

Zhejiang Sanhua Intelligent Controls Co., Ltd.

Semi-Annual Report 2019 (Abstract)

I. Important Notes

This Abstract is extracted from 2019 Semi-Annual Report of Zhejiang Sanhua Intelligent Controls Co., Ltd. (“the Company”). In order to have a full understanding of the operating results, financial status and future development planning of the Company, investors are suggested to read the full report carefully on the media designated by the China Securities Regulatory Commission (the “CSRC”).

Indicate by check mark if independent auditor issues non-standard unqualified opinion

Applicable Not applicable

Indicate by check mark if there is a pre-arranged plan of profit distribution or transferring capital reserve into common stock for the report period which has been reviewed and approved by the Board of Directors

Applicable Not applicable

The Company has no interim cash or stock dividend plan, nor any plan to transfer capital reserve into common stock.

Indicate by check mark if preplan for preferred stocks profit distribution to shareholders for the report period which has been reviewed and approved by the Board of Directors

Applicable Not applicable

II. Company Profile

1. Stock profile

Stock abbr.	Sanhua Intelligent Control	Stock code	002050
Stock exchange	Shenzhen Stock Exchange		
Contact information	Board Secretary	Securities Representative	
Name	Kaicheng Hu	Yutong Wong	
Office add.	5F, 18#building, No. 12 St., No. 289 Xiasha Economic Development, Hangzhou, Zhejiang, China.	No. 219, Woxi Avenue, Meizhu Town, Xinchang County, Zhejiang, China.	
Tel.	0571-28020008	0575-86255360	
E-mail	shc@zjshc.com	shc@zjshc.com	

2. Selected Financial Data

Indicate by check mark if there is any retrospectively restated accounting data of previous years.

Yes No

Unit: Yuan

	The first half of 2019	The first half of 2018	Year-over-year Increase/Decrease
Revenue	5,831,107,028.08	5,590,333,729.82	4.31%
Net profit attributable to shareholders	692,968,498.78	677,056,092.91	2.35%
Net profit attributable to shareholders excluding non-recurring gains and losses	641,841,146.76	674,378,199.87	-4.82%
Net cash flows from operating activities	830,554,910.93	181,547,923.55	357.49%
Basic EPS (RMB Yuan / share)	0.25	0.25	0.00%
Diluted EPS (RMB Yuan / share)	0.25	0.25	0.00%
Weighted average ROE	7.99%	8.30%	-0.31%
	As of Jun. 30, 2019	As of Dec. 31, 2018	Year-over-year Increase/Decrease
Total assets	13,912,414,966.07	13,932,172,478.62	-0.14%
Net assets attributable to shareholders	8,601,157,451.61	8,614,844,555.48	-0.16%

3. Shareholders and Equity Ownership

Unit: Share

Total number of shareholders of common stocks at the end of the reporting period		36,880	Total number of shareholders of preferred stock with resumed voting right at the end of the reporting period		0	
Top 10 shareholders						
Name	Nature	Ownership	Quantity of stocks	Quantity of restricted stocks held	Pledged or frozen stocks	
					Status	Quantity
Sanhua Holding Group Co., Ltd.	Domestic non-state-owned corporate	37.06%	1,024,887,153		Pledged	594,100,000
Zhejiang Sanhua Lvneng Industry Group Co., Ltd.	Domestic non-state-owned corporate	20.66%	571,344,580	299,892,703		
Hong Kong Securities Clearing Company Ltd. (HKSC)	Foreign corporate	8.31%	229,842,885			
Yabo Zhang	Domestic natural person	1.81%	50,024,000	37,518,000		
Xinhecheng Holdings Co., Ltd.	Domestic non-state-owned corporate	0.86%	23,660,000			
Fidelity Fund	Foreign	0.82%	22,631,684			

(Hong Kong) Limited - Customer Funds	corporate					
Western Trust Co., Ltd.-Western Trust. Shanmei-Zhuque Industry Investment Fund Trust	Other	0.78%	21,500,000			
112 Portfolio of National Social Security Fund	Other	0.71%	19,637,476			
Central Huijin Asset Management Co., Ltd.	Domestic state-owned corporate	0.64%	17,833,400			
Shenzhen Anpeng Capital Innovation Co., Ltd.	Domestic state-owned corporate	0.63%	17,333,333		Pledged	7,800,000
Explanation on the above-mentioned shareholders' affiliated relationship or concerted action	Among the above-mentioned shareholders, Sanhua Holding Group Co., Ltd., Zhejiang Sanhua Lvneng Industry Group Co., Ltd. and Yabo Zhang are the persons acting in concert. The Company is not made aware whether there is any affiliated relationship between the other shareholders or whether they are persons acting in concert as defined in <i>Administrative Measures for the Acquisition of Listed Companies</i> .					
Explanation on the above-mentioned shareholders that are engaged in margin trading business	Not applicable					

4. Changing of controlling shareholder or actual controller of the Company

Change of controlling shareholder in the reporting period

Applicable Not applicable

No change of controlling shareholder in the reporting period.

Change of actual controller in the reporting period

Applicable Not applicable

No change of actual controller in the reporting period.

5. Number of preferred shareholders and top 10 of them

Applicable Not applicable

No preferred shareholders in the reporting period.

6. Bonds

Does the Company have any corporate bond that is publicly issued and listed on the stock exchange and that are immature or not fully redeemed as of the approved issuance date of the Annual Report?

None

III. Management Discussion and Analysis

1. Business review for the reporting period

Is the Company subjected to the disclosure requirements for specific industries?

No

In the first half of 2019, the risk of macroeconomic uncertainty in China rises as the sustained weak demand of global market and the impact of protectionism from the United States. Facing this dynamic business environment, the Company insists on implementing the globalization strategy and continues to consolidate its leading position in the industry. The Company's refrigeration and air-conditioning electrical parts business remains stable, and the new energy vehicles parts business maintains a positive uptrend despite of the background of obvious decline in overall automotive industry.

In this reporting period, the Company realizes 5.83 billion Yuan total revenue, 0.83 billion Yuan operating profit and 0.69 billion Yuan net profit attributable to shareholders, with a year-over-year growth rate of 4.31%, 1.58% and 2.35% respectively. The revenue of refrigeration and air-conditioning electrical parts business is 5.07 billion Yuan, increased by 3.41% compared to same period of prior year., and the revenue of automotive parts business is 0.76 billion Yuan with a year-over-year growth rate of 10.64%.

The Company's major business activities in 2019 include:

I . Focus on operation and steady growth of core businesses

1. Refrigeration components business

Faced with the slowdown of industry demand and the fierce market competition in the first half of the year, the Company actively strengthens its strategic cooperation with key customers to maintain market share while insisting on product innovation with new technology and new materials, and continues to consolidate its leading position in the industry. The Company constantly optimizes design for its customer solutions, expands the application fields of energy-efficient products and the penetration into the market. In the global layout, the factory in Vietnam has completed part of the valve production lines, obtained customer confirmation, and the construction is progressing rapidly.

2. Automotive components business

Under the background of obvious decline in overall automotive industry in the first half of 2019, the new energy vehicle parts business is still achieving high growth rate due to the powerful political drivers and industrial upgrading. The development of new energy vehicles has become a clear trend along with the gradual mass production of auto makers. Having developed in the new energy vehicle thermal management products industry for more than a decade, the Company keeps improving its technical and manufacturing capabilities, and its products are gradually developing from components to modules and subsystems. The Company has successively obtained orders from customers such as Valeo, MAHLE, Volkswagen, Benz, BMW, Volvo, GM, Geely, BYD, SAIC Motor, etc. The maximum value per vehicle supplied by the Company is over 5,000 Yuan, which gives prominence to the Company's competitive edge in the field of new energy vehicle thermal management.

II . Focus on technology and continuously increase R&D investments

During the reporting period, the Company's R&D expense is 249 million Yuan with year over year growth rate of 21.01%. The Company strengthens the core competencies of its strategic products with sustained investment in R&D. The Company's R&D mainly focuses on the heat-pump technology of thermal conversion and temperature control. By the end of this reporting period, the Company owns 1,812 patents including 829 patents of invention.

III. Strengthen the talent development mechanism of "Selecting, Matching, Educating and Retaining" to support the Company's globalization

The company insists on the talent development strategy of "Internal training is superior to external recruitment", and identifies talents and establishes career development plans for top performers to ensure the quality and quantity of the Company's talent reserve is sufficient to support the rapid growth of the Company's global business.

IV. Maintain investor relations and strengthen the awareness of service and return to shareholders

During the reporting period, the Company continues to repurchase its outstanding stocks with its self-owned funds and promote the reasonable return of the stock value. At the same time, the Company strengthens the construction of internal control system, standardize the operation of the three meetings, and improves the Company's information disclosure and investor relationship management to ensure smooth communication between investors and the Company by means of platform of Shenzhen Stock Exchange, investors calls, on-site firm tour and other ways.

2. Matters related to financial statements

(1) Explanation on changes in accounting policy, accounting estimations and accounting methods comparing to prior year financial statement

Applicable Not applicable

- Since January 1, 2019, the Company has adopted the new Financial Instruments Standards and adjusted relevant items of the financial statements at the beginning of this year. Detailed information is provided in "Important Accounting Policies and Changes in Accounting Estimates" (3).
- In accordance with the *Revised Format of General Enterprise Financial Statements for 2019 (Accounting NO. 6, 2019)* and the provisions of Enterprise Accounting Standards, the corresponding comparative data of the financial statements in first half of 2019 are restated retrospectively. The accounts and amounts of the financial statements that are significantly affected are shown in the following table:

Unit: Yuan

Accounts and amounts of the original financial statement		Accounts and amounts of the new financial statement	
Balance sheet as of Dec.31, 2018			
Notes receivable and accounts receivable	4,074,693,248.25	Notes receivable	2,229,031,648.98
Notes receivable	2,229,031,648.98		
Accounts receivable	1,845,661,599.27	Accounts receivable	1,845,661,599.27
Notes payable and accounts payable	2,724,982,092.15	Notes payable	1,142,890,068.69
		Accounts payable	1,582,092,023.46
Income statement of the first half of 2018			
General and Administrative expense	451,646,605.56	General and Administrative expense	246,280,484.19
		R&D expense	205,366,121.37
Cash flow statement of the first half of 2018 (Note)			
Cash inflows from other investment activities	6,076,000.00	Cash inflows from other operating activities	6,076,000.00

Note: The cash inflows of assets-related government subsidies of 6,076,000.00 Yuan in the cash flow statement is reclassified

from "cash inflows from other investment activities" to "cash inflows from other operating activities". The supplementary information of the notes to the cash flow statement is adjusted accordingly as well.

3. According to the *Notice on the Issuance and Amendment of Accounting Standards for Enterprises No. 7 - Exchange of Non-monetary Assets (Accounting No. 8, 2019)* which was issued by Ministry of Finance, the Company has adopted *Accounting Standards for Enterprises No. 7 - Non-monetary Asset Exchange* since June 10, 2019.
4. According to the *Notice on the Issuance and Amendment of Accounting Standards for Enterprises No. 12 - Debt Restructuring (Accounting No. 9, 2019)* which was issued by Ministry of Finance, the Company has adopted *Accounting Standards for Enterprises No. 12 - Debt Restructuring* since June 17, 2019.

(2) Explanation on retrospective restatement due to significant accounting error correction in the reporting period

Applicable Not applicable

There is no retrospective restatement due to significant accounting error correction in the reporting period

(3) Explanation on changes of consolidation scope comparing to prior year's financial statement

Applicable Not applicable

Reduced scope of consolidation

Unit: Yuan

Corporation	Disposal method	Disposal date	Net assets on disposal date	Net profit from beginning of the reporting period to the disposal date
Shanghai Taiqing International Trade Co., Ltd.	Liquidation and Cancellation	2019-05-22	6,057.63	-1,711.60