

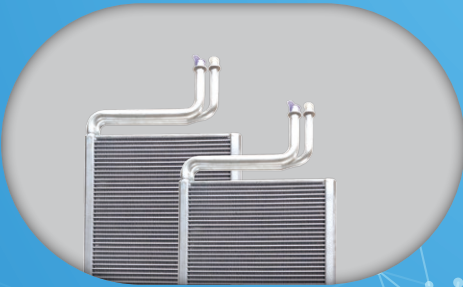
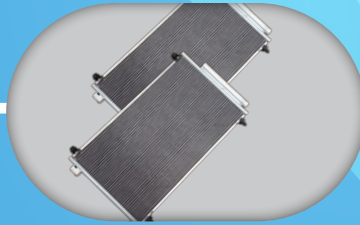


# Shuanghua Holdings Limited 雙樺控股有限公司

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT

# 2020



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# Corporate Information

<b>Company Name:</b>	Shuanghua Holdings Limited
<b>Registered Office:</b>	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman KY-1111, Cayman Islands
<b>Headquarter:</b>	9/F, Tongsheng Building 458 Fushan Road Pudong District Shanghai PRC
<b>Hong Kong Principal Business Address:</b>	2/F, Eton Tower 8 Hysan Avenue Causeway Bay Hong Kong
<b>Company Website:</b>	<a href="http://www.shshuanghua.com">http://www.shshuanghua.com</a>
<b>Telephone:</b>	(86 21) 5058 6337
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<b>Enquiry Email:</b>	<a href="mailto:ir@shshuanghua.com">ir@shshuanghua.com</a>
<b>Financial Year End:</b>	31 December
<b>Board of Directors:</b>	<i>Executive Directors</i> Mr. ZHENG Ping ( <i>Chairman &amp; Chief Executive Officer</i> ) Ms. ZHENG Fei Ms. TANG Lo Nar  <i>Non-executive Director</i> Ms. KONG Xiaoling  <i>Independent non-executive Directors</i> Mr. HE Binhui Mr. CHEN Lifan Ms. GUO Ying

## Corporate Information

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

# Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Shuanghua Holdings Limited ("Shuanghua" or the "Company"), I am pleased to present to the shareholders of the Company (the "Shareholders") the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2020 (the "Year").

The year of 2020 is the year for the People's Republic of China ("PRC") to build a well-off society in an all-round way and the end of the 13th Five-Year Plan, and the year for the Group to transform and breakthrough. In the context of the global outbreak of the novel coronavirus ("COVID-19"), the Group closely followed the pace of the government to promote resumption of work, and resumed production and operation in March 2020. The risk control strategy implemented by the Group, the optimisation of business model and the strategy of diversifying the business portfolio have limited the negative impact of the sudden outbreak on the Group, leading the Group to show a positive and progressive development trend.

With the improvement of people's living standards, the acceleration of urbanisation and the rapid development of fresh food e-commerce industry, China's cold chain logistics industry is in the stage of rapid development and has become a blue ocean market of hundreds of millions. The Group analysed its internal and external environment, evaluated its internal and external resources, and promoted the development of its supply chain management business, mainly the cold storage and cold chain supply, with an aim to meet the growing demand for city-wide and inter-city cold chain logistics and warehouse services.

In 2021, the international and domestic environment will still be complex and the effect of COVID-19 remains uncertain. The Group has formulated the operation of different business segments, aiming to promote the development of the Group's business in a planned, targeted, step-by-step, comprehensive and systematic way, so as to realise the long-term sustainable development of the Group.

## APPRECIATION

In the future, we will continue to review and adjust the Group's development strategies and respond to market competition in a timely manner to ensure the sustainable development of the Group. We will continue to maximise the Shareholders' value and endeavor to enhance the profitability of the Group's business through making full use of our existing resources, upgrading our products and technologies, actively diversifying our business portfolio and exploring new development opportunities and profit growth points. We shall also look for suitable development opportunities in areas such as energy saving, environmental protection, innovative technologies and supply chain services through acquisitions, investments, joint ventures or establishing strategic alliances.

On behalf of the Board, I would like to take this opportunity to express sincere gratitude to our Directors, business partners, the entire management and the rest of our staff team. Thanks are also due to the Shareholders for their support and trust to the Group. With their assistance and support, I am confident that the Group will make prudent decisions and steadily promote the development of various business to create greater and more sustainable value for our Shareholders.

**Zheng Ping**

*Chairman and CEO*

Hong Kong  
31 March 2021

# Management Discussion and Analysis

## BUSINESS REVIEW

During the Year, the Group was principally involved in two major businesses, being the business of trading, manufacturing and research and development (“R&D”) of automobile parts, mainly the automotive heating, ventilation and air-conditioning (“HVAC”) components, and the business of supply chain management, mainly the cold storage and cold chain supply, respectively. In 2020, the global economy was greatly influenced by the outbreak of COVID-19. According to the world economic outlook report released by the organisation for economic cooperation and development (“OECD”), the global economic growth in 2020 was forecast to shrink by approximately 4.2%. As COVID-19 spread to countries across the world, China has implemented strict measures to control and prevent the spread of COVID-19 and introduced various policies to promote resumption of business and economic and social development. According to the National Bureau of Statistics, China’s GDP in 2020 was approximately RMB101.6 trillion, representing a year-on-year increase of approximately 2.3%.

As business activity resumed after the spread of COVID-19 was being contained in China, the Group increased its sales efforts in promoting the key components in an automotive HVAC system, mainly compressors, evaporators and condensers, and targeted primarily towards the domestic automotive after-sales market (the “aftermarket”), which is highly related to the immense car ownership scale and growing average car age. For the year ended 31 December 2020, the Group achieved sales revenue of approximately RMB63.8 million, an increase of approximately RMB35.2 million as compared to the same period of last year.

Furthermore, the Group enhanced collaboration with major distributors in the aftermarket, and increased its promotion efforts in selling stocks with those customers that have credible history with the Group and well-established sales and distribution networks on the ground, and the Group’s sales in China (or the “domestic market”) increased significantly. For the year ended 31 December 2020, the Group’s revenue from sales to the domestic market amounted to approximately RMB58.5 million, in which the sales revenue of evaporators, condensers and compressors amounted to approximately RMB15.3 million, RMB10.9 million and RMB21.7 million, respectively. Other revenue from sales to the domestic market comprised primarily of the sales of heaters, intercoolers, oil-coolers, coolant reservoirs, water tanks, lubricant oil, etc.

Due to the uncertainty of the trade relations between China and the United States, the Group increased its sales to Asian countries in the overseas markets (or the “international markets”). For the year ended 31 December 2020, the Group’s revenue from sales to the international market amounted to approximately RMB5.3 million, in which the sales revenue of evaporators, condensers and compressors amounted to approximately RMB0.4 million, RMB11,000 and RMB4.4 million, respectively. Other revenue from sales to the international markets comprised primarily of the sales of thermostats and expansion valves.

## Management Discussion and Analysis

For the year ended 31 December 2020, the Group has improved its scale of operation and business revenue. Attribute to the increase in sales revenue and gross margin, the Company recorded loss attributable to its owners of approximately RMB5.2 million for the year ended 31 December 2020, a decrease of approximately RMB26.2 million from the loss attributable to its owners of approximately RMB31.4 million for the same period of last year.

In view of the rapid development of China's cold chain logistics industry, and with its technology and experience in ventilation and cooling system, the Group has commenced to engage into the business of supply chain management, mainly cold storage and cold chain supply.

On 28 June 2020, the Group and Fuzhou Anda Shengdong Logistics Co., Ltd. ("Fuzhou Anda"), an independent third party, entered into an equity transfer agreement, pursuant to which 40% of the equity interest of Shanghai Shuanghua Supply Chain Management Co., Ltd. ("Shuanghua Supply Chain") was sold to Fuzhou Anda, to jointly develop cold storage services, by transforming some of the Group's vacant properties in Shanghai into large cold storage plants. Fuzhou Anda has extensive experience in the cold storage and cold chain supply business, supported by a wide supplier, customer and logistics network, which will help the Group to establish relationship with potential new customers and promote the Group's cold storage and cold chain supply business. For further details of the said transfer, please refer to the announcement of the Company dated 28 June 2020.

On 6 November 2020, the Group formed a joint venture company, Shanghai Lidahang Supply Chain Management Co., Ltd. ("Lidahang Supply Chain") with Shanghai Lidahang Enterprise Registration Agency Co., Ltd. ("Shanghai Lidahang"), an independent third party. The establishment of Lidahang Supply Chain would enhance the existing scope of business of the Group, facilitate expansion of its business into the supply chain services market in Shanghai, and enable the Group to improve its supply and marketing system to achieve win-win cooperation with multi-product and multi-channel, provide services for different supply chains, products and customers, thus create more and higher value for its shareholders. For further details of the formation of Lidahang Supply Chain, please refer to the announcement of the Company dated 6 November 2020.

As of the date of this report, construction of the first cold storage plant of the Group has completed and the plant has commenced operation. Given the advantageous geographical position and the large number and storage volume of the Group's vacant properties in Shanghai, the Group is confident that they will lay a solid foundation for the development of the Group's supply chain management business, and provide additional revenue streams for the Group and the Shareholders in the long run.

## Management Discussion and Analysis

### 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 businesses, the Group's position and competitiveness in the relevant market. Leveraging on the substantial relevant experience of the management, and the internal and external resources of the Group, the Group focuses on (i) continuing cultivating the domestic aftermarket to improve the market share; (ii) targeting cold storage and cold chain supply business to seize the cold chain market share; (iii) launching cold storage trucks by using the Group's own advantages; and (iv) building a cold chain ecosystem to further upgrade the Group's business. The Group will continue to create competitive advantages to become a leading listed company with sustainable growth driven by its professional management and expertise, business cooperation and advanced technological strengths and capabilities.

#### Continuing cultivating the domestic aftermarket to improve the market share

With the outbreak of COVID-19, people's daily life and travelling have been affected to a certain extent. Compared with public transport, private cars and other individual vehicles are favored for safety travelling, and individual traffic flow increases rapidly. In addition, with the outbreak of COVID-19 abroad and the prevention and control measures at the borders, more people are keen to travel within China and drive in their own cars, which increases the utilisation rate and service life of cars, thereby driving the demand for products in need of repair and maintenance services.

The Group will continue to cultivate the domestic aftermarket, and promote the following measures, to meet the growing demand of the domestic aftermarket:

- The Group will continue to enhance cooperation with major distributors in different regions of China. Based on the local market demand, utilising the technological strength and supply chain advantage, assisting distributors to develop and establish second and third tier sales networks, and helping distributors with the procurement and supply of different kinds of automotive components to achieve comprehensive supply of a wide varieties of products; and
- Strengthen production and sales management and internal and external collaboration, ensure timely product delivery, shorten customer order cycle and improve product profit margins and turnover rate.

#### Targeting cold storage and cold chain supply business to seize the cold chain market share

The continuous improvement of urbanization and people's living standards in China, as well as the explosive growth of fresh e-commerce in recent years, has driven the rapid development of China's cold storage and cold chain supply business. According to the Cold Chain Logistics Committee of China Federation of Logistics and Purchasing ("CCLC"), the scale of China's cold storage and cold chain supply market expanded with a compound annual growth rate of approximately 15.3% from 2017 to 2019. In 2019, the scale of China's cold storage and cold chain supply market reached approximately RMB339.1 billion, with a year-on-year growth of approximately 17.5%. In addition, the Chinese government attaches great importance to the cold chain logistics industry, as more than 56 cold chain related policies and plans were issued at the national level in 2020 to promote the development of the cold chain logistics industry from multiple dimensions.



## Management Discussion and Analysis

The Group will fully integrate external and internal resources, including building a comprehensive and highly efficient software management system to service the cold chain network involving suppliers, distributors, supermarkets, logistics providers and other potential partners, with an aim to meet the growing demand of fresh e-commerce and target different kinds of customers with quality service in high efficiency.

### **Launching cold storage trucks by using the Group's advantages**

Cold storage truck is the link of the cold chain logistics industry, and plays a vital role in the cold chain logistics industry. Cold storage truck is composed of a special automobile chassis, a thermal insulation box, cooling unit and other components. According to the statistics of the CCLC, the number of cold storage truck in China increased by more than 20% annually from 2015 to 2019.

Leveraging on its technology and experience in ventilation and cooling system, and its resources in the cold storage and cold chain supply business, the Group will continue focusing on the development of HVAC systems and cooling systems of cold storage trucks, and seek cooperation with major original equipment suppliers("OES"), which install and modify HVAC systems and cooling systems according to the actual needs and applications of cold storage trucks. The Group will strengthen its R&D capabilities through cooperating with engineers from major OES and research institutes, recruiting staff with relevant expertise and experiences, and developing the technology and products of HVAC systems and cooling systems that are aimed to be commercialised by the Group.

### **Building a cold chain ecosystem to further upgrade the Group's business**

Facing the development opportunities in the cold storage and cold chain supply industry, the Group will continue to extend supply chain services based on market demand, such as cold chain processing, sorting, packaging, cold chain transportation, e-commerce, intelligent logistics distribution systems, etc., to build an internet of supply chain ecosystem from production area to marketing area, from field to table, ensuring the safety of people's diets, improving the development level of China's cold chain logistics industry, and meet the diversified consumer demand of the market to further upgrade the Group's business.

The Group will continue to work with its business partners and research institutes on the development of new energy-saving, emission-reducing and other advanced products, which would enable the Group to expand its product line with more variety, better quality and higher value and obtain new customers and sales orders, with an aim to achieve a faster growth and sustainable business development of the Group in the long run.

## Management Discussion and Analysis

### FINANCIAL REVIEW

#### Revenue

For the year ended 31 December 2020, the Group's revenue was approximately RMB63.8 million, an increase of approximately RMB35.2 million or 123.1% from that of the corresponding period of 2019, which was approximately RMB28.6 million.

The following table sets forth the breakdown of the Group's revenue by products of the automobile parts business during the reporting period (the supply chain management business has not generated revenue during the reporting period):

Revenue	For the year ended 31 December			
	2020		2019	
	RMB'000	% of revenue	RMB'000	% of revenue
<b>Domestic</b>				
Evaporators	15,278	23.9%	16,657	58.2%
Condensers	10,901	17.1%	6,978	24.4%
Compressors	21,680	34.0%	–	–
Others	10,663	16.7%	1,521	5.3%
<i>Sub-total</i>	<b>58,522</b>	<b>91.7%</b>	25,156	87.9%
<b>International</b>				
Evaporators	440	0.7%	3,248	11.4%
Condensers	11	0.0%	185	0.6%
Compressors	4,391	6.9%	–	–
Others	429	0.7%	27	0.1%
<i>Sub-total</i>	<b>5,271</b>	<b>8.3%</b>	3,460	12.1%
<b>Total</b>	<b>63,793</b>	<b>100.0%</b>	28,616	100.0%

## Management Discussion and Analysis

### Gross profit/(loss) and gross margin

For the year ended 31 December 2020, the Group recorded a gross profit of approximately RMB9.6 million (for the year ended 31 December 2019: gross loss of approximately RMB5.7 million). The Group's gross margin increase to approximately 15.0% for the year ended 31 December 2020, as compared to approximately -19.9% for the year ended 31 December 2019. Gross profit for the year ended 31 December 2020 increased by approximately RMB15.3 million, mainly due to increase in products sales, such as compressors, which generated higher profit margin comparing with other products, and thus generated gross profit for the year ended 31 December 2020 as compared with the same period of 2019.

The following table sets forth the breakdown of the Group's gross profit/(loss) by products of the automobile parts business during the reporting period (the supply chain management business has not generated profit during the reporting period):

Gross profit/(loss)	For the year ended 31 December	
	2020	2019
	RMB'000	RMB'000
<b>Domestic</b>		
Evaporators	849	(5,163)
Condensers	1,106	(209)
Compressors	6,010	–
Others	481	(169)
<i>Sub-total</i>	<b>8,446</b>	<b>(5,541)</b>
<b>International</b>		
Evaporators	75	(214)
Condensers	(1)	8
Compressors	891	–
Others	186	9
<i>Sub-total</i>	<b>1,151</b>	<b>(197)</b>
<b>Total</b>	<b>9,597</b>	<b>(5,738)</b>

### Other income, gains and losses

For the year ended 31 December 2020, the Group's other income, gains and losses amounted to approximately RMB12.0 million, an increase of approximately RMB4.4 million as compared to the same period of last year (for the year ended 31 December 2019: approximately RMB7.6 million). The increase of other income, gains and losses was mainly attributable to the increase in the main component of the Group's other income and gains, being gross rental income, investment income from financial assets at fair value through profit or loss and gain on disposal of property, plant and equipment.

### Impairment losses recognised on trade receivables, other receivables and other assets

For the year ended 31 December 2020, the Group's impairment loss recognised on trade receivables, other receivables and other assets amounted to approximately RMB0.6 million, decreased by approximately 86.4% as compared to the same period of last year (for the year ended 31 December 2019: approximately RMB4.4 million), mainly due to reversal of provisions for impairment of some long aging trade receivables collected by the Group.

## Management Discussion and Analysis

### Selling and distribution costs

Selling and distribution costs primarily comprised of staff-related costs, sales transportation fees, entertainment and travelling expenses. For the year ended 31 December 2020, the Group's selling and distribution costs amounted to approximately RMB2.0 million, increased by approximately 81.8% as compared to the same period of last year (for the year ended 31 December 2019: approximately RMB1.1 million), mainly due to increase in sales revenue, causing an increase in sales-related staff expenses and provision for sales warranty.

### 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. For the year ended 31 December 2020, the Group's administrative expenses amounted to approximately RMB25.9 million, decreased by approximately 12.2% as compared to the same period of last year (for the year ended 31 December 2019: approximately RMB29.5 million), mainly due to the decrease of consulting fees and termination benefits for employees.

### Other expenses

Other expenses primarily comprised of impairment on assets and miscellaneous expenses. For the year ended 31 December 2020, the Group recorded other expenses of approximately RMB1.1 million (for the year ended 31 December 2019: approximately RMB11,000). The increase in other expenses for the year ended 31 December 2020 were mainly due to written off of assets arising from deregistration of a subsidiary of approximately RMB0.6 million.

### Interest expense

Since the adoption of HKFRS 16 Lease on 1 January 2019, the Group's interest expense for the year ended 31 December 2020 amounted to approximately RMB25,000 (for the year ended 31 December 2019: approximately RMB128,000).

### Share of gain of a joint venture

Anhui Shuanghua Heat Exchange System Co., Ltd. ("Anhui Shuanghua") was established on 31 May 2018 and became a non-wholly owned subsidiary during the year ended 31 December 2019. For the year ended 31 December 2020, the Group had no share of gain of a joint venture.

### Income tax credit

For the year ended 31 December 2020, the Group's income tax credit was approximately RMB0.9 million (for the year ended 31 December 2019: approximately RMB1.6 million).

### Loss for the Year

For the year ended 31 December 2020, the loss attributable to the owners of the Company was approximately RMB5.2 million, while the loss attributable to the owners of the Company for the same period of last year was approximately RMB31.4 million.

## Management Discussion and Analysis

### LIQUIDITY AND FINANCIAL RESOURCES

#### Net current assets

The Group's net current assets decreased from approximately RMB170.8 million as at 31 December 2019 to approximately RMB134.4 million as at 31 December 2020.

#### Financial position and bank borrowings

As at 31 December 2020, the Group's cash and cash equivalents, restricted time deposits and financial assets at fair value through profit or loss amounted to approximately RMB121.9 million (as at 31 December 2019: approximately RMB163.4 million). As at 31 December 2020 and 2019, the Group did not have any borrowings. The gearing ratio was not applicable to the Group (as at 31 December 2019: nil).

Save as aforesaid or otherwise disclosed in the notes to the financial statements, and apart from intra-Group liabilities, as at 31 December 2020, the Group 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 2019.

#### Working capital

(All amounts in this section were net of provisions for impairment of inventories and trade receivables)

For the year ended 31 December 2020, the average inventory turnover days were 140 days (for the year ended 31 December 2019: 308 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 decrease in the average inventory turnover days was primarily attributable to increase in sales of stocks.

For the year ended 31 December 2020, the average turnover days of trade and bills receivables were 116 days (for the year ended 31 December 2019: 359 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 decrease in the average turnover days of trade and bills receivables was mainly due to increase in sales revenue and the overall turnover rate of the Group.

For the year ended 31 December 2020, the average turnover days of trade and bills payables were 110 days (for the year ended 31 December 2019: 156 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 cost of sales 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.

## Management Discussion and Analysis

### CAPITAL EXPENDITURES, CAPITAL COMMITMENTS AND HUMAN RESOURCES

For the year ended 31 December 2020, the Group's capital expenditures were approximately RMB49.1 million, mainly due to the additions of machinery and equipment and construction in progress (for the year ended 31 December 2019: approximately RMB1.2 million).

As at 31 December 2020, the Group had 140 employees including Directors, management, sales, logistics supports and other ancillary personnels (as at 31 December 2019: 64). The Group's total wages and salaries (excluding directors' and chief executives' remuneration) for the year ended 31 December 2020 amounted to approximately RMB9.4 million (for the year ended 31 December 2019: approximately RMB8.8 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 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. The Group's welfare expenses for the year ended 31 December 2020 amounted to approximately RMB2.1 million (for the year ended 31 December 2019: approximately RMB6.7 million). We have complied, in all material respects, with all statutory requirements on retirement contribution in the jurisdictions where the Group operates.

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. 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. None of the Directors waived any emoluments during the year ended 31 December 2020.

#### Significant investment, material acquisitions and disposals

On 28 June 2020, Shanghai Eagle Investment Limited ("Eagle Investment"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Fuzhou Anda, an independent third party with extensive experience in the cold storage and cold chain supply business, pursuant to which Eagle Investment sold 40% of the equity interest of Shuanghua Supply Chain, its then wholly-owned subsidiary, at a consideration of RMB1 and the settlement of the outstanding capital of RMB8.0 million. For further details of the said transfer, please refer to the announcement of the Company dated 28 June 2020.

On 6 November 2020, Eagle Investment entered into a joint venture agreement with Shanghai Lidahang, an independent third party, in relation to the formation of Lidahang Supply Chain and Eagle Investment agreed to contribute to the registered capital of Lidahang Supply Chain at RMB10.5 million. Lidahang Supply Chain is owned as to 70% by Eagle Investment and is recognised as an indirect non wholly-owned subsidiary of the Company. For further details of the formation of Lidahang Supply Chain, please refer to the announcement of the Company dated 6 November 2020.

## Management Discussion and Analysis

Save as disclosed in this annual report, for the year ended 31 December 2020, the Group did not have any significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures (for the year ended 31 December 2019: disposal of 99.999% of the equity interest of Shanghai Citgoc Petroleum Co., Ltd. at a total consideration of approximately RMB12.3 million; acquiring 6.67% of the shares of Anhui Shuanghua held by Mr. Cheng Ruicheng (“Mr. Cheng”) at a consideration of RMB1 and the settlement of the outstanding capital of RMB1 million and acquiring 15% of the shares of Anhui Shuanghua held by Huangshan Djerma Heat Exchange System Co., Ltd. at a consideration of RMB2.25 million; making a capital contribution of RMB22 million into the registered capital of Anhui Shuanghua and the shareholding in Anhui Shuanghua was increased to 86.49%; investment in Huangshan Shuanghua Donglin Compressor Co., Ltd. at a consideration of RMB10.2 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 2020 (as at 31 December 2019: nil).

### Pledge of assets

As at 31 December 2020, the Group had no pledge of assets (as at 31 December 2019, the Group’s bills payable of RMB2.1 million was secured by certain of the Group’s bills receivable of RMB2.1 million).

## SHARE OPTION SCHEME

As at 31 December 2020, no share options have been 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 2020.

## Management Discussion and Analysis

### 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 (the “Unutilised Proceeds”). The utilization of the Unutilised Proceeds during the reporting period are set out below:

Use of proceeds	Planned	Amount of Utilised
	applications	Proceeds utilised
	(RMB million)	during the
		year ended
		31 December
		2020
		(RMB million)
1. For the installation of facilities, utilities and security equipment of the Group's plant	2.0	2.0
2. For the transformation and upgrade of equipment	3.0	3.0
3. General working capital	5.0	5.0
<b>Total</b>	<b>10.0</b>	<b>10.0</b>

The Unutilised Proceeds were utilised in accordance with the intended use as previously disclosed in the 2019 annual report of the Company and the supplemental announcement in relation thereto dated 23 July 2020. As at 31 December 2020, no amount of the proceeds from the initial public offering remained unutilised.

### FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (for the year ended 31 December 2019: nil).

### MATERIAL EVENTS AFTER THE REPORTING PERIOD

On 10 February 2021, Shanghai Shuanghua Autoparts Co., Ltd. (“Shuanghua Autoparts”), an indirect subsidiary of the Company, entered into an equity transfer agreement with Mr. Cheng, pursuant to which Shanghai Shuanghua acquired approximately 13.51% of the shares of Anhui Shuanghua held by Mr. Cheng at a cash consideration of RMB4.6 million. For further details of the said transfer, please refer to the announcement of the Company dated 10 February 2021.



# Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements of the Group for the year ended 31 December 2020.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its subsidiaries which, in the opinion of the Directors, principally affected the results for the Year or formed a substantial portion of the net assets of the Group, are set out in Note 36 to the consolidated financial statements. There was no significant change in its activities during the Year.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2020 as well as a discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" on page 4 and "Management Discussion and Analysis" on pages 5 to 15 of this annual report.

## SEGMENT INFORMATION

The Group's operating segment information, including the geographical information and the information about major customers, are set out in Note 6 to the consolidated financial statements.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Directors are aware that a number of factors may affect the results and operation of the Group, including those which are specific to the Group or the industries in which the Group operates and those that are common to most of other businesses. The management will continuously identify and monitor if there is any significant risk which may adversely affect the Group's performance and will immediately take measures if necessary.

Major risks are summarised below and are by no means exhaustive or comprehensive, and there may be other risks, in addition to those shown below, which are not known to the Group or which may not be material now but could turn out to be material in the future.

### Macroeconomic environment and market risks

The slowdown in global economic growth, change of market landscape or other uncertainties around the globe may result in decline in demand and price for the Group's products. It deteriorates profitability or affects ability to meet business objectives. The management of the Group manages and monitors such risks to ensure appropriate measures are implemented on a timely and effective manner.

### Policy and regulatory risks

Increasing road congestion, tight parking spaces and haze from time to time may prompt relevant government agencies to introduce stricter car restrictions or other environmental protection policies, which will adversely affect car sales.

### Intense competition

Competition takes place when companies compete for market share, sales and profitability, and so forth. The Group operates in a industry and market with a large number of domestic, overseas and other potential competitors, and the Group faces price pressure, excessive marketing, customer acquisition and other types of competition. While economy of scale has expanded the scale of production, it has also caused overcapacity in the industry, leading to price cuts and competitive selling. The management of the Group is aware of such keen competition and will constantly review and adjust the Group's sales and marketing strategies and respond to market competition in a timely manner to ensure the sustainable development of the Group.

## Report of the Directors

### Operational risks

Operational risks refer to the risks of loss due to insufficient or missing internal procedures, personnel, systems, or external events. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting structure. The Group's management will identify and assess key operational risks regularly so that appropriate risk response can be taken.

### Financial risks

The Group is exposed to financial risks, such as credit risks, foreign exchange risks and liquidity risks. The Group reviews regularly and manages its capital structure to maintain a sound capital position. For details of the Group's management policies on foreign exchange risks, please refer to page 14 of this annual report.

## ENVIRONMENTAL POLICY

The Group is committed to support the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. The Group encourages environmental protection and promote awareness towards environmental protection to the employees. The Group adheres to the principle of recycling and waste reduction, and implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting the use of recycled papers and reducing energy consumption by switching off idled lightings and electrical appliances.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures in the operation of our Group's businesses to enhance environmental sustainability.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

## RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

### Employees

Employees are regarded as one of the most important and valuable assets of the Group. The Group strives to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by providing appropriate training and opportunities within the Group for career advancement.

### Customers and Suppliers

The Group attaches importance to the relationship with its customers and suppliers, as the Group has cooperated with most of its major customers and suppliers for more than five years.

## RESULTS AND DIVIDENDS

The financial performance of the Group for the year ended 31 December 2020 and the financial position of the Group as at that date are set out in the financial statements on pages 52 to 119 of this annual report. The Directors do not recommend payment of any final dividend in respect of the year ended 31 December 2020 (for the year ended 31 December 2019: Nil).

## Report of the Directors

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in Note 16 to the consolidated financial statements.

### SHARE CAPITAL

Details of the Company's share capital during the Year are set out in Note 28 to the consolidated financial statements.

### DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company's distributable reserves calculated under Companies Law of the Cayman Islands comprising the share premium and retained profits amounted to approximately RMB162.0 million.

### RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in Note 42 to the consolidated financial statements and in the consolidated statement of changes in the equity, respectively.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association (the "Articles of Association") and there was no restriction against such rights under the laws of Cayman Islands.

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

The Company has not redeemed any of its listed securities during the Year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the Year (2019: nil).

### DIRECTORS

The Directors of the Company during the Year and up to the date of this annual report were:

#### *Executive Directors*

Mr. Zheng Ping (*Chairman & Chief Executive Officer*)

Ms. Zheng Fei

Ms. Tang Lo Nar

#### *Non-executive Director*

Ms. Kong Xiaoling

#### *Independent Non-executive Directors*

Mr. He Binhui

Mr. Chen Lifan

Ms. Guo Ying

In accordance with article 84 of the Articles of Association, Mr. Zheng Ping, Mr. He Binhui and Mr. Chen Lifan will retire by rotation at the forthcoming annual general meeting and, being eligible, had offered themselves for re-election as Directors.

## Report of the Directors

### **DIRECTORS' SERVICES CONTRACTS**

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than the statutory compensation.

### **DIRECTORS' INTERESTS IN CONTRACTS**

The Directors' interests in contracts are set out in Note 35 to the consolidated financial statements. Apart from the foregoing, no other contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

### **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

### **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

The biographical details of Directors and senior management are set out on pages 25 to 27 of this annual report.

### **CONNECTED TRANSACTIONS**

For the year ended 31 December 2020, the following connected transactions were, and will continue to be, carried out by our Group in the ordinary and normal course of business, on either normal commercial terms or terms no less favorable to our Group than those available from independent third parties.

Since 1 January 2011, the Group has leased its three office premises located in Shanghai from Shanghai Automart Investment Co., Ltd. ("Shanghai Automart"). On 12 February 2014, three subsidiaries of the Company, namely Shuanghua Autoparts, Shanghai Youshen Industry Co., Ltd. ("Youshen Industry") and Shanghai Shuanghua Auto Component Co., Ltd. ("Shuanghua Auto Components"), as lessees, entered into the Lease Renewal Agreements with Shanghai Automart, as the lessor, in respect of the office premises for a further term of two years from 1 January 2014 to 31 December 2015, the annual caps were set at RMB2,000,000. The above Lease Agreements were further renewed on 11 December 2015 to cover the period from 1 January 2016 to 31 December 2018 with similar terms and less floor areas. On 20 November 2018, Shuanghua Autoparts, as lessee, entered into a lease agreement with Shanghai Automart, as lessor, in respect of the leasing of the office premises for an initial term of three years from 1 January 2019 to 31 December 2021. On 30 August 2019, Shuanghua Autoparts entered into a supplemental lease agreement with Shanghai Automart to reduce the floor area and shorten the lease period to the end of 2020 such that it would have a chance to re-evaluate its leasing options and budget after another year. For details of these lease agreements, please refer to the Company's prospectus dated 17 June 2011 and the annual reports from 2012 to 2019.

## Report of the Directors

Upon expiry of the above lease agreements, according to the operation conditions and daily office need, on 6 November 2020, Shuanghua Autoparts, as lessee, entered into a lease agreement with Shanghai Automart, as lessor, in respect of the leasing of the office premises for a term of two years from 1 January 2021 to 31 December 2022 (the “Lease Agreement”). During the Year, the Group has paid rental of approximately RMB1.1 million to Shanghai Automart.

Shanghai Automart is held as to 58% by Ms. Kong Xiaoling, the non-executive Director of the Company. Therefore, Shanghai Automart is an associate of Ms. Kong and a connected person of the Company as defined under Chapter 14A of the Listing Rules. As the applicable percentage ratio in respect of the aggregate annual rentals payable by Shuanghua Autoparts under the Lease Agreement is less than 5% and the total consideration is less than HK\$3 million, the above office lease rentals paid constituted an exempted connected transaction of the Company under Chapter 14A of the Listing Rules.

The headquarter of the Group is based in Shanghai and needs these premises for its operations. The Directors are of the view that substantial time and costs can be saved if the Group can remain in its existing office premises instead of moving to another office building. The Directors (including the independent non-executive Directors) consider that the connected transaction under the Lease Agreement has been entered into: (1) in the ordinary and usual course of the Group’s business; (2) on normal commercial terms or better; and (3) on terms that are fair and reasonable and in the interests of the Company and Shareholders as a whole.

Details of the related party transactions of the Group are set out in Note 35 to the consolidated financial statements. The Directors (including the independent non-executive Directors) believe that the related party transactions set out in Note 35 to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the related party transactions.

During the Year, save for the leasing of office premises from Shanghai Automart as set out above, no other transactions listed in Note 35 to the consolidated financial statements constituted a connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

## Report of the Directors

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

As at 31 December 2020, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register kept by the Company under Section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Appendix 10 to Listing Rules were as follows:

#### Long positions in the Shares

As at 31 December 2020, the issued share capital of the Company comprised 650,000,000 Shares.

Name of Directors	Number of Shares			Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Zheng Ping ( <i>note 1</i> )	–	–	282,750,000	282,750,000	43.5%
Ms. Kong Xiaoling ( <i>note 2</i> )	–	282,750,000	–	282,750,000	43.5%

Notes:

1. Mr. Zheng Ping is an executive Director and holds 100% interest in Youshen International Group Limited ("Youshen Group") and he is deemed to be interested in the 282,750,000 Shares held by Youshen Group.
2. Ms. Kong Xiaoling is a non-executive Director and the spouse of Mr. Zheng Ping. Accordingly, Ms. Kong is deemed to be interested in the 282,750,000 Shares held by Youshen Group under the SFO.

Save as disclosed above, as at 31 December 2020, none of the Directors nor the chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## Report of the Directors

### INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

#### Long positions in the Shares

As at 31 December 2020, the issued share capital of the Company comprised 650,000,000 Shares.

Name	Capacity	Nature of interest	Number of Shares	Percentage of issued share capital
Youshen Group ( <i>note 1</i> )	Beneficial owner	Corporate	282,750,000	43.5%
Ms. Zhou Shu Xian	Beneficial owner	Individual	120,160,000	18.5%
Mr. Xu Zong Lin	Beneficial owner	Individual	59,144,000	9.1%

Note:

1. Mr. Zheng Ping is an executive Director and holds 100% interest in Youshen Group and he is deemed to be interested in the 282,750,000 Shares held by Youshen Group. Ms. Kong Xiaoling is the spouse of Mr. Zheng and she is deemed to be interested in the 282,750,000 Shares held by Youshen Group under the SFO.

Save as disclosed, as at 31 December 2020, the Directors were not aware of any persons (not being a Director or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO.

### CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no controlling shareholders of the Company or their subsidiaries had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the Group to which the Company or any of its subsidiaries was a party during the Year.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales for the Year attributable to the Group's major customers are as follows:

Sales	
– the largest customer	39.1%
– five largest customers combined	64.5%

Three of the five largest customers have been customers of the Group for more than five years. The credit period for trade receivables is generally 30 to 90 days. For the year ended 31 December 2020, there was no recoverability issue with the five largest customers.

## Report of the Directors

The percentages of purchases for the Year attributable to the Group's major suppliers are as follows:

Purchases	
– the largest supplier	23.0%
– five largest suppliers combined	87.5%

Two of the five largest suppliers have been suppliers of the Group for more than five years. The suppliers generally provide a credit period for 30 to 90 days to the Group. For the year ended 31 December 2020, the Group did not have any major dispute with the five largest suppliers.

None of the Directors, any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the issued capital of the Company) had any beneficial interest in any of the five largest customers and suppliers of the Group for the year ended 31 December 2020.

### NEW SUBSIDIARY

On 6 November 2020, the Group entered into a joint venture agreement with Shanghai Lidahang to establish Lidahang Supply Chain, which principally engages in the business of supply chain services in Shanghai, and will be committed to optimising the food supply services in Shanghai and its surrounding areas by providing customers with more sources of supply, better products and customised services. The Group invested in 70% of equity interest in Lidahang at a consideration of RMB10.5 million. For further details of the formation of Lidahang Supply Chain, please refer to the announcement of the Company dated on 6 November 2020.

### SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that there is sufficient public float of more than 25% of the Company's issued Shares as required under the Listing Rules.

### INTEREST CAPITALISED

The Group has not capitalised any interest during the Year.

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that annual confirmations of independence were received from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules and all independent non-executive Directors are considered to be independent.



## Report of the Directors

### DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors nor their respective associates is interested in any business that competes or is likely to compete, either directly or indirectly, with the business of the Group.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the year ended 31 December 2020 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.

### FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120 of this annual report.

### AUDITOR

Following the retirement of BDO Limited as auditor of the Company on conclusion of the annual general meeting of the Company held on 25 June 2018, Ernst & Young was appointed as the auditor of the Company. The Board confirmed that there was no disagreement between BDO Limited and the Company. On 6 August 2020, Ernst & Young resigned as the auditor of the Company, and BDO Limited was appointed as the auditor of the Company on the same day. The Board confirmed that there was no disagreement between Ernst & Young and the Company. Save as disclosed above, there was no change in auditor of the Company during the past three years.

The financial statements of the Group prepared in accordance with the Hong Kong Financial Reporting Standards for the year ended 31 December 2020 have been audited by BDO Limited, who will retire and offer for re-election at the forthcoming annual general meeting.

On behalf of the Board

**Zheng Ping**

*Chairman and CEO*

Hong Kong  
31 March 2021

# Biography of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Zheng Ping (鄭平)**, aged 63, is an executive Director, the chairman and the chief executive officer (the “CEO”) of the Company. Mr. Zheng is the founder of our Group and joined our Group in 2002. He was appointed to the Board on 19 November 2010. Mr. Zheng is primarily responsible for reviewing and implementing our Group’s overall development strategy. From 1990 to 1993, he worked as vice general manager in Fuzhou Far East Auto Parts Company Limited (福州遠東汽車配件有限公司), the business scope of which is mainly manufacture of auto parts. From 1994 to 2001, he was a director and the general manager of Shanghai Youshen International Trade Company Limited (上海友申國際貿易有限公司), the business scope of which is mainly international trade and trade consultancy. From 2002 to 2008, Mr. Zheng served as the director of Automart Holdings Limited. In 2005, Mr. Zheng was appointed as the chairman of Shanghai Automart and the chairman and general manager of Shuanghua Autoparts. Since 2007, Mr. Zheng has been serving as the chairman of the board of directors and general manager of Shuanghua Autoparts. Mr. Zheng obtained his bachelor’s degree in Electrical Combustion Management from the Navy Engineering University of the People’s Liberation Army of China (中國人民解放軍海軍工程大學) and was the teacher of the power plant department of the University from 1983 to 1990. Mr. Zheng is the spouse of the Company’s non-executive Director, Ms. Kong Xiaoling, and father of the executive Director and vice president, Ms. Zheng Fei.

**Ms. Zheng Fei (鄭菲)**, aged 31, is an executive Director and the vice president of the Company. She joined our Group in 2014 and was appointed to the Board on 19 July 2017. Ms. Zheng is primarily responsible for monitoring the business operations of the Group, reviewing and implementing the Group’s strategies and policies, and managing risks while in pursuit of the Group’s strategic objectives. Since 2014, Ms. Zheng has been involved in assisting the core business of the Group, including sales and distribution, procurement, accounting and finance, corporate management, human resources and operational departments. Ms. Zheng worked as the investment manager of Fu Woo International Limited (富和國際有限公司) from 2012 to 2013, and was responsible for commodity trading and foreign investments. Ms. Zheng received her bachelor’s degree in Economics from the University of Chicago (美國芝加哥大學). She interned and worked in major investment banks from 2009 to 2012, dealing with capital markets, investment research and asset management related matters in the Asia Pacific region. Ms. Zheng is the daughter of the Company’s chairman and executive Director, Mr. Zheng Ping, and the non-executive Director, Ms. Kong Xiaoling.

**Ms. Tang Lo Nar (鄧露娜)**, aged 48, is an executive Director, the chief financial officer and the company secretary of the Company. She joined our Group in 2011, and was appointed to the Board in April 2012. She has been acting as the independent non-executive director of a Hong Kong Main Board listed company, namely Ganglong China Property Group Limited (stock code: 6968) since May 2020. Ms. Tang was the company secretary of two Hong Kong Main Board listed companies for the periods from 31 December 2008 to 1 April 2010 and from 12 January 2009 to 1 April 2010, respectively, the company secretary of a Hong Kong Main Board listed company from 2 March 2012 to 10 October 2014, and has been the company secretary of a Hong Kong GEM Board listed company from September 2018 to March 2021. She is a Fellow of the Association of Chartered Certified Accountants and a member of Hong Kong Society of Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Tang obtained a master’s degree in Applied Finance from University of Western Sydney in 2004, a master’s degree in English for Professions from The Hong Kong Polytechnic University in 2002, and a bachelor’s degree in Accountancy from The Hong Kong Polytechnic University in 1995. Ms. Tang has over 20 years of experience in accounting, tax, audit, company secretarial and finance. From 1995 to 2004, Ms. Tang worked in leading accounting firms, handling various matters of accounting, tax and audit matters. Since 2005, Ms. Tang began her own business by establishing a private company in Hong Kong to provide accounting, management consultancy, tax planning and company secretarial services.

## Biography of Directors and Senior Management

### NON-EXECUTIVE DIRECTOR

**Ms. Kong Xiaoling (孔小玲)**, aged 60, is a non-executive Director. Ms. Kong joined the Group in 2007 and was appointed to the Board on 8 June 2011. Ms. Kong is primarily responsible for supervising and providing advice to the Board. From 1983 to 1996, she worked in Wuhan City Automation Meter Factory (武漢市自動化儀錶廠) as technician of technology introduction office. From 1997 to 2004, Ms. Kong worked in Shanghai Youshen International Trade Company Limited (上海友申國際貿易有限公司), the business scope of which is mainly international trade and trade consultancy as director. From 2000 to 2007, she worked in Shanghai Zhong Zhi Trade Development Co., Ltd. (上海眾智貿易發展有限公司) as vice general manager. From 2007 to now, she has been appointed as the director of Shuanghua Autoparts. From 1980, Ms. Kong studied on a full-time basis in Huazhong College of Technology (華中工學院) (currently known as Huazhong University of Science and Technology (華中科技大學)) and obtained her diploma majoring in Detection Technology and Automatic Meter in 1983. She is the spouse of the Company's chairman and executive Director, Mr. Zheng Ping, and mother of the executive Director and vice president, Ms. Zheng Fei.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. He Binhui (何斌輝)**, aged 52, joined the Group in 2007 and was appointed as an independent non-executive Director on 8 June 2011. Mr. He is also a member of the remuneration committee and the nomination committee, and the chairman of the audit committee of the Board. During 2000 to 2009, he served as the head of capital market department and the general manager of the investment banking department of Shanghai office of China Galaxy Securities Co., Ltd. (中國銀河證券有限責任公司). In 2007, he joined Shuanghua Autoparts as independent director. Since December 2009, he has been serving as the general manager assistant and the general manager of investment banking department of Cai Tong Securities Co. (財通證券有限公司). From 1987 to 1991, he studied Mathematics on a fulltime basis in the Ningbo University (寧波大學) and obtained his bachelor's degree majoring in Science in 1991. From 1993 to 1996, he studied on a full-time basis in the Hangzhou Electronic Industry University (杭州電子工業學院) (currently known as Hangzhou Dianzi University (杭州電子科技大學)) and obtained his master's degree of Economics majoring in Accounting in 1996. He was qualified as auditor in 1997 by Beijing Institute of Chartered Accountants (北京註冊會計師協會). Since July 2016, Mr. He has been the managing director of CMB International Capital Management (Shenzhen) Co., Ltd. (招銀國際資本管理公司) and chairman of Shenzhen Merchants Bank Synergetic Innovation Fund Management Co., Ltd. (招銀協同基金管理公司董事長).

**Mr. Chen Lifan (陳禮璠)**, aged 81, joined the Group and was appointed as an independent non-executive Director on 8 June 2011. Mr. Chen is also a member of the audit committee and remuneration committee, and the chairman of the nomination committee of the Board. From 1957 to 1962, he studied on a full-time basis in the Jilin University of Technology and obtained his bachelor's degree majoring in automobile application engineering in 1962. From 1983 to 1985, he studied as a visiting scholar at the Institute of Vehicle Engineering at the Technical University of Berlin in Germany (德國柏林工業大學車輛工程研究所). In 2008, he attended and completed the training programme for independent executive directors hosted by Shenzhen Stock Exchange (深圳證券交易所). He worked as a professor and doctoral supervisor in the School of Automobile of Jilin University of Technology (吉林工業大學汽車學院), Jiaotong University (交通學院) and School of Automobile Engineering of Tongji University (同濟大學汽車工程學院), CDHK (中德學院) and CDHAW (中德工程學院) and has over 40 years' experience in automobile engineering.

**Ms. Guo Ying (郭滢)**, aged 40, joined the Group on 19 July 2017 and was appointed as an independent non-executive Director on 19 July 2017. Ms. Guo is also a member of the nomination committee and audit committee, and the chairman of the remuneration committee of the Board. Ms. Guo gained the bachelor's degree in finance from Hubei University (湖北大學) in 2002, received full time education in finance at Saint Mary's University (加拿大聖瑪麗大學) in 2005 and was granted a master degree in finance in 2007. Ms. Guo was a trader of Haitong Securities Co. Limited from 2002 to 2003, a sales trader of BOC International (China) Limited from 2008 to 2013, a trader of China International Capital Corporation (H.K.) Limited from 2015 to 2016, and has been the head of trading of Harmony Capital Group Limited since November 2016.

## Biography of Directors and Senior Management

### SENIOR MANAGEMENT

**Mr. Zheng Ping (鄭平)**, aged 63, is an executive Director, the chairman and the chief executive officer of the Company. Biographical details of Mr. Zheng are set out in the paragraph headed “Executive Directors” under this section of this annual report.

**Ms. Zheng Fei (鄭菲)**, aged 31, is an executive Director and the vice president of the Company. Biographical details of Ms. Zheng are set out in the paragraph headed “Executive Directors” under this section of this annual report.

**Ms. Tang Lo Nar (鄧露娜)**, aged 48, is an executive Director, the chief financial officer and the company secretary of the Company. Biographical details of Ms. Tang are set out in the paragraph headed “Executive Directors” under this section of this annual report.

### COMPANY SECRETARY

**Ms. Tang Lo Nar (鄧露娜)**, aged 48, is an executive Director, the chief financial officer and the company secretary of the Company. Biographical details of Ms. Tang are set out in the paragraph headed “Executive Directors” under this section of this annual report.

# Corporate Governance Report

It is the belief of the Board that corporate governance plays a vital part in maintaining the success of the Company. Various measures have been adopted to ensure that a high level of corporate governance is maintained throughout the operation of the Group. Save as to code provisions A.2.1 and A.4.3, the Directors and/or the Company has complied with all the code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 14 to the Listing Rules during the Year.

## THE BOARD

During the Year, the Board comprised three executive Directors, one non-executive Director and three independent non-executive Directors. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

The Board schedules four meetings a year at approximately quarterly intervals. In addition, special Board meetings are held as necessary. During the Year, the Board held seven meetings. Details of the attendance of individual Directors are as follows:

	Attendance	
	Annual general meeting	Board of Directors' meeting
<b>(a) Executive Directors</b>		
Mr. Zheng Ping	1/1	7/7
Ms. Zheng Fei	1/1	7/7
Ms. Tang Lo Nar	0/1	7/7
<b>(b) Non-executive Director</b>		
Ms. Kong Xiaoling	1/1	7/7
<b>(c) Independent Non-executive Directors</b>		
Ms. Guo Ying	1/1	7/7
Mr. He Binhui	1/1	7/7
Mr. Chen Lifan	1/1	7/7

Mr. Zheng and Ms. Kong are spouse, Ms. Zheng is the daughter of Mr. Zheng and Ms. Kong. Save as disclosed above, there is no family or other material relationship among members of the Board.

Biographies, including relationships among members of the Board are shown on pages 25 and 27 under the section headed “Biography of Directors and Senior Management” of this annual report.

## Corporate Governance Report

### ROLES OF DIRECTORS

The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Group. The principle roles of the Board are:

- to lay down the Group's objectives, strategies and policies;
- to monitor operating and financial performance; and
- to set appropriate policies to manage risks in pursuit of the Group's strategic objectives.

The Board has delegated the day-to-day operation responsibility to the management under the supervision of the CEO and various Board committees. Every newly appointed Director, if any, is ensured to have a proper understanding on the operations and business of the Group and fully aware of his responsibilities under the relevant applicable legal and regulatory requirements. The senior management and the company secretary will conduct such briefing as is necessary to update the Board with legal and regulatory developments, business and market changes and the strategic development of the Group to facilitate the performance of their duties.

### BOARD MEETINGS

Proposed regular Board meeting dates for a year are notified to each Director at the beginning of the year. Formal notice of at least seven days will be given in respect of a regular meeting. For special Board meeting, reasonable notice will be given.

The Board meets regularly at least four times every year. The Directors participate in person or through electronic means of communication. All notices of Board meetings are given to all Directors, who are given an opportunity to include matters in the agenda for discussion. The finalised agenda and accompanying board papers are sent to all Directors at least three days prior to the meeting.

During regular meetings of the Board, the Directors discuss the overall strategy as well as the operation and financial performance of the Group. The Board has reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual and interim results, approval of major capital transactions and other significant operational and financial matters. All Directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors can also seek independent professional advice in performing their duties at the Company's expense, if necessary. The company secretary records the proceedings of each Board meeting in detail by keeping detailed minutes, including all decisions by the Board together with concerns raised and dissenting views expressed (if any). All minutes are open for inspection at any reasonable time on request by any Director.

### SUPPLY OF AND ACCESS TO INFORMATION

In respect of regular Board meetings, an agenda of the meeting and the accompanying board papers are sent in full to all Directors at least three days before the intended date of the meeting. Board papers are circulated to the Directors to ensure that they have adequate information before the meeting for any ad hoc projects.

The management is responsible for supplying the Board and the committees with adequate information in a timely manner to enable it to make informed decisions. Where any Director requires more information than is provided by management, each Director has separate and independent access to the Company's senior management for inquiry or additional information.

All Directors are entitled to have access to board papers and related materials. Such materials are prepared to enable the Board to make informed decisions on matters placed before it.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the code provision A.2.1 of the CG Code, the roles of chairman and 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 CEO of the Group are not separated and is performed by the same individual. Mr. Zheng Ping acted as both the chairman and CEO throughout the Year. 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.

### APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

When appointing new Directors, the Group follows a formal, legal, thoughtful and transparent procedure. The Nomination Committee is chaired by an independent non-executive Director and consists of a majority of independent non-executive Directors. The Nomination Committee has formulated a nomination policy and is responsible for identifying suitable candidates for consideration by the Board as additional Directors or for filling temporary vacancies in the Board, and for making recommendations to Shareholders on any Directors to be re-elected at the general meeting.

The selection process and working summary of the new Directors of the Nomination Committee during the Year are contained in the paragraph headed "Nomination Committee" below.

All non-executive and independent non-executive Directors are appointed for a specific term of not more than three years. Under the Articles of Association, one-third of the Directors must retire and be eligible for re-election at each annual general meeting. All Directors, including the chairman, are required to retire from office by rotation and are subject to re-election by Shareholders at annual general meeting at least once every three years. As such, no Director has a term of appointment longer than three years.

Under provision A.4.3 of the Corporate Governance Code, if an independent non-executive Director serves for more than nine years, his further appointment should be subject to a separate resolution to be approved by the shareholders of the Company. Mr. He Binhui and Mr. Chen Lifan have served as independent non-executive Directors for more than nine years. The future appointment of these two independent non-executive Directors without the approval by way of passing a separate resolution of the shareholders of the Company is regarded as a deviation from provision A.4.3 of the CG Code. Accordingly, the re-election of Mr. He Binhui and Mr. Chen Lifan will be subject to separate resolutions to be approved at the 2020 annual general meeting, and the Company will state the reasons why the relevant independent non-executive Directors who are subject to rotation and re-election are still independent and should be re-elected in the shareholders' circular.

The Board is of the opinion that each of Mr. He Binhui and Mr. Chen Lifan remains independent, notwithstanding the length of their service. Each of Mr. He Binhui and Mr. Chen Lifan has confirmed to meet the independence criteria as set out in Rule 3.13 of the Listing Rules. They continue to demonstrate the attribute of an independent non-executive Director and there is no evidence that their tenure has any impact of their independence. The Board believes that their profound knowledge and experience and understanding of the Company could contribute to the continued success of the Group. In view of the above, the Company considers that sufficient measures have been taken to ensure that the standard of the Company's corporate governance practices is not lower than those required in the CG Code.

## Corporate Governance Report

### DIRECTORS' TRAINING

All Directors are required to provide the Company with his or her training records on a yearly basis. During the Year, the Company received training records from all Directors. The individual training record of each Director received during the year ended 31 December 2020 is set out below:

	Reading materials in relation to corporate governance/ updates on laws, rules and regulations	Attending seminars/ training in relation to corporate governance/ updates on laws, rules and regulations
<b>(a) Executive Directors</b>		
Mr. Zheng Ping	Yes	Yes
Ms. Zheng Fei	Yes	Yes
Ms. Tang Lo Nar	Yes	Yes
<b>(b) Non-executive Director</b>		
Ms. Kong Xiaoliang	Yes	Yes
<b>(c) Independent Non-executive Directors</b>		
Ms. Guo Ying	Yes	Yes
Mr. He Binhui	Yes	Yes
Mr. Chen Lifang	Yes	Yes

### DIRECTORS' INSURANCE

The Company did not have any management liability insurance cover during the Year.

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct for dealings in securities of the Company by the Directors. The Company, having made specific enquiry with all Directors, confirms that all Directors have complied with the required standard set out in the Model Code during the Year.



## Corporate Governance Report

### DELEGATION BY THE BOARD

The Board is primarily responsible for the overall strategy and direction for the Group and overseeing the Group's businesses and providing leadership in strategic issues. The management is delegated to manage the day-to-day businesses of the Group.

When the Board delegates aspect of its management and administration functions to management, clear directions would be given as to the power of management, in particular, the circumstances where management should report back to the Board before making decisions or entering into any commitments on behalf of the Group.

Principal functions that are specifically delegated by the Board to the management include (i) implementation of corporation strategy and policy initiatives; (ii) provision of management reports to the Board in respect of Group's performance, financial position and prospects; and (iii) day-to-day management of the Group.

### BOARD COMMITTEES

The Board established certain Board committees with specific written terms of reference which deal clearly with the committee's authority and duties and require the committees to report back on their decisions or recommendations.

#### 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 is responsible for nominating potential candidates for Directors, reviewing nominations, evaluating the independence of independent non-executive Directors, and making recommendations to the Board on appointments and re-elections. In addition, the Nomination Committee is responsible for reviewing the Board Diversity Policy (outlined below) to ensure its effectiveness and making recommendations to the Board on necessary amendments.

During the Year, the work performed by the Nomination Committee included the following:

- made recommendations to the Board on matters relating to the re-election of Directors;
- made recommendations to the Board on matters relating to the appointment and change of Board committees members;
- conducted an annual review of the independence of the independence non-executive Directors; and
- reviewed structure, size and composition of the Board.

The Nomination Committee comprises Mr. Chen Lifan, Mr. He Binhui and Ms. Guo Ying, and is chaired by Mr. Chen Lifan.

During the Year, two meetings of the Nomination Committee were held to review and consider the composition of the Board and senior management. The attendance records of the members of the Nomination Committee are as follows:

Name of members of the Nomination Committee	Attendance
Mr. Chen Lifan	2/2
Mr. He Binhui	2/2
Ms. Guo Ying	2/2

## Corporate Governance Report

### Board Diversity Policy

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

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

The Board’s composition under diversified perspectives was summarized as follows:

Board Diversity (Note 2)			
<b>Designation</b>	Executive Director (3)	Non-executive Director (1)	Independent non-executive Director (3)
<b>Gender</b>	Male (3)	Female (4)	
<b>Age Group</b>	25-45 (2)	45-65 (4)	Over 65 (1)
<b>Ethnicity</b>	Chinese (7)		
<b>Education Background</b>	Master Degree (3)	Bachelor’s Degree (4)	
<b>Professional Skills &amp; Career Experience (Note 1)</b>	Automobile & Industrial Engineering (3)	Financial & Accounting (4)	
	Corporate Management & Commercial (3)	Capital Management & Investor relations (4)	
<b>Length of Service</b>	Less than five years (2)	Five to ten years (5)	Over ten years (0)

Notes:

1. Directors may possess multiple professional skills and career experience.
2. The number in brackets refers to the number of Directors under the relevant category.

The Nomination Committee has reviewed the Board Diversity Policy and monitored the implementation of the Board Diversity Policy. Pursuant to the Board Diversity Policy, the Nomination Committee had taken into account the factors listed on the table above.

During the Year, the Company has achieved the following measurable objectives:

- (1) at least one-third of the Board is composed of independent non-executive Directors;
- (2) at least one-third of the Board are holders of a Bachelor’s degree or above;
- (3) at least one Director is a qualified accountant;
- (4) at least one Director has relevant experience in motor vehicle industry; and
- (5) at least one Director has relevant experience in finance.

Based on the review by the Nomination Committee, the Nomination Committee considers that the Company has achieved the measurable objectives set for implementing the Board Diversity Policy during the Year.

## Corporate Governance Report

### 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 determine the specific remuneration packages of all executive Directors and senior management of the Company.

The Remuneration Committee comprises Ms. Guo Ying, Mr. He Binhui and Mr. Chen Lifan, and is chaired by Ms. Guo Ying.

During the Year, two meetings of the Remuneration Committee were held to review and consider the specific remuneration packages of the Company's executive Directors and senior management. The attendance records of the members of the Remuneration Committee are as follows:

Name of members of the Remuneration Committee	Attendance
Ms. Guo Ying	2/2
Mr. He Binhui	2/2
Mr. Chen Lifan	2/2

### 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 requirement under the CG 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 CG Code contained in the Listing Rules and disclosures in the corporate governance report.

During the Year, the Audit Committee held five meetings for the purpose of reviewing the Company's financial reports and accounts, and providing advice and recommendations to the Board of Directors. The Audit Committee also reviewed the internal control procedures of the Group. The minutes of the Audit Committee meeting are kept by the company secretary.

## Corporate Governance Report

The Audit Committee also reviewed the Company's progress in implementing the corporate governance requirements as set out in the CG Code. The attendance records of the members of the Audit Committee are as follows:

Name of members of the Audit Committee	Attendance
Mr. He Binhui	5/5
Ms. Guo Ying	5/5
Mr. Chen Lifan	5/5

The Group's results for the Year have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

### COMPANY SECRETARY

All Directors have access to the advice and services of the company secretary. During the Year, the company secretary confirmed she had taken not less than 15 hours professional trainings in accordance with Rule 3.29 of the Listing Rules.

### DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE ACCOUNTS

The Board is responsible for presenting a balanced, clear and comprehensible assessment of the Group's performance and prospects. The Directors are responsible for the preparation of financial statements which give a true and fair view of the statement of financial position and financial performance and cash flows of the Group on a going concern basis.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Company's consolidated financial statement are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently and that judgments and estimates made are prudent and reasonable. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group. The responsibilities of the auditor for the accounts are set out in the Independent Auditor's Report on pages 50 to 51 of this annual report.

Where appropriate, a statement will be submitted by the Audit Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of the external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control of the Group and for reviewing its effectiveness. The internal control system of the Group comprises a comprehensive organisational structure and delegation of authorities assigned to individuals based on experience and business need.

Control procedures have been designed to safeguard assets against unauthorised use and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; and to provide reasonable assurance against material misstatement, loss or fraud.

A general review of the effectiveness of the Group's system of risk management and internal control covering all key control, including financial, operational and compliance, is conducted twice annually by the Audit Committee with the assistance of relevant internal staff. The review and evaluation consisted of enquiry, discussion and validation through observation and inspection (if necessary). The result of review will be reported to the Board and some measures would be proposed if there is any area for improvement. For the year ended 31 December 2020, the Group's system of risk management and internal control was effective. No material violation of risk management and internal control system or significant risk were detected.

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE

#### Introduction

This is the fifth Environmental, Social and Governance Report issued by the Company. The report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") set out in Appendix 27 to the Listing Rules to present the corporate social responsibilities of the Group over the years and during the Year. The annual basis of this report is the same as the annual report period of the Company.

The report mainly covers the plants of the Group in the PRC, including Shuanghua Autoparts, Shanghai Shuanghua Machinery Manufacturing Co., Ltd., and Anhui Shuanghua.

The report has two versions, English and Chinese. If there is any inconsistency or ambiguity between the English version and Chinese version, the English version shall prevail. This report is incorporated in the Group's annual report and available to Shareholders in hard copy and posted on the Internet for public access. The Internet version can be downloaded from the website of the Stock Exchange, <http://www.hkexnews.hk>, and the website of the Company, <http://www.shshuanghua.com>. Questions or suggestions regarding the contents of this report can be directed to us by phone or email as follows:

#### Shuanghua Holdings Limited

Tel: (86 21) 5058 6337

Email: [ir@shshuanghua.com](mailto:ir@shshuanghua.com)

Website: <http://www.shshuanghua.com>

# Corporate Governance Report

## Chairman's statement

Since its establishment, the Group has been committed to producing and providing quality and green products and services. While striving for value creation, we always keep corporate social responsibilities in mind and integrate the sustainable development concept with consideration to environmental, social and corporate governance in all procedures of the Company.

We attach great importance to the use of sources and environmental management. In recent years, we have shortened the low-efficiency production lines through the transformation of equipment and technology to improve production efficiency and reduce energy consumption. We also have handled emissions strictly in accordance with the regulations.

We attach great importance to every employee. We deeply understand that ensuring their occupational health and safety is an important component of maintaining the Group's sustainable development. With striving to improve the level of safe production, we properly manage the environment of our factories and offices to provide our employees with a fair, safe and healthy working environment.

We attach great importance to social commonweal. We actively engage in social welfare activities, contributing to the balanced development of the society.

Attaching importance to product quality and safety, supporting employees' development and nurturing talents for the Group, we will never stop breakthrough and innovations. This Environmental, Social and Governance Report is prepared in accordance with the ESG Reporting Guide issued by the Stock Exchange to disclose the existing projects such as energy conservation and emission reduction, staff and social participation of Shuanghua. We hope that you will have a better understanding of Shuanghua. In the future, we will pursue better performance in the environmental and social aspects, striving assiduously for the development and well-being for the Group, the society and our next generation.

## Zheng Ping

*Chairman and CEO*

Hong Kong  
31 March 2021

## Corporate Governance Report

### About us

Shuanghua Holdings Limited (1241.HK) was incorporated in the Cayman Islands on 19 November 2010 as an exempted company with limited liability, and is an investment holding company, which was listed on the Stock Exchange on 30 June 2011.

The Group was principally involved in two major businesses, being the business of trading, manufacturing and R&D of automobile parts, mainly the automotive HVAC components, and the business of supply chain management, mainly the cold storage and cold chain supply, respectively. The plants of the Group are located in Fengxian District, Shanghai and in Tunxi District, Huangshan City, Anhui Province. The Group has been working intensively for more than two decades in the automotive industry and accumulated the wealth of industry experiences and resources to form its core competitive advantages in technology, products and customers. With its technology and experience in ventilation and cooling system, the Group planned to use its vacant properties in Shanghai to develop supply chain management business, so as to transform the Group's business in Shanghai from traditional manufacturing to cold chain supply and storage services.

### Environment

The plants of the Group belong to the automobile parts manufacturing industry and cold chain logistics industry, and mainly comply with the *Environmental Protection Law of the PRC*, *Law of the PRC on the Prevention and Control of Air Pollution*, *Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste*, *Law of the PRC on the Prevention and Control of Environmental Noise Pollution*, *the Notice of the State Council on Printing and Distributing the Thirteenth Five-Year Plan for the Protection of Ecological Environment*, *Regulations of Shanghai Municipality on Environmental Protection*, *Regulations of Anhui Province on Environmental Protection* and the various emissions discharging standards and other relevant laws and regulations issued by the relevant government departments. For the year ended 31 December 2020, the Group had not been punished by Environmental Protection Bureau of the PRC.

#### *Emissions*

The main emissions generated in the production processes are as follows:

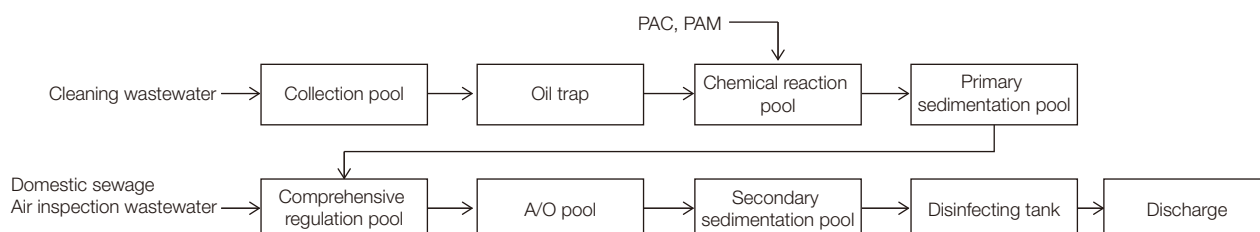
#### Wastewater

Wastewater generated in the plants mainly includes industrial wastewater and domestic sewage. Industrial wastewater includes the water for parts surface cleaning and the regularly-replaced testing wastewater in the air inspection flume. Products and parts need to be cleaned before soldering to remove the surface oil, using the LT-1 special cleaning agent for aluminum products. The main pollutants in the wastewater after cleaning are CODcr, SS, PH, petroleum, total phosphorus, anionic surfactants, etc. The cleaning wastewater emission is about 2.74 ton/day. Air inspection wastewater refers to the wastewater produced by the periodic replacement of the water stored in the air inspection flume for checking the product's air tightness, of which the discharge volume is about 2.19 ton/day.

Wastewater generated in the construction of the cold storage plant is mainly the domestic sewage, and generally no production wastewater is generated.

## Corporate Governance Report

The sewage treatment facilities are installed in the plant area. After being collected by the collection pool and going through the oil trap, flocculation and precipitation, the cleaning wastewater goes into a comprehensive regulation pool, together with the domestic sewage and air inspection wastewater, and discharges through municipal sewage pipe after biochemical treatment, precipitation and disinfection. The specific sewage treatment process is as follows:



The processing capacity of the sewage treatment facilities in the plant area is over 100 tons/day. Wastewater after treatment reaches the quality standards issued by relevant departments without adverse effects to the surrounding water environment.

### Exhaust

A small amount of brazing dust is generated in the brazing furnace during the soldering of the products in production process, and discharged into the air 15 meters high above the plant roof after the treatment by the filter device equipped in the brazing equipment at about 6.05mg/m<sup>3</sup> of concentration and 9.08\*10<sup>-3</sup>kg/h of speed, which meets the emission limits of particulates in the *Integrated Emission Standard of Air Pollutants* (GB16297-1996). When the plant was designed, we took into consideration the adverse effects of trace amounts of HF generated in the soldering process by reaction of flux and water, and filled the entire baking and brazing furnace with liquefied nitrogen to prevent HF from being generated. During the manual soldering process, a small amount of soldering dust is generated in the argon arc welder and discharged out of the workshop through the exhaust fan, and the concentration of the dust in workshop meets the requirements of the *Occupational Exposure Limit for Workplace Hazards* (GZ2.1-2007).

The exhaust gas and dust generated in the construction of the cold storage plant meet the relevant national air quality standards such as the *Law of the PRC on the Prevention and Control of Air Pollution* and the *Integrated Emission Standard of Air Pollutants*, measures include, but not limit to, water sprinkling for dust suppression during excavation, burying and crushing works, covering, curing, greening and hardening the main roads on the sites to conform with the requirements of the supervisory limit for non-organised emission of particulates – less than 1.0 mg/m<sup>3</sup> as set out under the *Integrated Emission Standard of Air Pollutants*; and earthwork backfilling, transshipment and other construction processes that may cause dust pollution are prohibited when windstorm level 4 or above is hoisted.

In order to ensure the compliance of national environmental standards, Shuanghua Autoparts commissioned Shanghai Star Environmental Protection Technology Co., Ltd. to design, manufacture, install and debug the exhaust treatment system (15,000m<sup>3</sup>/h) in 2016. This system is effective and still in use. The processed exhaust has reached the relevant standards in the *Integrated Emission Standard of Air Pollutants of Shanghai* (DB31-933-2015). Anhui Shuanghua specially commissioned Huangshan Yuanxing Environmental Technology Co., Ltd. to monitor the pollutants in the plant area of Anhui Shuanghua in August 2020, so as to ensure that the pollutant discharge meets the requirements of *Regulations of Anhui Province on Prevention and Control of Air Pollutants*.



## Corporate Governance Report

### Solid waste

The scraps, substandard products and waste packaging materials generated in production processes, including parts pre-cut, stamping and fins, etc., are collected by the industrial waste recycling department; a small amount of waste oil, waste oil tarpaulins and waste saponified solution are regularly disposed of by the commissioned qualified contractor; the sludge from sewage treatment station and the brazing furnace purification dust are also recycled and disposed of by the commissioned qualified contractor; and the household refuse and office waste are regularly cleared and disposed of by public sanitation departments.

The solid waste generated during the construction of the cold storage plant mainly contains construction waste and earthwork. Our solid waste management during the construction is complied with the *Standards for Pollution Control on the Storage and Disposal Site* for General Industrial Solid Wastes and other relevant requirements. Recyclable solid waste such as wasted steel materials should be handled by the approved recycling department, the surplus earthwork and building materials should be backfilled, and the non-recyclable waste should be handled by the qualified departments.

Excess earthworks and construction materials are backfilled to the ground, whereas the waste that cannot be recycled or reused are collected by environmental protection authorities for proper central treatment to prevent secondary pollution.

### Noise

Noise is mainly generated from metal processing equipment, furnace exhaust fan, air compressor and cooling towers, etc. The impact of the plants' production on the external environment has been reduced through reasonable layout, placing the equipment in isolated processing room, as well as installing shock absorbers and sound insulation windows. The noise within plant area was able to meet the standards in the *Environmental Noise Emission Standards at the Boundary of Industrial Enterprises*.

The major sources of noise during the construction of the cold storage plant come from construction machines and vehicles. We strictly comply with the requirements of on the *Emission Standard of Environment Noise for Boundary of Construction Site*, reasonably schedule construction timetable as well as use machines and equipment with qualified noise emission standards during the construction.

### Use of resources

Green and environmental protection has always been the Group's philosophy and goal. The Group has formulated a series of environmental protection system to actively improve the production lines with a view to increase production efficiency and reduce consumption of energy and resources. The consumption of energy and resources by the Group's plants in the past two years was as follows:

Year	Electricity consumption (KWH)	Electricity consumption per unit (KWH/unit)	Water consumption (ton)	Water consumption per unit (ton/unit)	Use of packing materials (ton)	Use of packing materials per unit (KG/unit)
2019	886,449	6.74	11,577	0.09	83	0.63
2020	715,520	5.06	6,425	0.03	35	0.32

Within the Group's office area, energy consumption has been reduced through measures such as double-sided printing, e-office and timely switching off of electrical appliances.

## Corporate Governance Report

### Society

#### Employment

In respect of employment of labour, the Group has strictly complied with the relevant laws and administrative regulations of China, such as the *Labour Law of the PRC*, the *Labour Contract Law of the PRC* and the *Special Provisions on the Labour Protection of Women Workers*. In accordance with the needs of each post, the Group recruits all the talents regardless of race, gender, age, religion, region and nationality. As at 31 December 2020, the total number of employees of the Group was 140. All employees came from the PRC except for three of them. All of them are full-time employees which can be categorised as follows:

Gender	Male					Female					Total
	Headcount at beginning of 2020	New recruits	Resignation	Rate of resignation	Headcount at end of 2020	Headcount at beginning of 2020	New recruits	Resignation	Rate of resignation	Headcount at end of 2020	
Age											
30 or below	4	27	2	3.1%	29	7	6	7	10.9%	6	35
31-50	21	28	12	18.8%	37	15	29	7	10.9%	37	74
50 or above	14	10	6	9.4%	18	3	10	0	0.0%	13	31
Total	39	65	20	31.3%	84	25	45	14	21.8%	56	140

Educational background	Headcount at beginning of 2020	New recruits	Resignation	Rate of resignation	Headcount at end of 2020
Bachelor's degree or above	22	8	8	12.5%	22
College	10	17	3	4.7%	24
High school or below	32	85	23	35.9%	94
Total	64	110	34	53.1%	140

Region	Headcount at beginning of 2020	New recruits	Resignation	Rate of resignation	Headcount at end of 2020
Outside the PRC	3	0	0	0.0%	3
Eastern Region of the PRC	56	109	30	46.9%	135
Middle Region of the PRC	2	1	1	1.5%	2
Western Region of the PRC	3	0	3	4.7%	0
Total	64	110	34	53.1%	140

## Corporate Governance Report

### *Health and safety*

The Group is committed to providing employees with a safe, harmless and comfortable working environment. Besides the security, cooling, heating and other hardware installed in the plants and offices, Shuanghua has also made significant investment in green projects. Green trees, grass and red flowers can be seen everywhere in the plant area of Shuanghua, so that the employees can work in the garden-style plant joyfully. The hardware facilities in respect of labour safety and hygiene and main construction work in the plant and office area are designed and carried out simultaneously and put into use at the same time. The Group provides workers with the necessary labour protection products and regular health checks for workers engaging in works with occupational hazards. The Group has formulated the *Safety Production Management System* and the safety production process and operating procedures. The new recruits and trainees must attend the safety production training at three different levels, from the working unit, team and operation position. Workers who change jobs must be re-educated. Those who are engaged in special work of electrical, soldering, vehicle driving, flammable and explosive substance, etc. must attend professional safety and technical training, and obtain a qualified operating permit (license) after strict examination by the relevant departments before operating independently. Each workshop organises a monthly safety training to enhance the safety awareness of employees. The plants set up a special quality and safety department to check, correct and educate the irregularities every day, including not wearing labour insurance products and operations in violations of rules, etc., to prevent accidents in the working process and reduce the occurrence of safety incidents. The plants have also formulated a contingency plan for various emergencies to ensure the safe and orderly operation and the safety of the staff to the greatest extent.

During the Year, the total working hours and accidents in the Group's plants were as follows:

Gender	Total working hours (hrs)	Work injuries (times)	Death from work (per)	Rate of death from work (%)
Male	65,835	0	0	0
Female	54,567	0	0	0

### *Development and training*

The Group attaches importance to the improvement of the employees' ability, and various training measures have been implemented to continuously improve their professional knowledge and skills, enhance the management skills and develop their problem-solving ability, in order to ensure the innovation within the Group and maintain the competitive advantage.

The training courses of the Group include: new recruits training, first aid knowledge and non-smoking training, fire drill, labour laws training, accountant's re-education, safety management training, equipment operation training, special vehicle operation training and professional experience training, etc. The Group fully subsidises the internal and external training courses and partly subsidises the voluntary study and further education of the employees. The training measures above cover all employees in the Group.

## Corporate Governance Report

### *Labour standards*

In order to safeguard the health and safety of employees and fully comply with the labour laws and regulations, the Group has never employed child labour under 16 years old since its establishment, and strictly forbids forced labours or untrained employees to be engaged in dangerous work. Under the premise of consensus, the Group signs labour contract with the employees in accordance with the *Labour Law of the PRC* and *Labour Contract Law of the PRC*, and offers compensation according to the position. Employees work within the legal working hours and enjoy the rest periods regulated by the State and a free lunch is provided by the Group. The Group provides social insurances such as medical, maternity, work injury, unemployment and pension to its employees and makes contributions to the housing reserve funds for them. The Group offers special protection to female employees through the prohibition on hazardous works to female employees and appropriate rest periods offered during their pregnancy, postpartum period and lactation. Since the establishment of the Group and its predecessor, no female employees have involved in deduction of salary, dismissal or termination of labour contracts because of their pregnancy, fertility or lactation. After maternity leave, female employees are arranged to return to their original department and position and reintegrate into the workplace with active assistance from the Group. During the Year, 100% of the pregnant female employees return to their position after maternity leave.

The Group strictly observes the requirements of laws. The human resources department of the Group will regularly inspect whether the labour practice is in compliance with the labour laws and regulations. Any non-compliance, such as employment of child or forced labour, will be met with the following measures:

- 1) Investigate the incident and report to the local labour department;
- 2) If the investigation reveals that the incident occurred due to negligence, the Group will immediately terminate the labour contract with the party concerned and make compensation to the party concerned for the loss and injury caused by the incident.

In case of fraud, the Group will take the necessary legal measures and actions.

### *Supply chain management*

The Group has formulated a procurement control procedure. Before the procurement, the procurement department of the Group reviews and selects quality suppliers from a number of supplier candidates, and establishes the suppliers' directory. The Group establishes a long-term strategic cooperative relationship with suppliers of good performances in qualification, reputation, product quality, environmental protection and social responsibility, and is committed to establish an efficient and green supply chain together with the suppliers. The procurement department of the Group will review the suppliers regularly to enhance the control and product quality effectively.

## Corporate Governance Report

As at 31 December 2020, the Group had a total of 135 suppliers, distribution of which were as follows:

Region	Number
Jiangsu	35
Zhejiang	31
Shanghai	25
Anhui	19
Guangdong	14
Shandong	3
Fujian	2
Beijing	1
Hebei	1
Henan	1
Hubei	1
Tianjin	1
Changchun	1
Total	135

### *Product responsibility*

We have been committed to producing the best automotive HVAC components, including evaporators, condensers and compressors. We attach great importance to product quality and reputation by enhancing the product quality review and sales management to ensure the delivery of quality products to our customers. The Group strictly implements its job quality standards and quality responsibilities, and improves the product quality management and development plan. In the production and sales process, we enhance the product quality management and develop a reasonable and flexible program aimed at meeting market and customer needs. We have obtained the ISO9001 quality management system certification.

The Group has formulated the *Control Procedure for Product Inspection and Measurement* and the *Control Procedure for Unqualified Products*. If a quality issue of the delivered product does exist in spite of our best efforts in guaranteeing product quality, the customer can submit the case to our customer service staff who will then inform the relevant departments and responsible person to verify the causes and arrange product return or exchange. The products of the Group are safe and harmless, and no delivered products have been recalled due to safety and health issues during the Year.

The Group respects and protects intellectual rights. The Group currently conducts relevant business under its core brand “SHUANGHUA (雙樺)” trademark. The Group has completed the necessary registration and has taken proactive measures to protect its trademarks and other intellectual properties. A professional institution has been commissioned to protect our products and trademarks and apply for the patents according to the *Patent Law of the PRC* and the *Trademark Law of the PRC*. Any fake and inferior products against the Company will be punished by all possible measures.

In order to ensure the safety and rational use of customer information, the Company has taken appropriate measures for privacy protection, such as setting data management permission and distinguishing the management permission of written data and system data, to ensure that unauthorised persons cannot browse or access the information, and the expired documents or information will be destroyed accordingly. Since its establishment, the personal and customer information of the Group has never been stolen, tampered, damaged or leaked out.

## Corporate Governance Report

### *Anti-corruption*

The Group has formulated a comprehensive internal control structure and prudent policies, and signed honesty agreements with relevant staff to prevent and control corruption, fraud, cheat or unethical behaviours. Employees can report any irregularities, such as dereliction of duty, abuse of power, bribery, embezzlement of the Company's property, etc., to the Company's board of supervisors and internal audit department through letter, email, telephone, etc., and the relevant departments will investigate and collect the evidence to verify the report, followed by punishment after a conclusion is drawn.

Since the establishment of the Group, no cases of corruption, bribery, extortion, fraud or money laundering have occurred. The Group will continue to adhere to its code of ethics, uphold good reputation and prevent any incidents of corruption in the future.

### *Social investment*

As a corporate citizen, the Group sees shouldering of corporate social responsibility as its mission and actively participates in the community and charity works with a view to bring corporate value into full play, and assumes its corporate responsibility. The Group is not only devoted to its business operation but also strives to contribute, show care and give help to the society. The Group also sets aside reserved funds for social services every year and has taken practical measures to contribute to the society and actively perform its corporate civic responsibility by making donations to help underprivileged families.

In 2005, RMB2,000 was donated to the tsunami disaster area of Southeast Asia.

In 2006, RMB4,000 was donated to "Beloved under the Blue Sky".

In 2007, RMB10,000 was donated to "Daily Charity".

In 2008, RMB15,000 was donated to "Daily Charity", RMB30,000 was donated to Fengxian District Sports Day, RMB300,000 was donated to Wenchuan earthquake disaster area, and RMB20,000 was donated to "New Rural Construction" in CSPGP of Fengxian District.

In 2010, RMB20,000 was donated to "Beloved under the Blue Sky".

In 2011, RMB20,000 was donated to "Beloved under the Blue Sky".

In 2012, RMB50,000 was donated to Preference for Military Families Foundation of Shanghai, and RMB20,000 was donated to "Beloved under the Blue Sky".

In 2014, RMB250,000 was donated to Silk Road Peace Prize Foundation of Shanghai.

In 2015, RMB30,000 was donated to "Beloved under the Blue Sky".

In 2016, RMB50,000 was donated to "Beloved under the Blue Sky" (including 2017 advance donation of RMB30,000).

In 2018, RMB20,000 was donated to "Beloved under the Blue Sky".

In 2019, RMB2,000,000 was donated to "Huangshan United Applied Technology Research Institute".

## Corporate Governance Report

### AUDITOR

BDO Limited has been appointed as auditor of the Company for the year ended 31 December 2020.

### AUDITOR'S REMUNERATION

The fees in relation to the audit and other services provided to the Company and its subsidiaries by the external auditor of the Group for the year ended 31 December 2020 amounted to approximately RMB720,000. No non-audit service was provided by the external auditor of the Group for the year ended 31 December 2020.

### SHAREHOLDERS' RIGHTS

Under the Articles of Association, the Board, on the requisition of Shareholders holding not less than 10% of the paid up capital of the Company, can convene an extraordinary general meeting within two months after the deposit of such requisition, to address specific issues of the Company within 21 days from the date of deposit of written notice to the Company's principal place of business in Hong Kong. The same requirement and procedure also applies to any proposal to be tabled at Shareholders' meeting for adoption.

If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders could enhance the confidence of investors. The primary communication channels between the Company and its Shareholders include the publication of interim and annual reports, annual general meeting, and other general meetings. The Company encourages all Shareholders to attend the annual general meeting. The Company's website also provides regularly updated information of the Group to the Shareholders. Enquiries on matters relating to Shareholders and the businesses of the Group are welcome, and are dealt with in an informative and timely manner.

The chairman of the Board and other Board members would attend the forthcoming annual general meeting in 2021 to answer questions, if any, at the meeting.

### DIVIDEND POLICY

Before announcing the distribution or recommendation of dividends, the Board shall take into account factors including the Group's actual and expected performance, retained profits, allocable reserves, working capital requirements, capital expenditure, future business development plans, liquidity status, the inherent and potential effects of domestic and foreign economic conditions, policies on the Company's industry, business, finance and positioning, as well as other factors that the Board considers appropriate. The Board will review the Company's dividend policy from time to time.

### CONSTITUTIONAL DOCUMENTS

During the Year, there were no changes in the constitutional documents of the Company.

# Independent Auditor's Report



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Hong Kong

## To the shareholders of Shuanghua Holdings Limited

*(incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of Shuanghua Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 52 to 119, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



## Independent Auditor's Report

### KEY AUDIT MATTERS (CONTINUED)

#### Impairment of property, plant and equipment and right-of-use assets

As at 31 December 2020, the carrying values of the Group's property, plant and equipment and right-of-use assets amounted to RMB115,373,000 and RMB69,209,000, respectively.

Management is required to perform impairment assessment on an asset if there is an indicator that the asset's recoverable amount may be lower than its carrying amount. The impairment reviews performed by the Group's management include a number of significant judgements and estimates including cash generating unit ("CGU") identification, future sales expectation, operating profit forecasts, discount rate, fair value, costs of disposal and overall market and economic conditions. Changes in these assumptions may have a significant impact on the impairment assessment.

As a result of the Group's impairment review completed during the year, an impairment charge of nil was recognised.

The Group's disclosures about impairment of property, plant and equipment and right-of-use assets are included in notes 4(d), 5(b) and 16 to the consolidated financial statements, which also explain the accounting policies and management's accounting estimates.

*Our responses:*

- We evaluated management's identification of indicators of impairment.
- We obtained the value-in-use calculation of the cash flow forecast and checked the mathematical accuracy of the calculation.
- We evaluated the key assumptions by comparing to the Group's development plan and analysis on the industry.

#### Impairment of inventories

As at 31 December 2020, the net carrying value of inventories amounted to approximately RMB21,097,000.

Inventories are stated at the lower of cost and net realisable value. Allowance for inventory obsolescence is based on management's judgement using the available facts and circumstances, including but not limited to, the inventories' own ageing and physical conditions, their market selling prices and estimated selling costs of the inventories. We focused on this area as the inventories are material to the Group and the determination of allowance for inventories involves significant judgement and estimation from management.

The Group's disclosures about impairment of inventories are included in notes 4(n) and 5(c) to the consolidated financial statements, which also explain the accounting policies and management's accounting estimates.

## Independent Auditor's Report

### KEY AUDIT MATTERS (CONTINUED)

#### Impairment of inventories (Continued)

*Our responses:*

- We evaluated management's assessment on the impairment of inventories.
- We attended physical inventory counts, on a sample basis, to ascertain the condition of the inventories and to evaluate the provision for slow-moving and obsolete inventories.
- We also evaluated the key assumptions used, such as the market selling price after the year end and estimated selling costs of the inventories, to determine the net realisable value of inventories and recalculated the expected provisions based on the key assumptions to ensure the mathematical accuracy of the calculation.

### OTHER INFORMATION IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The audit committee of the Company (the "Audit Committee") assists the directors in discharging their responsibility in the regard.

## Independent Auditor's Report

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

## Independent Auditor's Report

### **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **OTHER MATTER**

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2020.

*BDO Limited*

Certified Public Accountants

Alfred Lee

Practising Certificate Number: P04960

Hong Kong, 31 March 2021

# Consolidated Statement of Profit or Loss

For the year ended 31 December

	Notes	2020 RMB'000	2019 RMB'000
Revenue	7	<b>63,793</b>	28,616
Cost of sales		<b>(54,196)</b>	(34,354)
Gross profit/(loss)		<b>9,597</b>	(5,738)
Other income, gains and losses	7	<b>11,969</b>	7,640
Impairment losses recognised on			
– trade receivables		<b>(591)</b>	(3,747)
– other receivables and other assets		<b>(6)</b>	(695)
Selling and distribution costs		<b>(1,984)</b>	(1,120)
Administrative expenses		<b>(25,891)</b>	(29,481)
Other expenses	8	<b>(1,077)</b>	(11)
Interest expense	10	<b>(25)</b>	(128)
Share of gain of a joint venture		<b>–</b>	181
Loss before tax	9	<b>(8,008)</b>	(33,099)
Income tax credit	14	<b>881</b>	1,551
Loss for the year		<b>(7,127)</b>	(31,548)
Attributable to:			
Owners of the parent		<b>(5,153)</b>	(31,377)
Non-controlling interests		<b>(1,974)</b>	(171)
		<b>(7,127)</b>	(31,548)
Loss per share attributable to ordinary equity holders of the parent			
Basic and diluted	15	<b>RMB(0.8) cents</b>	RMB(4.8) cents

# Consolidated Statement of Comprehensive Income

For the year ended 31 December

	2020 RMB'000	2019 RMB'000
<b>LOSS FOR THE YEAR</b>	<b>(7,127)</b>	<b>(31,548)</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	-	4
Release of reserves upon deregistration of a subsidiary	<b>251</b>	-
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<b>(6,876)</b>	<b>(31,544)</b>
Attributable to:		
Owners of the parent	<b>(4,902)</b>	<b>(31,373)</b>
Non-controlling interests	<b>(1,974)</b>	<b>(171)</b>
	<b>(6,876)</b>	<b>(31,544)</b>

# Consolidated Statement of Financial Position

As at 31 December

	Notes	2020 RMB'000	2019 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	16	115,373	89,196
Right-of-use assets	17	69,209	70,316
Advance payments for property, plant and equipment		15,256	1,620
Financial assets at fair value through profit or loss	18	7,311	8,576
Total non-current assets		207,149	169,708
<b>CURRENT ASSETS</b>			
Inventories	19	21,097	20,465
Trade and bills receivables	20	24,370	16,266
Prepayments, other receivables and other assets	21	15,618	4,040
Financial assets at fair value through profit or loss	18	55,000	–
Restricted time deposits	22	40,000	136,782
Cash and cash equivalents	22	19,587	17,995
Total current assets		175,672	195,548
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	23	25,488	7,096
Other payables and accruals	24	13,333	14,319
Provision	25	483	1,245
Lease liabilities	17	837	1,037
Tax payable		1,090	1,090
Total current liabilities		41,231	24,787
<b>NET CURRENT ASSETS</b>		134,441	170,761
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		341,590	340,469

## Consolidated Statement of Financial Position (Continued)

As at 31 December

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	17	878	–
Deferred tax liabilities	27	1,327	2,208
Total non-current liabilities		<b>2,205</b>	2,208
<b>NET ASSETS</b>			
		<b>339,385</b>	338,261
<b>EQUITY</b>			
<b>Equity attribute to owners of the parent</b>			
Issued capital	28	5,406	5,406
Reserves	29	327,921	328,023
		<b>333,327</b>	333,429
Non-controlling interests		<b>6,058</b>	4,832
<b>TOTAL EQUITY</b>		<b>339,385</b>	338,261

**Zheng Ping**  
Director

**Tang Lo Nar**  
Director



# Consolidated Statement of Changes in Equity

For the year ended 31 December

	Attributable to owners of the parent									
	Share capital	Share premium	Capital reserve	Statutory surplus reserve	Merger reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 28)	(note 29)	(note 29)	(note 29)	(note 29)	(note 29)				
As at 1 January 2019	5,406	133,658	168,183	42,857	(119,378)	(255)	134,331	364,802	5	364,807
Loss for the year	-	-	-	-	-	-	(31,377)	(31,377)	(171)	(31,548)
Other comprehensive income for the year:										
Exchange differences on translation on foreign operations	-	-	-	-	-	4	-	4	-	4
Total comprehensive income/(loss) for the year	-	-	-	-	-	4	(31,377)	(31,373)	(171)	(31,544)
Acquisition of subsidiary (note 30)	-	-	-	-	-	-	-	-	4,998	4,998
As at 31 December 2019 and 1 January 2020	5,406	133,658	168,183	42,857	(119,378)	(251)	102,954	333,429	4,832	338,261
Loss for the year	-	-	-	-	-	-	(5,153)	(5,153)	(1,974)	(7,127)
Other comprehensive income for the year:										
Release of reserves upon deregistration of a subsidiary	-	-	-	-	-	251	-	251	-	251
Total comprehensive income/(loss) for the year	-	-	-	-	-	251	(5,153)	(4,902)	(1,974)	(6,876)
Change in equity interest in a subsidiary without change in control (note 21(c))	-	-	-	-	-	-	4,800	4,800	3,200	8,000
As at 31 December 2020	5,406	133,658	168,183	42,857	(119,378)	-	102,601	333,327	6,058	339,385

# Consolidated Statement of Cash Flows

For the year ended 31 December

	2020 RMB'000	2019 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	<b>(8,008)</b>	(33,099)
Adjustments for:		
Share of gain of a joint venture	-	(181)
Interest income	<b>(1,255)</b>	(4,564)
Dividend income from financial assets at fair value through profit or loss	<b>(364)</b>	(313)
Gain on disposal of items of property, plant and equipment	<b>(5,440)</b>	(3,429)
Fair value change on financial assets at fair value through profit or loss	<b>1,265</b>	(797)
Fair value gain on previously held joint venture under the step acquisition of a subsidiary	-	(49)
Depreciation of items of property, plant and equipment	<b>7,308</b>	6,202
Depreciation of right-of-use assets	<b>2,822</b>	3,029
Recognition of government grants	-	(1,070)
Investment income from financial assets at fair value through profit or loss	<b>(2,024)</b>	(168)
Foreign exchange (loss)/gains, net	<b>322</b>	(1,277)
Impairment of trade receivables, other receivables and other assets	<b>597</b>	4,442
Interest expense	<b>25</b>	128
Write-down of inventories to net realisable value	<b>7,473</b>	4,973
Written-off of assets arising from deregistration of subsidiary	<b>646</b>	-
Loss on modification of a lease	-	11
Gain on disposal of a subsidiary	-	(2,447)
	<b>3,367</b>	(28,609)
(Increase)/decrease in trade and bills receivables	<b>(9,341)</b>	20,106
(Increase)/decrease in prepayments, other receivables and other assets	<b>(3,479)</b>	3,117
(Increase)/decrease in inventories	<b>(8,105)</b>	11,557
Decrease in restricted time deposits	-	3,177
Decrease in provision	<b>(762)</b>	(967)
Increase/(decrease) in trade and bills payables	<b>18,392</b>	(30,332)
(Decrease)/increase in other payables and accruals	<b>(986)</b>	853
Cash used in operations	<b>(914)</b>	(21,098)
Interest received	<b>256</b>	3,103
Net cash flows used in operating activities	<b>(658)</b>	(17,995)

## Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December

	2020 RMB'000	2019 RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of items of property, plant and equipment	<b>(35,475)</b>	(1,129)
Increase in prepayment for property, plant and equipment	<b>(13,636)</b>	(41)
Purchases of financial assets at fair value through profit or loss	<b>(55,000)</b>	–
Proceeds from disposal of financial assets at fair value through profit or loss	–	10,226
Dividend income from financial assets at fair value through profit or loss	<b>364</b>	313
Investment income from financial assets at fair value through profit or loss	<b>2,024</b>	–
Proceeds from disposal of items of property, plant and equipment	<b>7,430</b>	3,559
Interest received for restricted time deposits	<b>894</b>	1,584
Acquisition of a subsidiary	–	(3,210)
Disposal of a subsidiary	–	1,701
Decrease/(increase) in restricted time deposits	<b>96,782</b>	(86,782)
Net cash flows from/(used in) investing activities	<b>3,383</b>	(73,779)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	<b>(25)</b>	(128)
Principal portion of lease payments	<b>(1,037)</b>	(1,209)
Net cash flows used in financing activities	<b>(1,062)</b>	(1,337)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at beginning of year	<b>17,995</b>	109,825
Effect of foreign exchange rate changes, net	<b>(71)</b>	1,281
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>19,587</b>	17,995

# Notes to the Consolidated Financial Statements

31 December 2020

## 1. CORPORATE AND GROUP INFORMATION

Shuanghua Holdings Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 19 November 2010. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal places of business in the People’s Republic of China (the “PRC”) are located in Fengxian District, Shanghai (“Shanghai”) and in Tunxi District, Huangshan City, Anhui Province (“Anhui”).

During the year, the Company and its subsidiaries (the “Group”) was principally involved in two major businesses, being the business of trading, manufacturing and research and development (“R&D”) of automobile parts, mainly the automotive heating, ventilation and air-conditioning (“HVAC”) components, and the business of supply chain management, mainly cold storage and cold chain supply, respectively.

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 the British Virgin Islands (“BVI”).

## 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 applicable disclosure requirements of Rules Governing the Listing of securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and debt instruments at fair value through other comprehensive income, 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.

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

# Notes to the Consolidated Financial Statements

31 December 2020

## 2. BASIS OF PREPARATION (CONTINUED)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 3. ADOPTION OF HKFRSs

### (a) Adoption of new/revised HKFRSs – effective 1 January 2020

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	<i>Definition of a business</i>
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of material</i>
Conceptual Framework for Financial Reporting (Revised)	

The directors of the Company anticipate that the new or amended HKFRSs that are effective from 1 January 2020 did not have any significant impact on the Group's accounting policies.

#### *Amendments to HKFRS 3: Definition of a Business*

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

## Notes to the Consolidated Financial Statements

31 December 2020

### 3. ADOPTION OF HKFRSs (CONTINUED)

#### (a) Adoption of new/revised HKFRSs – effective 1 January 2020 (continued)

##### *Amendments to HKFRS 7, HKFRS 9 and HKAS 39: Interest Rate Benchmark Reform*

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

##### *Amendments to HKAS 1 and HKAS 8: Definition of Material*

The amendments clarify the definition and explanation of “material”, aligning the definition across all HKFRSs and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

##### *Conceptual Framework for Financial Reporting (Revised)*

The revised Framework is not a Standard nor an Accounting Guideline. It does not override any Standard, any requirement in a Standard or Accounting Guideline. The revised Framework includes: new chapters on measurement and reporting financial performance; new guidance on derecognition of assets and liabilities; updated definitions of asset and liability; and clarifications in the roles of stewardship, prudence and measurement uncertainty in financial reporting.

#### (b) New/revised HKFRSs that have been issued but are not yet effective

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current <sup>3</sup>
Amendments to HKFRS 16	COVID-19 Related Rent Concession <sup>5</sup>
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use <sup>2</sup>
HKFRS 17	Insurance Contracts <sup>3</sup>
Amendments to HKFRS 3	Reference to the Conceptual Framework <sup>4</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>6</sup>
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>2</sup>
Amendments to HKFRS 4, HKFRS 7, HKFRS 9, HKFRS 16 and HKAS 39	Interest Rate Benchmark Return <sup>1</sup>
Annual Improvements to HKFRSs 2018-2020 Cycle	Amendments to HKFRS 1, HKFRS 9 and HKAS 41 and Illustrative Examples accompanying HKFRS 16 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>4</sup> Effective for the date of acquisition in on or after the beginning of the first annual period beginning on or after 1 January 2022

<sup>5</sup> Effective for annual periods beginning on or after 1 June 2020

<sup>6</sup> The amendments shall be applied prospectively occurring in annual period beginning on or after the date of determined.

The Group is not yet in a position of state whether these new pronouncements will result is substantial to the Group’s accounting policies and financial statements.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Investment in a joint venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

#### (b) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (b) Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the consolidated statement of profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the consolidated statement of profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash – generating unit retained.

#### (c) Fair value measurement

The Group measures its financial assets at fair value through profit or loss and debt instrument at fair value through other comprehensive income at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.



## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2: Fair value measured based on valuation techniques using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs; or

Level 3: Fair value measured based on valuation techniques using significant unobservable inputs (i.e. not derived from market data).

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### (d) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of profit or loss in the period in which it arises.

#### (e) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) Both entities are joint ventures of the same third party;
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;
  - (vi) The entity is controlled or jointly controlled by a person identified in (a);
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity); or
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (e) Related parties (continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

#### (f) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.75%
Machinery and equipment	9.50%
Computer and office equipment	19.00%
Motor vehicles	23.75%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building and machinery and equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost is the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Lease

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

##### *Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### (a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful life of the assets as follows:

Leasehold land	48 to 50 years
Office rental	2 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

#### (b) Lease liabilities

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

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Lease (continued)

*Group as a lessee (continued)*

##### (b) Lease liabilities (continued)

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

The Group's lease liabilities are presented separately in the consolidated statement of financial position.

##### (c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of warehouses (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

*Group as a lessor*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in the consolidated statement of profit or loss due to its non-operating nature.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (h) Investments and other financial assets

##### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

##### *Financial assets at amortised cost (debt instruments)*

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (h) Investments and other financial assets (continued)

*Subsequent measurement (continued)*

*Financial assets at fair value through other comprehensive income (debt instruments)*

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the consolidated statement of profit or loss.

*Financial assets designated at fair value through other comprehensive income (equity instruments)*

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 “Financial Instruments: Presentation” and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the consolidated statement of profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated statement of profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred assets is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### (j) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

##### *General approach*

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.



## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (j) Impairment of financial assets (continued)

##### *General approach (continued)*

At each reporting date, the Group evaluates whether the debt investments at fair value through other comprehensive income are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

##### *Simplified approach*

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Financial liabilities

##### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals and lease liabilities.

##### *Subsequent measurement*

The subsequent measurement of loans and borrowings is as follows:

##### *Financial liabilities at amortised cost (loans and borrowings)*

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss.

#### (l) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated statement of profit or loss.

#### (m) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### (n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (o) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

#### (p) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated statement of profit or loss.

The Group provides for warranties in relation to the sale of certain products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs, discounted to their present values as appropriate.

#### (q) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside of the consolidated statement of profit or loss is recognised outside of the consolidated statement of profit or loss, either in the consolidated statement of other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the country in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (q) Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

#### (s) Revenue recognition

##### *Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

##### *Sale of products*

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on receipt of the products.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (s) Revenue recognition (continued)

##### *Other income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Technology service income is recognised as those services are provided.

Rental income is recognised on a time proportion basis over the lease terms.

#### (t) Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

#### (u) Employee benefits

##### *Pension scheme*

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 16% and 20% of their payroll costs to the central pension scheme beginning on and before 1 May 2019, respectively. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

##### *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

#### (v) Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## Notes to the Consolidated Financial Statements

31 December 2020

### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (w) Foreign currencies

These consolidated financial statements are presented in Renminbi (“RMB”), which is the Company’s functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of these entities which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## Notes to the Consolidated Financial Statements

31 December 2020

### 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

##### (a) Provision for ECLs on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about ECLs on the Group's trade receivables is disclosed in note 39 to the consolidated financial statements.



## Notes to the Consolidated Financial Statements

31 December 2020

### 5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### Estimation uncertainty (continued)

(b) *Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. As at 31 December 2020, the Company's market capitalisation was lower than the Group's net assets value which is an indicator of impairment for non-financial assets. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

(c) *Provision for slow-moving inventories and net realisable value of inventories*

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period, and makes a provision for slow-moving inventory items. Management estimates the net realisable value for such inventories based primarily on the market selling prices and current market conditions. A write-down of inventories to net realisable value is made based on the estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write down/write-back of inventories in the period in which such estimate has been changed.

(d) *Warranty provision*

The Group provides warranties on the products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volume and past experience of the level of repairs and returns, discounted to the present value as appropriate. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

### 6. OPERATING SEGMENT INFORMATION

#### Segment revenue and results

During the year ended 31 December 2020, the Group has commenced to engage into the business of supply chain management, mainly cold storage and cold chain supply. The Group determines its operating segments based on the internal reports reviewed by the executive directors, who are the chief operating decision-maker, that are used to allocate resources and assess performance, which are analysed based on business as follows (the supply chain management business did not generated revenue during the reporting period):

Automobile parts business

The Group is involved in the business of trading, manufacturing and R&D of automobile parts, mainly the automotive HVAC components.

Supply chain management business

The Group is involved in the business of supply chain management, mainly cold storage and cold chain supply.

## Notes to the Consolidated Financial Statements

31 December 2020

### 6. OPERATING SEGMENT INFORMATION (CONTINUED)

#### Segment revenue and results (continued)

Year ended 31 December 2020	Automobile parts business RMB'000	Supply chain management business RMB'000	Total RMB'000
<b>REVENUE</b>	<b>63,793</b>	–	<b>63,793</b>
<b>RESULT</b>			
Segment results	<b>9,597</b>	–	<b>9,597</b>
Other income, gains and losses			<b>11,969</b>
Impairment losses recognised on trade and other receivable and other assets			<b>(597)</b>
Selling and distribution costs			<b>(1,984)</b>
Administrative expenses			<b>(25,891)</b>
Unallocated expenses			<b>(1,102)</b>
Loss before tax			<b>(8,008)</b>
Year ended 31 December 2019	Automobile parts business RMB'000	Supply chain management business RMB'000	Total RMB'000
<b>REVENUE</b>	28,616	N.A.	28,616
<b>RESULT</b>			
Segment results	(5,738)	N.A.	(5,738)
Other income, gains and losses			7,640
Impairment losses recognised on trade and other receivable and other assets			(4,442)
Selling and distribution costs			(1,120)
Administrative expenses			(29,481)
Share of gain of a joint venture			181
Unallocated expenses			(139)
Loss before tax			(33,099)

## Notes to the Consolidated Financial Statements

31 December 2020

### 6. OPERATING SEGMENT INFORMATION (CONTINUED)

#### Geographical information

*Revenue from external customers*

	2020 RMB'000	2019 RMB'000
Mainland China	58,522	25,156
Asia	5,008	2,013
United States of America	–	973
Others	263	474
	<b>63,793</b>	28,616

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

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

No information about the segment assets and liabilities is presented as such information is not regularly provided to the chief operating decision maker for resource allocation and performance assessment purposes.

#### Information about major customers

For the year ended 31 December 2020, revenue from 2 customers (2019: 1) accounted for more than 10% of the Group's total revenue individually.

	2020 RMB'000	2019 RMB'000
Customer A	24,932	3,195
Customer B	6,797	–*

\* Less than 10% of the Group's revenue.

## Notes to the Consolidated Financial Statements

31 December 2020

### 7. REVENUE, OTHER INCOME, GAINS AND LOSSES

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
<b>Revenue from contracts with customers</b>	<b>63,793</b>	28,616

#### (i) Disaggregated revenue information for revenue from contracts with customers

For the years ended 31 December 2020 and 2019

	2020 RMB'000	2019 RMB'000
<b>Timing of revenue recognition</b>		
Goods transferred at a point in time	<b>63,793</b>	28,616

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:

	2020 RMB'000	2019 RMB'000
<b>Revenue recognised that was included in contract liabilities at the beginning of the reporting period:</b>		
Sale of products	<b>2,910</b>	3,570

#### (ii) Performance obligations

At 31 December 2020, 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.

## Notes to the Consolidated Financial Statements

31 December 2020

### 7. REVENUE, OTHER INCOME, GAINS AND LOSSES (CONTINUED)

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
<b>Other income</b>			
Gross rental income		3,606	986
Investment income from financial assets at fair value through profit or loss		2,024	168
Interest income		1,255	4,564
Technology services income		605	–
Dividend income from financial assets at fair value through profit or loss		364	313
Government grants	26	–	1,070
		<b>7,854</b>	7,101
<b>Gains and losses</b>			
Gain on disposal of property, plant and equipment		5,440	3,429
Gain on disposal of a subsidiary	31	–	2,447
Loss on disposal of inventories		–	(5,362)
Impairment loss of inventories		–	(2,115)
Fair value change on financial assets at fair value through profit or loss		(1,265)	797
Fair value change on previously held joint venture under the step acquisition of a subsidiary		–	49
Foreign exchange (loss)/gains, net		(322)	1,277
Others		262	17
		<b>4,115</b>	539
Total other income, gains and losses		<b>11,969</b>	7,640

## Notes to the Consolidated Financial Statements

31 December 2020

### 8. OTHER EXPENSES

	2020 RMB'000	2019 RMB'000
Written off of assets arising from deregistration of a subsidiary	646	–
Others	431	11
	<b>1,077</b>	11

### 9. LOSS BEFORE TAX

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

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
Cost of inventories sold		46,723	34,354
Write-down of inventories to net realisable value		7,473	4,973
Depreciation of property, plant and equipment	16	7,308	6,202
Depreciation of right-of-use assets	17	2,822	3,029
Product warranty provision, net of reversal	25	2	(916)
Impairment of trade receivables		591	3,747
Impairment of other receivables and other assets		6	695
Lease payments not included in the measurement of lease liabilities	17(c)	138	68
Auditor's remuneration		720	811
Employee benefit expense (excluding directors' and chief executives' remuneration) (note 12):			
Wages and salaries		9,382	6,806
Pension scheme contributions		785	1,440
Staff welfare expenses		1,297	5,240
		<b>11,464</b>	13,486

### 10. INTEREST EXPENSE

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	25	128

## Notes to the Consolidated Financial Statements

31 December 2020

### 11. DIVIDEND

No dividend was declared and paid during the year ended 31 December 2020 (2019: nil).

### 12. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB'000	2019 RMB'000
Fees	480	480
Other emoluments:		
Salaries, bonus, allowances and benefits in kind	2,040	2,032
Pension scheme contributions	16	17
	2,056	2,049
	2,536	2,529

#### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2020 RMB'000	2019 RMB'000
He Binhui	60	60
Guo Ying	60	60
Chen Lifan	60	60
	180	180

There were no other emoluments payable to the independent non-executive directors during the year (2019: nil).

## Notes to the Consolidated Financial Statements

31 December 2020

### 12. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

#### (b) Executive directors and a non-executive director

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
<b>For the year ended 31 December 2020</b>				
Executive directors:				
Zheng Ping (chief executive)	120	1,000	–	1,120
Zheng Fei	60	480	16	556
Tang Lo Nar	60	320	–	380
	240	1,800	16	2,056
Non-executive director:				
Kong Xiaoling	60	240	–	300
	300	2,040	16	2,356
<b>For the year ended 31 December 2019</b>				
Executive directors:				
Zheng Ping (chief executive)	120	1,000	–	1,120
Zheng Fei	60	475	17	552
Tang Lo Nar	60	317	–	377
	240	1,792	17	2,049
Non-executive director:				
Kong Xiaoling	60	240	–	300
	300	2,032	17	2,349

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

### 13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included 3 directors and chief executive (2019: 4 directors and chief executive), details of whose remuneration are set out in note 12 above. Details of the remuneration for the year of the remaining 2 (2019: 1) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	826	360
Pension scheme contributions	82	101
	<b>908</b>	461

The remuneration of the above non-director and non-chief executive highest paid employee is within HK\$1,000,000.

No bonus was paid or receivable by directors or five highest paid employees after considering the Group's operational and financial performance during the year (2019: nil).



## Notes to the Consolidated Financial Statements

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### 14. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. The Company was incorporated in the Cayman Islands as an exempted company with limited liability under Companies Law of the Cayman Islands and accordingly is not subject to Cayman Islands corporate income tax ("CIT").

The subsidiary incorporated in the British Virgin Islands ("BVI") is not subject to BVI CIT as it does not have a place of business (other than a registered office) or carry on any business in the BVI.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

The provision for Mainland China income tax has been made at the applicable income tax rate of 25% on the assessable profits of certain PRC subsidiaries of the Group in accordance with the PRC Corporate Income Tax Law.

	2020 RMB'000	2019 RMB'000
Current tax:		
Overprovision	–	(381)
Deferred tax ( <i>note 27</i> )	<b>(881)</b>	(1,170)
Total tax credit for the year	<b>(881)</b>	(1,551)

A reconciliation of the tax credit applicable to loss before tax at the statutory rate in the Mainland China to the tax credit at the effective tax rate is as follows:

	2020 RMB'000	2019 RMB'000
Loss before tax	<b>(8,008)</b>	(33,099)
At the PRC's statutory income tax rate of 25%	<b>(2,002)</b>	(8,275)
Lower tax rates for specific provinces or enacted by local authority	–	23
Gain attributable to a joint venture	–	(45)
Income not subject to tax	–	(3,994)
Expenses not deductible for tax	<b>94</b>	251
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	<b>(881)</b>	(1,170)
Reversal of temporary differences not recognised	<b>(12,988)</b>	(2,912)
Tax losses not recognised	<b>14,896</b>	14,571
Tax credit at the Group's effective rate	<b>(881)</b>	(1,551)

## Notes to the Consolidated Financial Statements

31 December 2020

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

The calculation of the basic loss per share amount 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 (2019: 650,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

### 16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost</b>						
At 1 January 2020	125,974	97,669	4,041	6,560	18,517	252,761
Additions	-	17,336	901	97	17,141	35,475
Disposal	(1,431)	(97,675)	(2,633)	(1,580)	-	(103,319)
Transfer	24,082	257	-	-	(24,339)	-
At 31 December 2020	148,625	17,587	2,309	5,077	11,319	184,917
<b>Depreciation and impairment</b>						
At 1 January 2020	62,861	92,278	3,306	5,120	-	163,565
Provided for the year	2,087	4,517	261	443	-	7,308
Eliminated on disposal	(1,268)	(96,167)	(2,500)	(1,394)	-	(101,329)
At 31 December 2020	63,680	628	1,067	4,169	-	69,544
<b>Carrying values</b>						
At 31 December 2020	84,945	16,959	1,242	908	11,319	115,373

## Notes to the Consolidated Financial Statements

31 December 2020

### 16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost</b>						
At 1 January 2019	125,461	127,093	4,397	6,560	–	263,511
Additions	784	188	73	–	84	1,129
Disposal	(271)	(29,749)	(442)	–	–	(30,462)
Acquisition of a subsidiary (note 30)	–	137	15	–	18,433	18,585
Disposal of a subsidiary	–	–	(2)	–	–	(2)
At 31 December 2019	125,974	97,669	4,041	6,560	18,517	252,761
<b>Depreciation and impairment</b>						
At 1 January 2019	57,425	122,017	3,593	4,660	–	187,695
Provided for the year	5,622	10	110	460	–	6,202
Eliminated on disposal	(186)	(29,749)	(397)	–	–	(30,332)
At 31 December 2019	62,861	92,278	3,306	5,120	–	163,565
<b>Carrying values</b>						
At 31 December 2019	63,113	5,391	735	1,440	18,517	89,196

The recoverable amount of the automobile parts business and supply chain management business cash-generating unit have been determined based on a value-in-use calculation which was approved by management using cash flow projection based on financial budgets covering the remaining useful lives of the items of property, plant and equipment. The discount rate used for the value-in-use calculation as at 31 December 2020 was 14% and 14% respectively. (2019: 14% and nil).

No impairment provision was recognised in the consolidated statement of profit or loss in 31 December 2020 and 2019.

## Notes to the Consolidated Financial Statements

31 December 2020

### 17. LEASES

#### The Group as a lessee

The Group has a lease contract for office rental. Lump sum payments were made upfront to acquire the leased land from the authorised government departments of Shanghai and Anhui with lease periods of 48 to 50 years, and no ongoing payments will be made under the terms of these land leases. A lease of office has lease term of 2 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

#### (a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Office rental RMB'000	Total RMB'000
As at 1 January 2020	69,262	1,054	70,316
New leases	–	1,715	1,715
Depreciation charge	(1,768)	(1,054)	(2,822)
Carrying amount at 31 December 2020	67,494	1,715	69,209

	Prepaid land lease payments RMB'000	Office rental RMB'000	Total RMB'000
As at 1 January 2019	63,406	3,730	67,136
Addition as a result of acquisition of a subsidiary (note 30)	7,704	–	7,704
Reduction as a result of lease modifications	–	(1,495)	(1,495)
Depreciation charge	(1,848)	(1,181)	(3,029)
Carrying amount at 31 December 2019	69,262	1,054	70,316

## Notes to the Consolidated Financial Statements

31 December 2020

### 17. LEASES (CONTINUED)

#### The Group as a lessee (continued)

(b) *Lease liabilities*

The carrying amount of lease liabilities and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	1,037	3,730
Reduction as a result of lease modifications	–	(1,484)
New leases	1,715	–
Accretion of interest recognised during the year	25	128
Payments	(1,062)	(1,337)
	<b>1,715</b>	1,037
Less: Amount due for settlement with 12 months shown under current liabilities	(837)	(1,037)
	<b>878</b>	–

The maturity analysis of lease liabilities is disclosed in note 39 to the consolidated financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	25	128
Depreciation charge of right-of-use assets	2,822	3,029
Expense relating to short-term leases terms ended included in administrative expenses	138	68
	<b>2,985</b>	3,225

(d) The total cash outflow for leases is disclosed in note 33(b) to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

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### 17. LEASES (CONTINUED)

#### The Group as a lessor

The Group leases part of its buildings (note 16) consisting of plants and warehouses in Mainland China under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB3,606,000 (2019: RMB986,000), details of which are included in note 7 to the consolidated financial statements.

At 31 December 2020, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2020 RMB'000	2019 RMB'000
Within one year	977	857
After one year but within two years	-	857
	<b>977</b>	<b>1,714</b>

### 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 RMB'000	2019 RMB'000
Listed equity investment, at fair value	7,311	8,576
Investments in bank financial products, at fair value	55,000	-
	<b>62,311</b>	<b>8,576</b>

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 structured deposits and wealth management products issued by banks in the Mainland China. Included in financial assets at fair value through profit or loss as at 31 December 2020 represents contracts of structured deposits entered with a bank for period up to one month, amounting to RMB50,000,000. While the structured deposits are principal guaranteed, their returns were determined by reference to the performance of the underlying instruments in the commodity market. The fair value of these structured deposits were RMB50,000,000 as at 31 December 2020; and their expected return rates vary from 1.0% to 3.2% per annum. The amount has also included the other wealth management product issued by a bank, amounting to RMB5,000,000. These investments in bank financial products 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.

## Notes to the Consolidated Financial Statements

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### 19. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	10,245	8,339
Work in progress	508	150
Finished goods	10,344	11,976
	<b>21,097</b>	20,465

### 20. TRADE AND BILLS RECEIVABLES

	2020 RMB'000	2019 RMB'000
Trade receivables	33,295	21,840
Bills receivable	806	3,566
	<b>34,101</b>	25,406
Impairment allowance	(9,731)	(9,140)
	<b>24,370</b>	16,266

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.

As at 31 December 2019, the Group's bills receivable of RMB2,123,000 were pledged to secure bills payable of RMB2,123,000 (note 23).

As at 31 December 2020, bills receivable of RMB806,000 (2019: RMB3,566,000) 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.

## Notes to the Consolidated Financial Statements

31 December 2020

### 20. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	2020 RMB'000	2019 RMB'000
Within 1 month	5,075	840
1 to 3 months	6,980	2,297
3 to 12 months	10,731	6,815
Over 12 months	778	2,748
	<b>23,564</b>	12,700

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	9,140	5,393
Impairment losses, net	591	3,747
	<b>9,731</b>	9,140

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type and rating). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.



## Notes to the Consolidated Financial Statements

31 December 2020

### 20. TRADE AND BILLS RECEIVABLES (CONTINUED)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

**As at 31 December 2020**

	Gross carrying amount RMB'000	Expected credit loss rate	Expected credit losses RMB'000
Trade receivables aged, based on the invoice date:			
Less than 1 year	24,037	5.2%	1,251
Between 1 and 2 years	2,099	69.2%	1,453
Between 2 and 3 years	3,342	96.1%	3,210
Over 3 years	3,817	100.0%	3,817
	<b>33,295</b>	<b>29.2%</b>	<b>9,731</b>

As at 31 December 2019

	Gross carrying amount RMB'000	Expected credit loss rate	Expected credit losses RMB'000
Trade receivables aged, based on the invoice date:			
Less than 1 year	10,459	4.8%	507
Between 1 and 2 years	3,280	49.4%	1,620
Between 2 and 3 years	5,159	78.9%	4,071
Over 3 years	2,942	100.0%	2,942
	<b>21,840</b>	<b>41.8%</b>	<b>9,140</b>

At 31 December 2020, the Group endorsed certain bills receivable accepted by banks in the Mainland China (the "Endorsed Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB1,168,000 (2019: RMB1,164,000) (the "Endorsement"). In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement").

In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to certain of the Endorsed Bills accepted by large and reputable banks with an amount of RMB1,068,000 (2019: RMB1,064,000) (the "Derecognised Bills"). Accordingly, the Group has derecognised the full carrying amounts of these Derecognised Bills and the associated trade payables settled by the Endorsed Bills.

## Notes to the Consolidated Financial Statements

31 December 2020

### 20. TRADE AND BILLS RECEIVABLES (CONTINUED)

The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

At 31 December 2020, the Group continued to recognise the full carrying amounts of the remaining Endorsed Bills and the associated trade payables settled with an amount of RMB100,000 (2019: RMB100,000) because the directors believe that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Bills.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year and cumulatively. The Endorsement has been made evenly during the year. Bills receivable are due within six months.

### 21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Other receivables (note (a))	781	860
Prepayments (note (b))	1,213	724
Prepaid expenses	28	55
Interest receivables	470	365
Amount due from a non-controlling shareholder of a subsidiary (note (c))	8,000	–
Value-added tax recoverable	5,835	2,749
	<b>16,327</b>	4,753
Impairment allowance	<b>(709)</b>	(713)
	<b>15,618</b>	4,040

Notes:

- (a) Other receivables mainly represent advances to employees and third parties. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. As at 31 December 2020, the probability of default applied ranged from 0.05% to 1.00% (2019: 0.05% to 1.00%) and the loss given default was estimated to be 100% (2019: 100%). In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rate applied where there were no comparable companies as at 31 December 2020 was 0.95% (2019: 0.95%).
- (b) For prepayments that the counterparty failed to make demanded repayment and for value-added tax recoverable that cannot be utilised in the future, the Group has made a 100% provision.
- (c) On 28 June 2020, the Company (as the seller) entered into the sale and purchase agreement with Fuzhou Anda Shengdong Logistic Co., Ltd. (as the purchaser), pursuant to which the seller has agreed to sell and the purchaser has agreed to acquire 40% equity interests of Shanghai Shuanghua Supply Chain Management Co., Ltd ("Shuanghua Supply Chain"), a subsidiary of the Company, at the consideration of RMB1 and shall pay up the outstanding capital contribution to the sales interest of RMB8,000,000.

## Notes to the Consolidated Financial Statements

31 December 2020

### 21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (CONTINUED)

The movements in the loss allowance for impairment of other receivables, prepayments and other current assets are as follows:

	2020 RMB'000	2019 RMB'000
At beginning of year	713	18
Impairment losses, net	6	695
Written-off	(10)	–
	<hr/>	<hr/>
At end of year	709	713

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts.

### 22. CASH AND CASH EQUIVALENTS AND RESTRICTED TIME DEPOSITS

	2020 RMB'000	2019 RMB'000
Cash and bank balances	19,587	17,995
Restricted time deposits	40,000	136,782
	<hr/>	<hr/>
	59,587	154,777
Less: restricted time deposits	(40,000)	(136,782)
	<hr/>	<hr/>
Cash and cash equivalents	19,587	17,995
	<hr/>	<hr/>
Denominated in RMB	15,042	13,396
Denominated in United States dollars	3,474	2,865
Denominated in other currencies	1,071	1,734
	<hr/>	<hr/>
Cash and cash equivalents	19,587	17,995

## Notes to the Consolidated Financial Statements

31 December 2020

### 22. CASH AND CASH EQUIVALENTS AND RESTRICTED TIME DEPOSITS (CONTINUED)

As at 31 December 2020, cash and cash equivalents of the Group denominated in RMB amounted to RMB15,042,000 (2019: RMB13,396,000). RMB is not freely convertible into other currencies. However, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

As at 31 December 2020, RMB40,000,000 (2019: RMB136,782,000) represented restricted time deposits carrying a fixed interest rate from 2.5% to 2.6% (2019: from 3.3% to 3.8%) per annum, which were restricted and could not be redeemed until maturity date.

### 23. TRADE AND BILLS PAYABLES

	2020 RMB'000	2019 RMB'000
Trade payables	25,488	4,973
Bills payable	–	2,123
	<b>25,488</b>	<b>7,096</b>

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

	2020 RMB'000	2019 RMB'000
Within 1 month	5,792	566
1 to 3 months	10,669	641
3 to 12 months	1,987	1,047
6 to 12 months	4,582	80
Over 12 months	2,458	2,639
	<b>25,488</b>	<b>4,973</b>

As at 31 December 2019, the Group's bills payable of RMB2,123,000 were secured by certain of the Group's bills receivable of RMB2,123,000 (note 20).

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

## Notes to the Consolidated Financial Statements

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### 24. OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Contract liabilities ( <i>note (a)</i> )	5,881	4,643
Other payables ( <i>note (b)</i> )	3,538	5,110
Taxes payable other than corporate income tax	1,589	2,570
Payroll payables	2,322	1,048
Accrued expenses	3	948
	<b>13,333</b>	<b>14,319</b>

Notes:

(a) Details of contract liabilities are as follows:

	2020 RMB'000	2019 RMB'000
<i>Short-term advances received from customers</i>		
Sale of goods	5,881	4,643

Contract liabilities include short-term advances received to deliver products. The increase in contract liabilities in 2020 was mainly due to the increase in short-term advances received from customers in relation to the sale of goods at the end of the year.

(b) Other payables are non-interest-bearing and repayable on demand.

### 25. PROVISION

	2020 RMB'000	2019 RMB'000
<b>Warranties</b>		
At 1 January	1,245	2,212
Additional provision	90	159
Amounts utilised during the year	(764)	(51)
Reversal of unutilised amounts	(88)	(1,075)
At 31 December	<b>483</b>	<b>1,245</b>

The Group provides two-year warranties to its customers on certain of its industrial products for general repairs of defects occurring during the warranty period. The amount of the provision is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

## Notes to the Consolidated Financial Statements

31 December 2020

### 26. GOVERNMENT GRANTS

	2019 RMB'000
At beginning of year	1,070
Recognised as income during the year	(1,070)
	<hr/>
At end of year	-
	<hr/>
Current	-
	<hr/>

Government grants were received for the construction of certain of the Group's property, plant and equipment and were released to the consolidated statement of profit or loss over the expected useful lives of the relevant assets.

### 27. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2019	-	3,342	3,342
Acquisition of a subsidiary (note 30)	36	-	36
Deferred tax credited to the consolidated statement of profit or loss during the year (note 14)	-	(1,170)	(1,170)
	<hr/>	<hr/>	<hr/>
At 31 December 2019 and 1 January 2020	36	2,172	2,208
Deferred tax credited to the consolidated statement of profit or loss during the year (note 14)	-	(881)	(881)
	<hr/>	<hr/>	<hr/>
At 31 December 2020	<b>36</b>	<b>1,291</b>	<b>1,327</b>

As at 31 December 2020, the Group has tax losses arising in Hong Kong of RMB2,329,000 (2019: RMB9,951,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of RMB119,662,000 (2019: RMB69,019,000) that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

## Notes to the Consolidated Financial Statements

31 December 2020

### 27. DEFERRED TAX (CONTINUED)

Deferred tax assets have not been recognised in respect of the following items:

	2020 RMB'000	2019 RMB'000
Tax losses	121,991	78,970
Deductible temporary differences	21,113	64,774
At end of year	143,104	143,744

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the Mainland China in respect of earnings generated.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

### 28. SHARE CAPITAL

#### Shares

	2020 RMB'000	2019 RMB'000
Authorised: 10,000,000,000 (2019: 10,000,000,000) ordinary shares of HK\$0.01 each	83,293	83,293
Issued and fully paid: 650,000,000 (2019: 650,000,000) ordinary shares of HK\$0.01 each	5,406	5,406

### 29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

#### (i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

#### (ii) Capital reserve

The capital reserve represents the aggregated amount of the paid-up capital of those companies comprising the Group prior to the incorporation of the Company.

## Notes to the Consolidated Financial Statements

31 December 2020

### 29. RESERVES (CONTINUED)

#### (iii) Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

#### (iv) Merger reserve

The merger reserve of the Group represents the reserve which arose pursuant to the reorganisation which is accounted for as reorganisation under common control.

#### (v) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

### 30. BUSINESS COMBINATION

On 25 October 2019, the Group acquired a 21.67% interest in Anhui Shuanghua Heat Exchange System Co., Ltd. ("Anhui Shuanghua") from the other two shareholders, after which Anhui Shuanghua became a subsidiary of the Group. The acquisition was made as part of the Group's strategy to save the manufacturing costs and improve the scale of operation. The purchase consideration for the acquisition was in the form of cash, with RMB3,250,000 paid on 4 December 2019.

Acquisition-related cost are excluded from the cost of acquisition and have been recognised as an expense in the profit or loss.

The Group has elected to measure the non-controlling interest in Anhui Shuanghua at the non-controlling interest's proportionate share of Anhui Shuanghua's identifiable net assets.



## Notes to the Consolidated Financial Statements

31 December 2020

### 30. BUSINESS COMBINATION (CONTINUED)

The fair values of the identifiable assets and liabilities of Anhui Shunghua as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment ( <i>note 16</i> )	18,585
Right-of-use assets ( <i>note 17</i> )	7,704
Advance payments for property, plant and equipment	1,579
Inventories	13
Trade receivables	53
Prepayments, deposits and other receivables	3,348
Cash and cash equivalents	40
Trade payables	(72)
Other payables and accruals	(15,383)
Tax payable	(834)
Deferred tax liabilities	(36)
	<hr/>
Total identifiable net assets at fair value	14,997
Non-controlling interests	(4,998)
	<hr/>
	9,999
Fair value of the Group's initial investment in Anhui Shuanghua	(6,749)
	<hr/>
Satisfied by cash	3,250

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB53,000 and RMB1,064,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB53,000 and RMB1,064,000, respectively.

The Group remeasured its previously held interests in Anhui Shuanghua on the acquisition date and recognised a gain of RMB49,000 on the fair value change of previously held interests, which is included in fair value change on previously held joint venture under the step acquisition of a subsidiary in Note 7. The fair value of the 45% equity interests was estimated with reference to the sales and purchase in relation of this acquisition. The directors of the Company are of opinion that the consideration could be considered as fair value as the agreement was entered with the independent third parties on an arm's length basis.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(3,250)
Cash and cash equivalents acquired	40
	<hr/>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(3,210)

## Notes to the Consolidated Financial Statements

31 December 2020

### 30. BUSINESS COMBINATION (CONTINUED)

Since the acquisition, Anhui Shuanghua contributed nil to the Group's revenue and RMB1,265,000 to the consolidated loss for the year ended 31 December 2019.

Had the acquisition taken place at the beginning of the year ended 31 December 2019, the revenue of the Group and the loss of the Group for the year ended 31 December 2019 would have been RMB29,047,000 and RMB31,328,000, respectively.

The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

### 31. DISPOSAL OF A SUBSIDIARY

	2019 RMB'000
Net assets disposed of:	
Property, plant and equipment ( <i>note 16</i> )	2
Cash and cash equivalents	61
Trade receivables	3
Other receivables	10,945
Inventories	509
Other payables	(1,668)
	<hr/>
	9,852
Gain on disposal of a subsidiary ( <i>note 7</i> )	2,447
	<hr/>
	12,299
	<hr/>
Satisfied by:	
Cash	1,762
Offsetting the other receivables from the Group to the disposed subsidiary	10,537
	<hr/>
	12,299
	<hr/>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2019 RMB'000
Cash consideration	1,762
Cash and bank balances disposed of	(61)
	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	1,701
	<hr/>

## Notes to the Consolidated Financial Statements

31 December 2020

### 32. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

### 33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### (a) Major non-cash transactions

During the year ended 31 December 2019, the Group disposed a subsidiary at a total consideration of RMB12,299,000, RMB10,537,000 of which was offset by the other receivables from the Group to the disposed subsidiary.

#### (b) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2020 RMB'000	2019 RMB'000
Within operating activities	138	68
Within financing activities	1,062	1,337
	<b>1,200</b>	1,405

### 34. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2020 RMB'000	2019 RMB'000
Contracted but not portion for:		
Property, plant and equipment	12,149	1,298

## Notes to the Consolidated Financial Statements

31 December 2020

### 35. RELATED PARTY TRANSACTIONS

Details of the Group's principal related party are as follows:

Name	Relationship
Shanghai Automart Investment Co., Ltd. ("Shanghai Automart")	An entity controlled by a director
Anhui Shuanghua	A joint venture before 25 October 2019

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

	2020 RMB'000	2019 RMB'000
Office rental paid to Shanghai Automart	<b>1,062</b>	1,337

	2020 RMB'000	Ten months ended 31 October 2019 RMB'000
Loans to Anhui Shuanghua	–	15,100

Office rental paid to Shanghai Automart was based on prices mutually agreed between the parties. The director, Kong Xiaoling, is interested in Shanghai Automart.

The above transaction was a one-off connected transaction as defined in Chapter 14A of the Listing Rules.

- (b) Compensation of key management personal of the Group:

	2020 RMB'000	2019 RMB'000
Short term employee benefits	<b>3,563</b>	2,872
Pension scheme contributions	<b>301</b>	118
Total compensation paid to key management personnel	<b>3,864</b>	2,990

Further details of the emoluments of the directors and the chief executive are set out in note 12 to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

31 December 2020

### 36. INTERESTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of Incorporation/ registration and business	Principal activity	Issued ordinary/ registered capital	Percentage of equity attributable to the Company	
				Direct	Indirect
Automart Holdings Limited ("BVI Automart")	Incorporated BVI	Investment holding	US\$100,000	100%	–
Automart Holdings Limited ("Hong Kong Automart")	Incorporated in Hong Kong ("HK")	Investment holding and import and export of automobile air – conditioner parts and components	HK\$1,200,000	–	100%
Shanghai Shuanghua Autoparts Co., Ltd. ("Shuanghua Autoparts") (note (i))	Incorporated in the PRC/ Mainland China	Manufacture and sale of automobile air-conditioner parts and components	RMB389,289,704	–	99.999%
Shanghai Shuanghua Machinery Manufacturing Co., Ltd. ("Shuanghua Machinery") (note (iii))	Incorporated in the PRC/ Mainland China	Manufacture and sale of automobile air-conditioner parts and components	RMB60,000,000	–	99.999%
Shanghai Youshen Industry Co., Ltd. ("Youshen Industry") (note (ii))	Incorporated in the PRC/ Mainland China	Import and export of air-conditioner parts and components	RMB10,000,000	–	99.999%
Shuanghua Hong Kong Limited ("Shuanghua Hong Kong")	Incorporated in HK	Import and export of air-conditioner parts and components	US\$200,000	–	99.999%
Shanghai Shuanghua Auto Components Co., Ltd. ("Shuanghua Auto Components") (note (ii))	Incorporated in the PRC/ Mainland China	Sale of automobile air-conditioner parts and components	RMB2,000,000	–	99.999%
Shanghai Eagle Investment Limited ("Eagle Investment") (note (iii))	Incorporated in the PRC/ Mainland China	Investment holding and sale of automotive lubricants	RMB150,000,000	–	99.999%
Anhui Shuanghua (note (iii))	Incorporated in the PRC/ Mainland China	Manufacture and sale of automobile air-conditioner parts and components	RMB37,000,000	–	86.486%
Shuanghua Supply Chain (note (iii))	Incorporated in the PRC/ Mainland China	Supply chain management	RMB20,000,000	–	60%
Huangshan Shuanghua Donglin Compressor Ltd. ("Huangshan Shuanghua") (note (iii))	Incorporated in the PRC/ Mainland China	Manufacture and sale of automobile air-conditioner parts and components	RMB20,000,000	–	51%

## Notes to the Consolidated Financial Statements

31 December 2020

### 36. INTERESTS IN SUBSIDIARIES (CONTINUED)

Notes:

- (i) This entity is a Sino-foreign equity company established under PRC law.
- (ii) These entities are limited liability enterprises established under PRC law.
- (iii) Anhui Shuanghua was previously a joint venture of the Group. During the year ended 31 December 2019, the Group acquired a total of 21.67% equity interests in Anhui Shuanghua from other two shareholders and gained control since then. The Group's shareholding in Anhui Shuanghua further increased to 86.486% by way of additional capital injection into this subsidiary in 2019.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

### 37. FINANCIAL INSTRUMENTS BY CATEGORY

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

#### Financial assets

31 December 2020

	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income Debt instrument RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Financial assets at fair value through profit of loss	62,311	-	-	62,311
Trade and bills receivables	-	806	23,564	24,370
Financial assets included in prepayments, other receivables and other assets	-	-	8,776	8,776
Restricted time deposits	-	-	40,000	40,000
Cash and cash equivalents	-	-	19,587	19,587
	<b>62,311</b>	<b>806</b>	<b>91,927</b>	<b>155,044</b>

## Notes to the Consolidated Financial Statements

31 December 2020

### 37. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

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

#### Financial assets (continued)

31 December 2019

	Financial assets at fair value through profit or loss RMB'000	Financial assets at fair value through other comprehensive income Debt instrument RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Financial assets at fair value through profit of loss	8,576	–	–	8,576
Trade and bills receivables	–	3,566	12,700	16,266
Financial assets included in prepayments, other receivables and other assets	–	–	756	756
Restricted time deposits	–	–	136,782	136,782
Cash and cash equivalents	–	–	17,995	17,995
	8,576	3,566	168,233	180,375

#### Financial liabilities – at amortised cost

	2020 RMB'000	2019 RMB'000
Trade and bills payables	25,488	7,096
Financial liabilities included in other payables and accruals	3,541	6,058
Lease liabilities	1,715	1,037
	30,744	14,191

## Notes to the Consolidated Financial Statements

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### 38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

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

The fair values of listed equity investments are based on quoted market prices.

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

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

#### **Fair value hierarchy**

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



## Notes to the Consolidated Financial Statements

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### 38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

#### Fair value hierarchy (continued)

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

*Assets measured at fair value:*

**As at 31 December 2020**

	Fair value measurement using			Total RMB'000
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Debt investments at fair value through other comprehensive income:				
Bills receivable	-	806	-	806
Financial assets at fair value through profit or loss:				
Listed equity investments	7,311	-	-	7,311
Investments in bank financial products, at fair value	-	55,000	-	55,000
	<b>7,311</b>	<b>55,806</b>	<b>-</b>	<b>63,117</b>

As at 31 December 2019

	Fair value measurement using			Total RMB'000
	Quoted price in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Debt investments at fair value through other comprehensive income:				
Bills receivable	-	3,566	-	3,566
Financial assets at fair value through profit or loss:				
Listed equity investments	8,576	-	-	8,576
	<b>8,576</b>	<b>3,566</b>	<b>-</b>	<b>12,142</b>

The Group did not have any financial liabilities measured at fair value as at 31 December 2020 (2019: nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2019: nil).

## Notes to the Consolidated Financial Statements

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### 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and restricted time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

#### Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between the RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair values of monetary assets and liabilities).

#### 2020

	Increase/ (decrease) in rate of foreign currency %	Decrease/ (increase) in loss before tax RMB'000
If RMB weakens against United States dollar	5	514
If RMB strengthens against United States dollar	(5)	(514)
If RMB weakens against Hong Kong dollar	5	30
If RMB strengthens against Hong Kong dollar	(5)	(30)
If RMB weakens against Japanese Yen	5	23
If RMB strengthens against Japanese Yen	(5)	(23)

#### 2019

	Increase/ (decrease) in rate of foreign currency %	Decrease/ (increase) in loss before tax RMB'000
If RMB weakens against United States dollar	5	251
If RMB strengthens against United States dollar	(5)	(251)
If RMB weakens against Hong Kong dollar	5	63
If RMB strengthens against Hong Kong dollar	(5)	(63)
If RMB weakens against Japanese Yen	5	23
If RMB strengthens against Japanese Yen	(5)	(23)

## Notes to the Consolidated Financial Statements

31 December 2020

### 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the General Manager and Chairman.

#### Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

#### As at 31 December 2020

	12-month ECLs Stage 1 RMB'000	Lifetime ECLs Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables *	-	-	-	33,295	33,295
Bills receivable **	806	-	-	-	806
Financial assets included in prepayments, other receivables and other assets					
– Normal **	8,776	-	-	-	8,776
– Doubtful **	-	-	475	-	475
Restricted time deposits					
– Not yet past due	40,000	-	-	-	40,000
Cash and cash equivalents					
– Not yet past due	19,587	-	-	-	19,587
	<b>69,169</b>	<b>-</b>	<b>475</b>	<b>33,295</b>	<b>102,939</b>

## Notes to the Consolidated Financial Statements

31 December 2020

### 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Credit risk (continued)

*Maximum exposure and year-end staging (continued)*

As at 31 December 2019

	12-month	Lifetime ECLs		Simplified approach	Total
	ECLs	Stage 2	Stage 3		
	Stage 1	Stage 2	Stage 3		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables *	–	–	–	21,840	21,840
Bills receivable **	3,566	–	–	–	3,566
Financial assets included in prepayments, other receivables and other assets					
– Normal **	759	–	–	–	759
– Doubtful **	–	–	466	–	466
Restricted time deposits					
– Not yet past due	136,782	–	–	–	136,782
Cash and cash equivalents					
– Not yet past due	17,995	–	–	–	17,995
	159,102	–	466	21,840	181,408

\* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the consolidated financial statements.

\*\* The credit quality of the bills receivable and financial assets included in prepayments, other receivables and other assets is considered to be “normal” when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be “doubtful”.

Further quantitative data in respect of the Group’s exposure to credit risk arising from trade and other receivables are disclosed in notes 20 and 21 to the consolidated financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. At 31 December 2020, the Group had certain concentrations of credit risk as 21% (2019: 21%) and 50% (2019: 54%) of the Group’s trade receivables were due from the Group’s largest customer and five largest customers, respectively.

## Notes to the Consolidated Financial Statements

31 December 2020

### 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

All the Group's financial liabilities at the end of the reporting period are due within one year or payable on demand.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

#### 2020

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	9,027	16,461	–	–	25,488
Financial liabilities included in other payables and accruals	3,541	–	–	–	3,541
Lease liabilities	–	206	631	878	1,715
	<b>12,568</b>	<b>16,667</b>	<b>631</b>	<b>878</b>	<b>30,744</b>

#### 2019

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	3,766	2,007	1,323	–	7,096
Financial liabilities included in other payables and accruals	6,058	–	–	–	6,058
Lease liabilities	–	266	798	–	1,064
	<b>9,824</b>	<b>2,273</b>	<b>2,121</b>	<b>–</b>	<b>14,218</b>

## Notes to the Consolidated Financial Statements

31 December 2020

### 39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirement. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2020 and 31 December 2019.

The Group did not have any borrowings as at 31 December 2020 and 2019.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes lease liabilities, less cash and cash equivalents and pledged deposits.

As at 31 December 2020 and 2019, the Group's cash and cash equivalents exceeded the total of lease liabilities. As such, no gearing ratio at 31 December 2020 and 2019 is presented.

### 40. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities RMB'000
At 1 January 2019	3,730
Financing cash flows	
– Repayment of lease liabilities	(1,209)
– Interest paid on lease liabilities	(128)
Non-cash changes	
– Lease modifications	(1,484)
– Interest expense recognised	128
	<hr/>
At 31 December 2019 and 1 January 2020	1,037
Financing cash flows	
– Repayment of lease liabilities	<b>(1,037)</b>
– Interest paid on lease liabilities	<b>(25)</b>
Non-cash changes	
– Recognition of lease liabilities	<b>1,715</b>
– Interest expense recognised	<b>25</b>
	<hr/>
At 31 December 2020	<b>1,715</b>

## Notes to the Consolidated Financial Statements

31 December 2020

### 41. EVENTS AFTER THE REPORTING PERIOD

On 10 February 2021, Shanghai Shuanghua Autoparts Co., Ltd, an indirect subsidiary of the Company (“Shuanghua Autoparts”) entered into the equity transfer agreement with Mr. Cheng Ruicheng (“Mr. Cheng”, a non-controlling shareholder of Anhui Shuanghua), pursuant to which Shuanghua Autoparts acquired approximately 13.51% of the shares of Anhui Shuanghua held by Mr. Cheng at a cash consideration of RMB4,600,000.

The above acquisition has been completed subsequent to the end of the reporting period upon the fulfilment of the condition of the acquisition. In the moment, it is not practicable to provide an estimate of financial effect of the above acquisition until the Group performs a detailed review.

### 42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2020 RMB'000	2019 RMB'000
<b>NON-CURRENT ASSETS</b>		
Investments in subsidiaries	117,131	117,131
Total non-current assets	117,131	117,131
<b>CURRENT ASSETS</b>		
Other receivables	–	44
Amounts due from subsidiaries	165,314	133,167
Restricted time deposits	–	42,782
Cash and cash equivalents	2,230	553
Total current assets	167,544	176,546
<b>CURRENT LIABILITIES</b>		
Amounts due to subsidiaries	130	130
Other payables and accruals	34	46
Total current liabilities	164	176
<b>NET CURRENT ASSETS</b>	167,380	176,370
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	284,511	293,501
<b>NET ASSETS</b>	284,511	293,501
<b>EQUITY</b>		
Issued capital	5,406	5,406
Reserves (note)	279,105	288,095
<b>TOTAL EQUITY</b>	284,511	293,501

## Notes to the Consolidated Financial Statements

31 December 2020

### 42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Information about the statement of financial position of the Company at the end of the reporting period is as follows (continued):

*Note:*

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Capital reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2019	133,658	117,131	34,949	285,738
Profit and total comprehensive income for the year	–	–	2,357	2,357
At 31 December 2019 and 1 January 2020	133,658	117,131	37,306	288,095
Loss and total comprehensive loss for the year	–	–	(8,990)	(8,990)
At 31 December 2020	<b>133,658</b>	<b>117,131</b>	<b>28,316</b>	<b>279,105</b>

### 43. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

### 44. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 31 March 2021.



# Five Year Financial Summary

	Year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
<b>REVENUE</b>	120,749	83,751	55,166	28,616	<b>63,793</b>
Cost of sales	(108,442)	(72,323)	(44,313)	(34,354)	<b>(54,196)</b>
Gross profit/(loss)	12,307	11,428	10,853	(5,738)	<b>9,597</b>
Other income, gains and losses	7,572	5,752	9,688	7,640	<b>11,969</b>
Reversal of impairment/(impairment losses) recognised on					
– trade receivables	(396)	(55)	(2,158)	(3,747)	<b>(591)</b>
– other receivables and other assets	–	–	1,293	(695)	<b>(6)</b>
Selling and distribution expenses	(10,591)	(4,631)	(4,788)	(1,120)	<b>(1,984)</b>
Administrative expenses	(25,645)	(19,416)	(21,726)	(29,481)	<b>(25,891)</b>
Other expenses	(197)	(194)	(6,877)	(11)	<b>(1,077)</b>
Interest expense	–	–	–	(128)	<b>(25)</b>
Share of (loss)/gain of a joint venture	–	–	(231)	181	–
<b>LOSS BEFORE TAX</b>	(16,950)	(7,116)	(13,946)	(33,099)	<b>(8,008)</b>
Income tax credit/(expenses)	604	(10,071)	701	1,551	<b>881</b>
<b>LOSS FOR THE YEAR</b>	(16,346)	(17,187)	(13,245)	(31,548)	<b>(7,127)</b>
Attributable to:					
Owners of the parent	(16,346)	(17,187)	(13,245)	(31,377)	<b>(5,153)</b>
Non-controlling interests	–	–	–	(171)	<b>(1,974)</b>
	(16,346)	(17,187)	(13,245)	(31,548)	<b>(7,127)</b>
	Year ended 31 December				
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000
Total assets	448,111	430,317	409,175	365,256	<b>382,821</b>
Total liabilities	(50,737)	(51,990)	(44,368)	(26,995)	<b>(43,436)</b>
Non-controlling interests	(5)	(5)	(5)	(4,832)	<b>(6,058)</b>
	397,369	378,332	364,802	333,429	<b>333,327</b>