforts in R&D, which would enable the Group to expand its existing and new products with higher value.

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

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

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

It is expected that R&D and testing process for the New Products will complete in around late 2020.The Group will continue to strengthen its R&D capabilities through recruiting staff with relevant experience and expertise and developing relevant technical skills and R&D products that are aimed to be commercialised by the Group.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group's revenue was approximately RMB28.6 million, a decline of approximately RMB26.6 million or 48.2% from that of the corresponding period of 2018, which was approximately RMB55.2 million.

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

	For the year ended 31 December			
	2019		2018	
Revenue	***RMB'000***	**% of revenue**	*RMB'000*	% of revenue
Domestic				
Evaporators	**16,657**	**58.2%**	34,835	63.1%
Condensers	**6,978**	**24.4%**	8,128	14.7%
Others	**1,521**	**5.3%**	2,301	4.2%
Sub-total	**25,156**	**87.9%**	45,264	82.0%
International				
Evaporators	**3,248**	**11.4%**	7,752	14.1%
Condensers	**185**	**0.6%**	1,552	2.8%
Others	**27**	**0.1%**	598	1.1%
Sub-total	**3,460**	**12.1%**	9,902	18.0%
Total	**28,616**	**100.0%**	55,166	100.0%

Gross (loss)/profit and gross margin

(All amounts in this section were before provision for impairment of inventories)

For the year ended 31 December 2019, the Group recorded a gross profit of approximately RMB0.3 million (for the year ended 31 December 2018: approximately RMB6.6 million). The Group's gross margin decreased to 1.2% for the year ended 31 December 2019, as compared to 12.0% for the year ended 31 December 2018. The decrease in gross profit and gross margin for the year ended 31 December 2019 was mainly attributable to the significant decrease in the Group's revenue as a result of the Group's initiative to actively adjust its order structure and customer composition in view of the recent downturn in the automotive industry, the slowing economic growth and the Sino-U.S. trade war. Additionally, the increase in labor costs and raw material prices and other unfavorable conditions contributed to the decrease in gross profit and gross margin as compared to the same period of last year.

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

	For the year ended 31 December	
	2019	2018
Gross (loss)/profit	***RMB'000***	*RMB'000*
Domestic		
Evaporators	**(1,296)**	4,362
Condensers	**1,064**	633
Others	**130**	181
Sub-total	**(102)**	5,176
International		
Evaporators	**399**	1,018
Condensers	**39**	267
Others	**12**	186
Sub-total	**450**	1,471
Total	**348**	6,647

Other income and gains

For the year ended 31 December 2019, the Group's other income and gains amounted to approximately RMB15.1 million, an increase of approximately RMB5.4 million as compared to the same period of last year (for the year ended 31 December 2018: approximately RMB9.7 million). The increase of other income and gains was mainly attributable to the increase in interest income, foreign exchange gains, gross rental income and gain on disposal of a subsidiary and idle items of property and equipment.

Selling and distribution costs

Selling and distribution costs primarily comprised of staff-related costs, sales transportation fees, operating lease rental expenses, entertainment and travelling expenses. The Group's selling and distribution costs decreased by approximately 77.1% during the year ended 31 December 2019, as compared to the same period of last year, mainly due to decrease in sales revenue, causing a decrease in sales-related transportation and staff expenses.

Administrative expenses

Administrative expenses primarily comprised of staff-related costs, various local taxes and education surcharges, depreciation of property, plant and equipment and right-of-use assets, R&D expenses and miscellaneous expenses. The Group's administrative expenses increased by approximately 34.6% during the year ended 31 December 2019, as compared to the same period of last year, mainly due to increase in consulting fees, staff costs and termination benefits, as well as the costs of the Relocation and disposal of solid waste.

Other expenses

Other expenses primarily comprised of impairment on assets and miscellaneous expenses. The Group's other expenses increased by approximately 58.4% during the year ended 31 December 2019, as compared to the same period of last year, mainly caused by the provision for impairment of inventories and account receivables and the loss on disposal of inventories during the Relocation.

Interest Expense

Since the adoption of HKFRS 16 *Lease* on 1 January 2019, the Group's interest expense for the year ended 31 December 2019 amounted to approximately RMB128,000 (for the year ended 31 December 2018: nil). The impact of HKFRS 16 *Lease* is contained in note 3 to the financial statements.

Share of profit/(loss) of a joint venture

On 28 December 2017, the Group entered into agreements to invest in 45% of equity interest in Anhui Shuanghua at a consideration of RMB6.75 million which was fully paid in 2018. Anhui Shuanghua was established on 31 May 2018. The Group shared the profit of Anhui Shuanghua, which amounted to approximately RMB0.2 million for the ten months ended 31 October 2019. For the year ended 31 December 2018, the Group shared the loss of Anhui Shuanghua, which amounted to approximately RMB0.2 million.

Income tax credit

For the year ended 31 December 2019, the Group's income tax credit was approximately RMB1.6 million (for the year ended 31 December 2018: approximately RMB0.7 million).

Loss for the Year

For the year ended 31 December 2019, the loss attributable to the owners of the Company was approximately RMB31.4 million, while the loss attributable to the owners of the Company over the same period of last year was approximately RMB13.2 million.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

The Group's net current assets decreased from approximately RMB216.5 million as at 31 December 2018 to approximately RMB170.8 million as at 31 December 2019.

Financial position and bank borrowings

As at 31 December 2019, the Group's cash and cash equivalents and pledged deposits amounted to approximately RMB154.8 million (as at 31 December 2018: approximately RMB163.0 million). As at 31 December 2019 and 2018, the Group did not have any borrowings. The gearing ratio was not applicable to the Group (as at 31 December 2018: nil).

Save as aforesaid or otherwise disclosed in the notes to the financial statements, and apart from intra-Group liabilities, as at 31 December 2019, we did not have any outstanding mortgages, charges, debentures, debt securities or other loan capitals or bank overdrafts or loans or other similar indebtedness or finance lease commitments, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.

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

Working capital

For the year ended 31 December 2019, the average inventory turnover days was 308 days (for the year ended 31 December 2018: 305 days). The average inventory turnover days are arrived at by dividing the arithmetic means of the opening and ending balances of inventory for the relevant period by cost of sales of the same period and multiplying the quotient by 365 days. The increase in the average inventory turnover days was mainly due to the fact that sales and related costs declined amidst weak market conditions.

For the year ended 31 December 2019, the average turnover days of trade and bills receivables was 359 days (for the year ended 31 December 2018: 315 days). The average turnover days of trade and bills receivables are arrived at by dividing the arithmetic means of the opening and ending balances of trade and bills receivables for the relevant period by revenue of the same period and multiplying the quotient by 365 days. The increase in the average turnover days of trade and bills receivables was primarily attributable to increase in the percentage of sales to local customers, which generally requested for longer credit periods and used bills receivables with maturity period of six months to settle their outstanding amounts.

For the year ended 31 December 2019, the average turnover days of trade and bills payables was 156 days (for the year ended 31 December 2018: 199 days). The average turnover days of trade and bills payables are arrived at by dividing the arithmetic means of the opening and ending balances of trade and bills payables for the relevant period by revenue of the same period and multiplying the quotient by 365 days. The average turnover days of trade and bills payables decreased mainly because the management accelerated the repayment rate to improve liquidity.

CAPITAL EXPENDITURES, CAPITAL COMMITMENTS AND HUMAN RESOURCES

For the year ended 31 December 2019, the Group's capital expenditures were approximately RMB1.2 million, mainly due to the additions of buildings and equipment (for the year ended 31 December 2018: approximately RMB3.5 million).

As at 31 December 2019, the Group had 64 employees including Directors, management, sales, logistics supports and other ancillary personnels. The Group's total wages and salaries for the year ended 31 December 2019 amounted to approximately RMB8.8 million (for the year ended 31 December 2018: approximately RMB9.7 million). Our remuneration policy is primarily based on the job responsibilities, work performance and number of years of service of each employee and the current market conditions.

Pursuant to the relevant People's Republic of China ("PRC") labour laws and regulations, the Group has to pay contributions to a number of staff social insurance schemes (including medical, maternity, work injury, unemployment and pension insurances) and staff housing reserve funds. We provide social insurances and pay contributions to housing reserve funds for our employees in accordance with the interpretations to the relevant PRC labour laws and regulations given, and policies and measures executed by local government departments. We have established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government. Welfare benefits expenses for the year ended 31 December 2019 amounted to approximately RMB6.7 million (for the year ended 31 December 2018: approximately RMB3.2 million). We have complied, in all material respects, with all statutory requirements on retirement contribution in the jurisdictions where the Group operates. The basic salary of each of our executive and non-executive Directors will be reviewed by the remuneration committee of the Board at the end of each financial year.

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

Significant investment, material acquisitions and disposals

On 30 September 2019, the Group entered into an equity transfer agreement with Shanghai Eagle Star Automobile Services Limited, an independent third party, pursuant to which the Group sold 99.999% of the equity interest of Shanghai Citgoc Petroleum Co. Ltd. at a total consideration of approximately RMB12.3 million. For further details of the said transfer, please refer to the announcement of the Company dated 30 September 2019.

On 25 October 2019, Shuanghua Autoparts, an indirect subsidiary of the Company, entered into the equity transfer agreements with Mr. Cheng Ruicheng ("Mr. Cheng") and Huangshan Djerma Heat Exchange System Co., Ltd. ("Huangshan Djerma"), respectively, to acquire (i) 6.67% of the shares of Anhui Shuanghua held by Mr. Cheng at a consideration of RMB1 and the settlement of the outstanding capital of RMB1 million; and (ii) 15% of the shares of Anhui Shuanghua held by Huangshan Djerma for RMB2.25 million.

On 25 October 2019, Shuanghua Autoparts entered into a supplemental joint venture agreement with other joint venture partners of Anhui Shuanghua, pursuant to which Shuanghua Autoparts agreed to make a capital contribution of RMB22 million into the registered capital of Anhui Shuanghua and Shuanghua Autoparts' shareholding in Anhui Shuanghua further increased to 86.49%. For further details of the said transfers and capital contribution, please refer to the announcement of the Company dated 25 October 2019.

On 10 November 2019, Shanghai Shuanghua Automotive Technology Development Co., Ltd. (上海雙樺汽車科技發展有限公司) ("Shuanghua Automotive Technology"), an indirect wholly-owned subsidiary of the Company, entered into a joint venture agreement with Taizhou Donglin, an independent third party, in relation to the formation of Huangshan Shuanghua and Shuanghua Automotive Technology agreed to contribute to the registered capital of Huangshan Shuanghua at RMB10.2 million. Huangshan Shuanghua is owned as to 51% by Shuanghua Automotive Technology and is recognised as an indirect non wholly-owned subsidiary of the Company. For further details of the formation of Huangshan Shuanghua, please refer to the announcement of the Company dated 10 November 2019.

Save as disclosed in this announcement, for the year ended 31 December 2019, the Group did not have any significant investment, material acquisitions and disposals of subsidiaries, associates and joint ventures (for the year ended 31 December 2018: investment in 45% of equity interest in Anhui Shuanghua at a consideration of RMB6.75 million).

Foreign exchange risks

The Group's operations are located in the PRC with RMB as the functional and presentation currency. The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the unit's functional currency. The currency exposure of the Group mainly comes from fluctuations in the exchange rates of HKD to RMB and USD to RMB. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, the management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future when necessary.

Contingent liabilities

The Group had no significant contingent liabilities as at 31 December 2019 (as at 31 December 2018: nil).

Pledge of assets

As at 31 December 2019, the Group's bills receivable of approximately RMB2.1 million (2018: approximately RMB3.7 million) and pledged deposits of nil (2018: approximately RMB3.2 million) were pledged to secure bills payable of approximately RMB2.1 million (2018: approximately RMB6.9 million).

SHARE OPTION SCHEME

As at 31 December 2019, no share options were granted or exercised pursuant to the share option scheme adopted.

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

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2019.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

As at 31 December 2019, a balance of approximately RMB10.0 million of the proceeds from the initial public offering of the Company remained unutilised.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2019 (for the year ended 31 December 2018: nil).

MATERIAL EVENTS AFTER THE REPORTING PERIOD

On 7 February 2020, the Company received a letter (the "Letter") from the Stock Exchange, which serves as a notice that the Stock Exchange considered that the Company has failed to maintain a sufficient level of operations and assets of sufficient value to support its operations under Rule 13.24 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to warrant the continued listing of the Shares (the "Shares") of the Company. The Stock Exchange has therefore decided to suspend trading in the Shares under Rule 6.01(3) of the Listing Rules (the "Decision"). Pursuant to the Letter, the Company is required to re-comply, amongst other things, with Rule 13.24 of the Listing Rules before the trading of its Shares is allowed to resume. The Stock Exchange may cancel the listing of the Company's Shares if trading in the Shares remained suspended for a continuous period of 18 months pursuant to Rule 6.01A(1) of the Listing Rules.

On 18 February 2020, the Company submitted a written request to the Listing Committee for reviewing the Decision.

For details, please refer to the announcements of the Company dated 10 February 2020 and 18 February 2020.

Furthermore, the outbreak of the COVID-19 continues to spread throughout China and to countries across the world. The spread of COVID-19 virus has had a major impact on both the market and the Group's operating environment in China and the globe. The Group will monitor the development of the COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of this announcement, the assessment is still in progress.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted all the requirements of the code provisions of the Corporate Governance Code and Corporate Governance Report (the "Corporate Governance Code") contained in Appendix 14 to the Listing Rules.

None of the Directors is aware of any information which would reasonably indicate that the Company was not in compliance with the Corporate Governance Code during the year ended 31 December 2019, except the deviation from provision A.2.1 as explained below.

Under provision A.2.1 of the Corporate Governance Code, the roles of the chairman and the chief executive officer ("CEO") of the Group should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO of the Group should be clearly established and set out in writing.

The roles of the chairman and the CEO of the Group are not separated and are performed by the same individual. Mr. Zheng Ping acted as both the chairman and CEO throughout the period under review. The Directors met regularly to consider major matters affecting the operations of the Group. The Directors consider that this structure will not impair the balance of power and authority between the Directors and management of the Group and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an audit committee was established on 8 June 2011, comprising three independent non-executive Directors, namely Mr. He Binhui, Ms. Guo Ying and Mr. Chen Lifan, and is chaired by Mr. He Binhui.

The written terms of reference which describe the authorities and duties of the audit committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The audit committee provides an important link between the Board and the Company's auditor in matters coming within the scope of the Group audit. It also reviews the financial reporting process and the adequacy and effectiveness of the Group's internal control system.

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

During the year ended 31 December 2019, the audit committee held four meetings for the purpose of reviewing the Company's reports and accounts, and providing advice and recommendations to the Board. The audit committee also reviewed the internal control procedures of the Group and the Company's progress in implementing the corporate governance requirements as set out in the Corporate Governance Code. The minutes of the audit committee meeting are kept by the company secretary of the Company.

The Group's results for the year ended 31 December 2019 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

COMPLIANCE WITH THE MODEL CODE

The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules has been adopted by the Company as the code of conduct for securities transactions by its Directors. The Directors have also been reminded of their responsibilities under the Model Code regularly by the Company. Having made specific enquiries with them, all Directors confirmed that they have complied with the required standards of the Model Code during the year ended 31 December 2019.

COMPETITION AND CONFLICT OF INTERESTS

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

ANNUAL GENERAL MEETING

The date of annual general meeting of the Company will be announced shortly, notice of which will be published and dispatched to the shareholders as soon as practicable in accordance with the Company's articles of association and the Listing Rules.

By order of the Board
Shuanghua Holdings Limited
Zheng Ping
Chairman

Hong Kong, 31 March 2020

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, one non-executive Director, Ms. Kong Xiaoling, and three independent non-executive Directors, Ms. Guo Ying, Mr. He Binhui and Mr. Chen Lifan.