Huazhong Holdings Company Limited
華眾控股有限公司
(incorporated in the Cayman Islands with limited liability)
Stock code: 6830

ANNUAL REPORT 2011

Contents

Company Profile

Huazhong Holdings Company Limited and its subsidiaries (together the "Group") are one of the principal suppliers of automobile body parts in China.

Vertical integration of business operation enables the Group to offer one-stop total solution to customers, from the design and manufacture of moulds and tooling for mass production of specific products to the development and manufacture of new products which meet customers' functional requirements and specifications.

With extensive product range, strong product development and production capabilities and refined manufacturing and tooling techniques, the Group has maintained long term business relationships with both multinational automakers and well-established automakers and suppliers for automakers in China.

The Group's network of production bases at strategic locations also contributes to such stable customer relationships. Headquartered in Ningbo, the Group has strategically established 11 factories operating in different regions to cover major automakers in China. As at December 2011, the Group, together with its jointly controlled entities, had manufacturing facilities in Ningbo, Changchun, Shanghai, Chongqing, Guangzhou and Chengdu. In 2012, the Group plans to expand business and coverage by establishing new production facilities or expanding existing production facilities in cities such as Yantai, Changchun, Wuhu, Foshan, Ningbo and Chengdu.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Minfeng *(Chairman)*
Mr. Chang Jingzhou

Non-executive Directors

Ms. Lai Cairong
Mr. Wang Yuming

Independent non-executive Directors

Mr. Su Xijia
Mr. Yu Shuli
Mr. Tian Yushi

AUDIT COMMITTEE

Mr. Su Xijia *(Chairman)*
Mr. Yu Shuli
Mr. Tian Yushi

REMUNERATION COMMITTEE

Mr. Yu Shuli *(Chairman)*
Mr. Zhou Minfeng
Mr. Tian Yushi

NOMINATION COMMITTEE

Mr. Zhou Minfeng *(Chairman)*
Mr. Yu Shuli
Mr. Tian Yushi

COMPANY SECRETARY

Mr. Lam King Hang *(HKICPA, FCCA)*

AUTHORISED REPRESENTATIVE

Mr. Zhou Minfeng
Mr. Lam King Hang

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS IN CHINA

No. 104 Zhenan Road
Xizhou Town
Xiangshan County
Zhejiang Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of China
Agricultural Bank of China

LEGAL ADVISER AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

COMPLIANCE ADVISER

Guotai Junan Capital Limited

AUDITORS

Ernst & Young

SHARE REGISTRARS

Principal Share Registrar and Transfer Office in the Cayman Islands

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Share Registrar and Transfer Office

Tricor Investor Services Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

LISTING EXCHANGE INFORMATION

The Stock Exchange of Hong Kong Limited
Main Board

Stock Code

6830

COMPANY WEBSITE

www.cn-huazhong.com

Chairman's Statement

Chairman's Statement

On behalf of the board (the "Board") of directors of Huazhong Holdings Company Limited (the "Company" or "Huazhong Holdings") and all of our staff, I hereby present to the shareholders of the Company (the "Shareholders") the annual results of the Group for the year ended 31 December 2011.

According to the latest statistics released by China Association of Automobile Manufacturers (CAAM), the number of passenger automobiles manufactured and sold in 2011 hit record highs of 14,485,300 units and 14,472,400 units respectively, representing a year-on-year growth of 4.23% and 5.19% respectively. Most notably, 10,122,700 sedans were sold in 2011, representing an increase of 6.62% as compared to the previous year. Being in such a thriving market and thanks to the strong support from the Shareholders, the strong leadership of the Board and the hard work of all staff, the Group achieved outstanding results in 2011 and remained one of China's leading independent manufacturers of automobile plastic body parts, notwithstanding the impact of various adverse factors, including the national macroeconomic policy adjustments, the withdrawal of preferential tax policy on vehicle purchases, rising fuel prices, the raised threshold for subsidies to energy-saving vehicles, automobile purchase restrictions imposed in urban areas, the European debt crisis, the deceleration in the US economic recovery and Japan earthquake. Revenue and profit for the year were RMB1.169 billion and RMB110.2 million respectively, representing a growth of 16.1% and 4.1% respectively as compared to the previous year.

The year 2011 was a milestone year for Huazhong Holdings. While successfully achieving the overall objectives and tasks in the business plan formulated at the beginning of the year, the Company developed six new customers in 2011, hence securing 43 orders for the development of new products. During the year, we successfully developed and accredited six new car models and commenced mass supply of a batch of new products. In respect of our expansion in production facilities in 2011, we completed the construction of the new plant of Chengdu Huazhong Automobile Parts Co., Ltd., which includes a new plant area of 6,500 square meters and an office area of 1,900 square meters, and the construction of the new plant of Changchun Huateng Automobile Parts Co., Ltd. and have relocated to the new plant as scheduled. Furthermore, in terms of technology improvement, we introduced three manipulators and 20 pieces of variable-frequency energy-saving equipment in 2011. Ningbo Huazhong Plastic Products Co., Ltd. ("Ningbo Huazhong Plastic") and Faurecia (China) Holding Co., Ltd. successfully established a jointly-controlled plant, which was officially put into operation in August 2011. In addition, the Group acquired equity interests in Shanghai Huaxin Automobile Latex and Plastic Co., Ltd. ("Shanghai Huaxin"), hence expanding its customer base and the range of product offerings. In terms of management, Ningbo Huazhong Plastic was rated as an A-class supplier and green supplier by customers after assessment in 2011.

Looking into 2012, the Group will strive to become China's leading automobile body parts manufacturer, in terms of both reputation and market share. According to the CAAM forecasts on the Chinese automobile industry in 2012, the number of automobiles to be sold in 2012 will increase by approximately 8% to about 20 million, which will bring certain opportunities and challenges to the future development of the Company.

In light of the above, Huazhong Holdings will adhere to the strategy of "expanding existing production facilities and capacity, committing to product research and development and engineering and implementing strategic investments". In 2012, the Group will increase its gross profit sources by various means, including expanding production capacity and improving production efficiency. To be more specific, relocation to the new plant in Xizhou will be completed where operation will be in full swing, implementing centralized material supply system and post-based air-conditioning systems, fully transforming station apparatuses and computerizing the use of manipulators and production management; a new spray painting line will be assembled and put into use when trail run is completed; the construction of the plants in Wuhu, Yantai and Foshan are expected to be completed and put into operation to supply products to customers. At the same time, the Company endeavours to reduce production and purchasing costs and improve production efficiency by improving the management efficiency. Furthermore, the Group will pursue strategic mergers or acquisitions in China or overseas as appropriate and continue to collaborate with international automobile body parts suppliers and manufacturers through establishment of joint ventures and develop certain new customers. The above initiatives have laid a solid foundation for the Group to achieve its business targets for 2012.

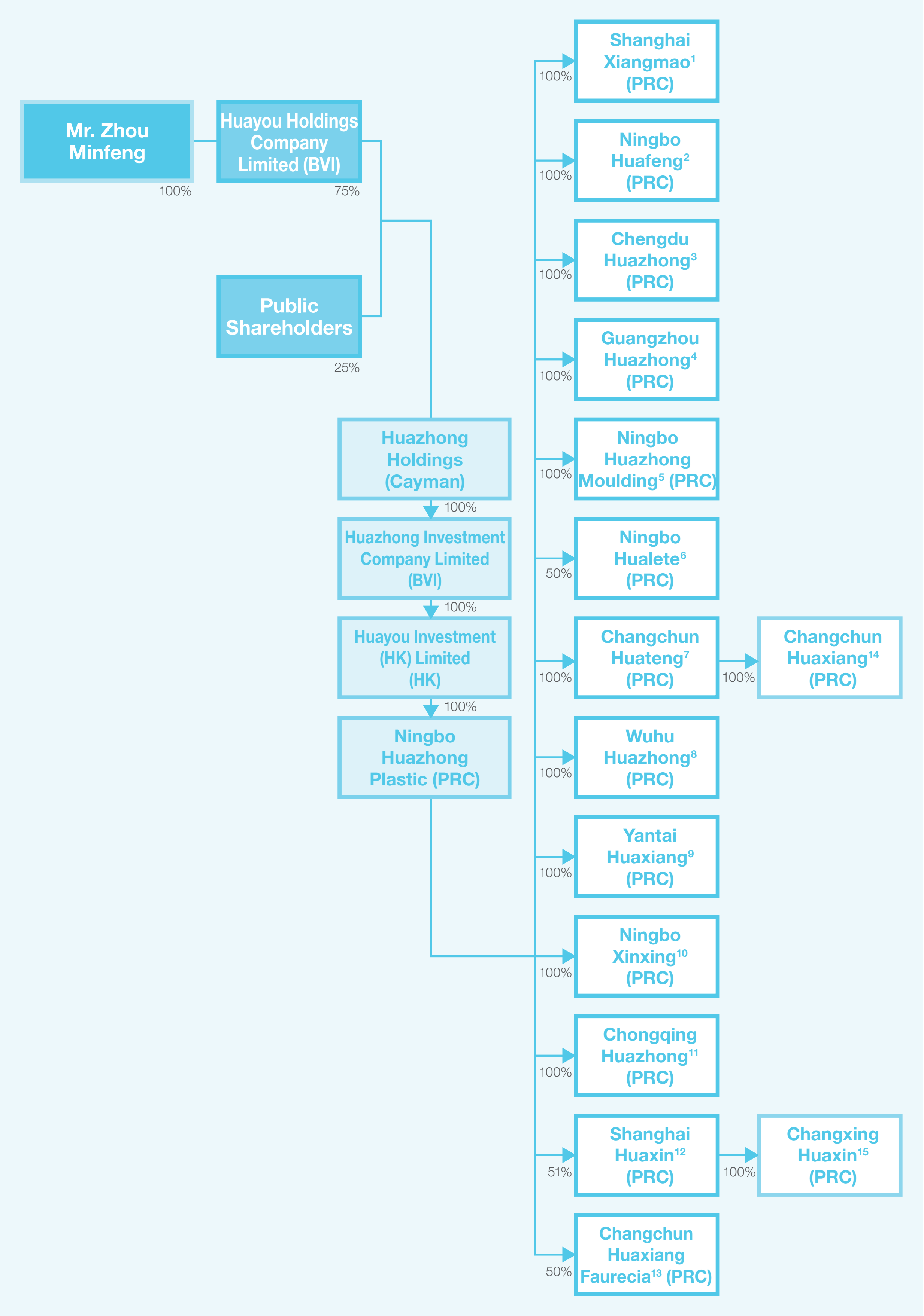
In face of both opportunities and challenges, we will adhere to the open and cooperative spirit and further improve the standards of scientific management, optimize product mix and business layout, strengthen the Group's quality control and establish an organizational structure that fits in the ever competitive environment going forward. I have full confidence in the long-term development of the automobile industry. As the chairman of the Board and the chief executive of the Group, I will continue to lead Huazhong Holdings to march towards its new targets, improve its competitiveness and market position and bring fruitful returns to the Shareholders.

Last but not least, on behalf of Huazhong Holdings, I would like to express my sincerest gratitude to all of our customers and business partners for their support and to the Group's management and staff for their tireless hard work. I would also like to take this opportunity to extend my appreciation to investors and Shareholders for their support for and trust in the Group. We will continue with our hard work and dedication, and generate more returns for the Group and Shareholders.

Zhou Minfeng
Chairman

24 March 2012

Company Structure



Notes:

1. Shanghai Xiangmao Automobile Parts Co., Ltd.
(上海翔茂汽車零部件有限公司)

2. Ningbo Huafeng Plastic and Latex Products Co., Ltd.
(寧波華峰橡塑件有限公司)

3. Chengdu Huazhong Automobile Parts Co., Ltd.
(成都華眾汽車零部件有限公司)

4. Guangzhou Huazhong Automobile Decorative Parts Co., Ltd.
(廣州華眾汽車飾件有限公司)

5. Ningbo Huazhong Moulding Manufacturing Co., Ltd.
(寧波華眾模具製造有限公司)

6. Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd.
(寧波華樂特汽車裝飾布有限公司)

7. Changchun Huateng Automobile Parts Co., Ltd.
(長春市華騰汽車零部件有限公司)

8. Wuhu Huazhong Automotive Parts Co., Ltd.
(蕪湖華眾汽車零配件有限公司)

9. Yantai Huaxiang Automotive Parts Co., Ltd.
(煙台華翔汽車零部件有限公司)

10. Ningbo Xinxing Automobile Plastic Parts Manufacturing Co., Ltd.
(寧波新星汽車塑料件製造有限公司)

11. Chongqing Huazhong Automobile Decorative Parts Co., Ltd.
(重慶市華眾汽車飾件有限公司)

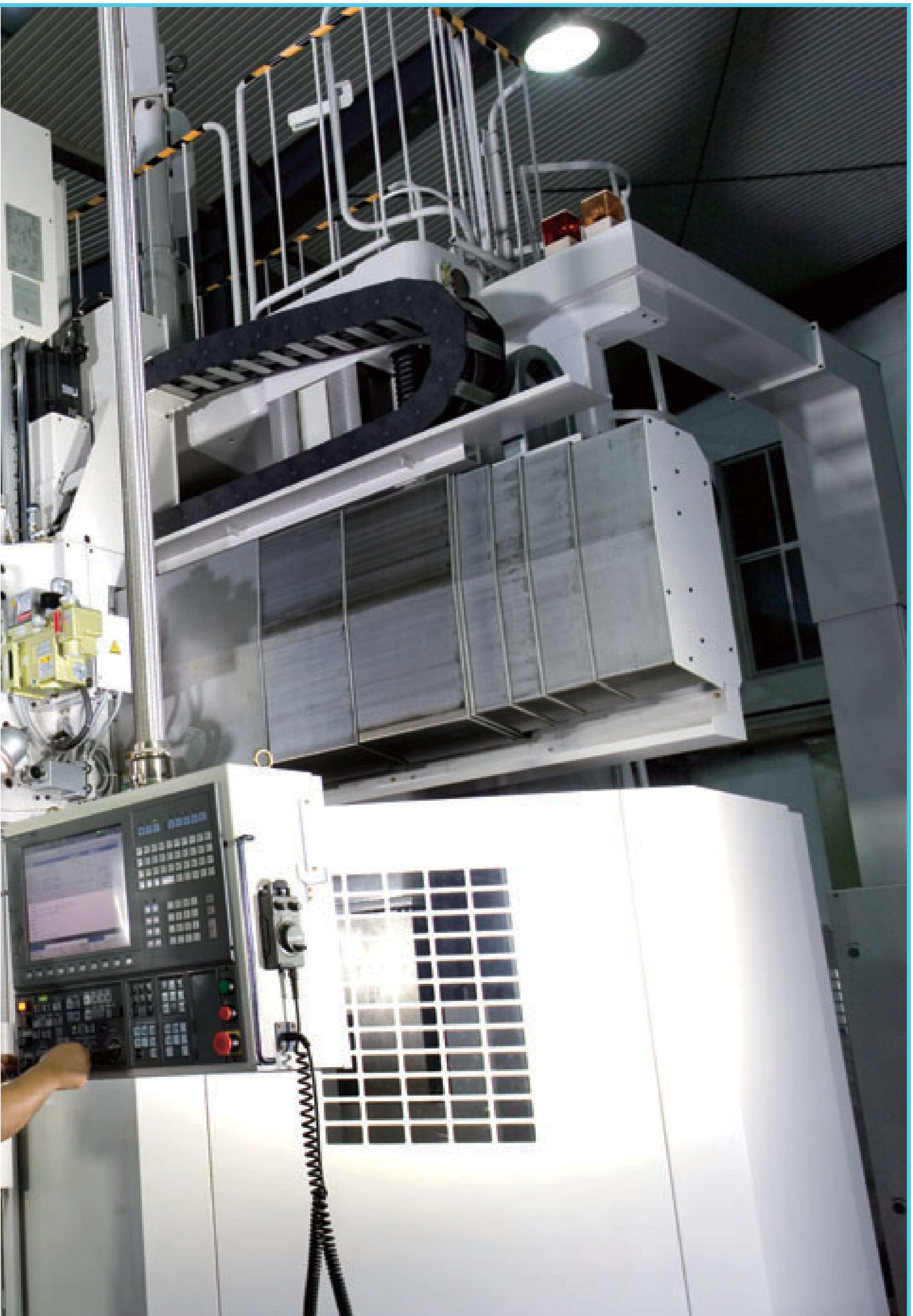
12. Shanghai Huaxin Automobile Latex and Plastic Co., Ltd.
(上海華新汽車橡塑製品有限公司)

13. Changchun Huaxiang Faurecia Automotive Plastic Components Co., Ltd.
(長春華翔佛吉亞汽車塑料件製造有限公司)

14. Changchun Huaxiang Automobile Plastic Parts Manufacturing Co., Ltd.
(長春華翔汽車塑料件製造有限公司)

15. Changxing Huaxin Automobile Latex and Plastic Co., Ltd.
(長興華新汽車橡塑製品有限公司)

Management Discussion and Analysis



MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Along with China's continuous macroeconomic growth, improved living standard and the Chinese government's stimulus policies, the number of automobiles manufactured and sold in China has grown dramatically in recent years, and China has become the world's largest car producer since 2009. As at 31 December 2011, approximately 18.5 million automobiles were sold in China in the year. According to a report issued by China Automotive Technology & Research Center, China's car penetration rate (calculated based on the average car ownership per 1,000 residents in China) rose from 1.3% in 2000 to 5.8% in 2010. However, compared to the average penetration rate of 14.4% in developed countries, China's automobile penetration rate is still at a low level.

Plastics, being the most important automotive lightweight materials, can not only reduce the weight of automobile parts and lower the purchasing costs but, in response to people's ever increasing requirements for the quality and aesthetics of automobiles accompanying the rise in people's living standards and quality, also fulfil the comfort, safety, speed and energy-saving requirements of the automobile industry. With excellent overall performance and price advantage, plastic body parts are increasingly favoured by the automobile industry and the application of plastics in automobiles is currently expanding from interior and exterior accessories to body panels and functional structures. The automobile industry has applied the quantity of plastic materials used in an automobile as an important criterion for assessing the level of automobile design and production. Being one of China's leading independent manufacturers of automobile plastic body parts specializing in the production of mid- and high-end automotive interior and exterior accessories, the Group has also ushered in unprecedented opportunities.

BUSINESS REVIEW

The year 2011 was an extraordinary year to the Group. Thanks to the hard work of all staff, we achieved remarkable success in many aspects which has laid down a solid foundation for the continuous and rapid development of the Group going forward. For the year ended 31 December 2011, the Group's revenue was approximately RMB1.169 billion, representing an increase of approximately 16.1% as compared to approximately RMB1.007 billion in 2010. Profit attributable to the owners of the parent for the year was approximately RMB110.2 million, representing an increase of approximately 4.1% as compared to approximately RMB105.8 million in 2010.

OPERATIONS ANALYSIS

The Board believes that the Group's achievements are attributable to the following aspects:

- The Group provides one-stop product development and manufacturing solutions to customers. This vertically integrated service has enabled the Group to improve production efficiency, shorten the roll-out time for new products, stringently control production cost and quality throughout the whole production process and strengthen its business relationships with customers.

- The Group has strong research and development capacity to develop new products with customers simultaneously. This enables the Group to establish close relationships with its major customers and deepen its understanding of the customers' needs.

- The Group has established production bases that are located close to the production bases of most of the key automakers in China. The geographic proximity advantage enables the Group to provide services to its customers in a timely manner, strengthen its relationships with these customers and reduce transportation costs, and thereby further enhancing its competitiveness.

- The Group maintains long-term business relationships with both domestic and multinational automakers, while rigorously developing new customers.

- The Group is equipped with strong production capabilities and exquisite manufacturing technology. The Group has adopted the most advanced technologies and production equipment in this industry.

- The Group has an experienced management team with deep knowledge and understanding of the automobile body parts industry.

- The Group monitors its product quality in a stringent manner. It has implemented sophisticated quality monitoring procedures to select and examine raw materials and semi-finished and finished products to ensure the quality of its products.

FINANCIAL REVIEW

Revenue

The revenue of the Group was primarily derived from four categories of products:

(i) automotive interior and exterior structural and decorative parts;

(ii) moulds and tooling;

(iii) casings and liquid tanks of air conditioners and heaters; and

(iv) non-automobile products.

Solid revenue results and growth were recorded for all of these four categories during the year.

	2011		2010	
	Revenue RMB'000	**Gross profit margin %**	Revenue *RMB'000*	Gross profit margin *%*
Automotive interior and exterior structural and decorative parts	**858,553**	**25.0**	839,739	25.3
Moulds and tooling	**50,906**	**26.7**	17,505	27.3
Casings and liquid tanks of air conditioners and heaters	**193,740**	**23.0**	96,056	25.7
Non-automobile products	**65,687**	**30.5**	53,608	31.0
Total	**1,168,886**	**25.1**	1,006,908	25.6

For the year ended 31 December 2011, the total revenue generated from automotive interior and exterior accessories was RMB858,553,000 (2010: RMB839,739,000), accounting for 73.4% of the Group's total revenue for the year (2010: 83.5%). The increase was primarily attributable to the production of new models and increase in orders for existing models. Meanwhile, after the establishment of the jointly-controlled entity, Changchun Huaxiang Faurecia by the Group and Faurecia (China) Holding Co., Ltd. in June 2011, the Group transferred its machinery and equipment in the manufacturing and assembling of bumpers and certain other exterior structural and decorative automobile body parts to Changchun Huaxiang Faurecia. As a result, revenue generated from the sale of bumpers and certain other exterior structural and decorative automobile body parts was no longer included in the consolidated revenue of the Group since September 2011, which partially offset the Group's revenue growth. Gross profit margin decreased slightly from 25.3% for the year 2010 to 25.0% for the year 2011 and the decline was caused by the Group's increased investments in the research and development for new products in 2011, which did not bring immediate return to the Group.

For the year ended 31 December 2011, revenue from moulds and tooling was RMB50,906,000 (2010: RMB17,505,000), accounting for 4.4% of the Group's total revenue for the year (2010: 1.7%). The increase in revenue was attributable to the production of more new models. Gross profit margin decreased slightly from 27.3% in 2010 to 26.7% in 2011.

For the year ended 31 December 2011, revenue from casings and liquid tanks of air conditioners and heaters was RMB193,740,000 (2010: RMB96,056,000), accounting for 16.6% of the Group's total revenue for the year (2010: 9.5%). The substantial increase was attributable to the Group's acquisition of Shanghai Huaxin in February 2011, which is primarily engaged in the production of casings for automotive air conditioners and heaters and for batteries. Gross profit margin decreased from 25.7% in 2010 to 23.0% in 2011, which was caused by the change in product mix as a result of the Group's acquisition of Shanghai Huaxin.

For the year ended 31 December 2011, revenue from non-automobile products was RMB65,687,000 (2010: RMB53,608,000), accounting for 5.6% of the Group's total revenue for the year (2010: 5.3%). The increase was primarily due to greater demand for the relevant products by the Group's overseas customers. Gross profit margin decreased slightly from 31.0% in 2010 to 30.5% in 2011.

Other income and gains

Other income and gains of the Group for the year amounted to RMB70,692,000, representing an increase of approximately 607.4% as compared to 2010. The increase was mainly attributable to the following factors: (i) as disclosed in the prospectus of the Company dated 30 December 2011 (the "Prospectus"), the Group disposed of production equipment and an internally generated intangible asset of Changchun Huaxiang to Changchun Huaxiang Faurecia during the year, which generated a profit of approximately RMB20,808,000; and (ii) as disclosed in the Prospectus, the land use rights for a piece of land located in the Changchun Jingyue Development Zone which were previously owned by the Group, were changed from industrial use to commercial use by the government, and the Group sold its use rights on that piece of land in 2011, which generated a profit before tax of approximately RMB39,202,000 for the Group.

Gain on Bargain Purchase

During the year, the Group recorded a one-off gain of RMB9,766,000 upon its acquisition of the equity interests in Shanghai Huaxin prior to the listing (the "Listing") of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The gain represented the difference between the fair value of the net identifiable assets acquired and liabilities assumed, and the consideration paid.

Selling and Distribution Costs

The Group's selling and distribution costs for the year amounted to approximately RMB83,529,000, representing an increase of approximately 10.5% as compared to 2010. The proportion of selling and distribution costs in sales revenue dropped by approximately 0.4% from approximately 7.5% in the previous year to approximately 7.1%. The decline in proportion was caused by the Group's economies of scale and stronger cost control measures.

Administrative Expenses

The Group's administrative expenses for the year amounted to approximately RMB105,721,000, representing an increase of approximately 106.8% as compared to RMB51,133,000 in the previous year. The increase was mainly attributable to the following reasons: (i) due to the Group's acquisition of equity interests in Shanghai Huaxin in early 2011, in Ningbo Huazhong Moulding and Guangzhou Huazhong both at the end of 2010, the number of employees of the Group increased in 2011, which led to the increase in wages and welfare expenses, (ii) an increase in Listing-related professional service fees of approximately RMB13,700,000 as compared to 2010, and (iii) in response to the market demand for new products, the Group increased investments in research and development for new products, which led to an increase of approximately RMB16,816,000 in research and development expenditures as compared to the previous year.

Finance Income

The Group's finance income increased by approximately 71.1% from approximately RMB9,585,000 in 2010 to approximately RMB16,398,000 in 2011. The increase in finance income was mainly attributable to the increase in interest from the loans lent by the Group through bank entrusted loans during the year.

Finance Costs

The Group's finance costs increased from approximately RMB34,266,000 in 2010 to approximately RMB44,971,000 in 2011, representing an increase of approximately 31.2%. The increase in finance costs was mainly due to the increased use of discounted bank acceptance notes and the rise in interest rates during the year.

Taxes

The Group's tax expenses increased by approximately 8.4% from approximately RMB35,275,000 in 2010 to approximately RMB38,252,000 in 2011. The increase was attributable to the increase in the Group's profit before tax as compared to the previous year.

Liquidity and Financial Resources

During the year, the Group maintained a healthy liquidity position, with working capital financed by both internal resources and bank borrowings. As at 31 December 2011, the Group's cash and cash equivalents (comprising cash on hand and at banks, including term deposits) amounted to approximately RMB145.9 million, representing an increase of approximately RMB115.8 million as compared to RMB30.1 million as at 31 December 2010. The increase in cash and cash equivalents was mainly due to the Group's net cash inflow from operating activities of approximately RMB174.9 million. The net cash inflow from operating activities was primarily derived from the profit for the year, which was driven by the production of new models and the increase in orders for existing models and the Group's cost control. The decrease in trade receivables was due to the more stringent implementation of the Group's account receivables management and credit period policies. The increase in other receivables was mainly attributable to the increase in prepayments to suppliers to ensure raw materials supply for production processes in the first quarter of 2012; and the growth in other payables was mainly attributable to the withholding tax payable on dividends distributed during the year. As at 31 December 2011, the Group's interest-bearing bank borrowings were approximately RMB440,147,000 (2010: approximately RMB547,000,000), all of which were due within one year. As at 31 December 2011, RMB30,147,000 of the bank borrowings was subject to fixed interest rate. The Group's earnings, costs, expenses, borrowings and cash and cash equivalents were primarily denominated in Renminbi, therefore, the foreign currency exchange risk borne by the Group was insignificant.

Contingent Liabilities

The Group issued a guarantee of RMB7,020,000 for bank facilities of a jointly controlled entity of the Group as at 31 December 2011. As at 31 December 2010, the total amount of guarantees issued by the Group for the bank loans of related parties and a third party was RMB437,170,000.

Pledge of Assets

As at 31 December 2011, the Group's assets of approximately RMB51,463,000 (2010: approximately RMB30,218,000) were pledged to secure some of the Group's interest-bearing bank borrowings. The book value of the pledged assets is set out below:

	2011	2010
	RMB'000	*RMB'000*
Property, plant and equipment	**20,889**	9,571
Investment property	**3,879**	4,234
Prepaid land lease payments	**13,118**	2,857
Trade receivables	**10,327**	13,556
Pledged deposits	**3,250**	—
Total	**51,463**	30,218

As at 31 December 2011, pledged deposits with book value of approximately RMB151,876,000 (2010: approximately RMB152,602,000) were used as security to provide guarantee for the issuance of notes payable.

Restructuring and Significant Investments

During the year, the Group underwent corporate restructuring, acquired Shanghai Huaxin and set up Changchun Huaxiang Faurecia prior to the Listing. Please refer to the section headed "History and Corporate Structure" in the Prospectus for further details on the restructuring and relevant significant investments.

Gearing Ratio

As at 31 December 2011, the Group's gearing ratio was approximately 81.9%, which was close to the gearing ratio of approximately 80.4% as at 31 December 2010. The gearing ratio is derived by dividing net liabilities (including interest-bearing bank borrowings, trade and notes payables, other payables, advances from customers and accruals, and payables to related parties and the ultimate shareholder less cash and cash equivalents) by total capital (including equity attributable to owners of the parent company) plus net liabilities at the end of the respective years.

Valuation of Properties

For the purpose of the Listing, a valuation was conducted on the property interests held by the Group. However, those property interests were still carried at historical costs less accumulated depreciation and impairment, if any, on the Group's financial statements.

By reference to the property valuation set out in Appendix IV to the Prospectus, a revaluation surplus of approximately RMB116.0 million was recorded in respect of the property interests of the Group as at 30 November 2011. Were the property stated at that valuation, the depreciation charge per year would have increased by approximately RMB6.2 million.

Employees and Remuneration Policies

The Group had a total of 2,755 employees as at 31 December 2011. Total staff costs of the Group for 2011 was approximately RMB91,261,000 (2010: approximately RMB67,820,000). The increase was attributable to the increase in the number of employees of the Group in 2011 as a result of the acquisition of Shanghai Huaxin, Ningbo Huazhong Moulding and Guangzhou Huazhong. The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of our employees.

OUTLOOK

According to the forecasts on the Chinese automobile industry in 2012 released by CAAM, the number of automobiles to be sold in 2012 will increase by approximately 8% to about 20 million, of which, approximately 15.87 million will be passenger automobiles, representing a growth of approximately 9.5%. Sedans, which account for the largest percentage of passenger automobiles will increase by 10.5% to approximately 11.18 million. In terms of exports, it is estimated that about 1.05 million to 1.10 million automobiles will be exported in 2012, representing a year-on-year increase of 25% to 30%. In 2012, the macroeconomy will continue to develop steadily and the market structure will be adjusted gradually. The increase in automobile product diversification, miniaturization and energy-saving will provide consumers with more options to choose from. The national incentive policy for expanding domestic demand, the rigid demand for automobiles in China and many other factors will provide a favourable environment and conditions for the development of the automobile industry. Nevertheless, various adverse factors, including the deceleration in global economic growth, the increase in the cost of automobile consumption, the pressures on Renminbi appreciation and the impact of increasing trade frictions on exports, will also bring challenges to the future development of the Group.

According to the forecast on the growth momentum of China's automobile market by China Automotive Technology & Research Center, the growth in automobile sales will shift from the first-tier cities to the second-and third-tier cities and, along with the constant improvements in the living standard in the rural areas, the rural automobile market will experience a rapid growth. In addition, it is expected that, in 2012, automobile production and sale will undergo structural differentiations. Mid- and high-end passenger automobile models and commercial passenger automobile models will maintain relatively fast growth, and the Sino-foreign joint brand automobiles will continue its rapid growth in 2012.

In light of the above, the Company will continue to implement its development strategy of "expanding existing production facilities and capacity, committing to product research and development and engineering and implementing strategic investments", and become a leading automobile body parts manufacturer in China in terms of reputation and market share.

We believe that, along with the continuous rapid development of the national economy and the improvement in the living standards and life quality of people in both urban and rural areas in China, there are immense growth potentials for the automobile market in China, which will inevitably drive the growth of the automobile body parts market and the demand for mid- and high-end automobile body parts by automobile manufacturers.

USE OF PROCEEDS FROM GLOBAL OFFERING

The Group offered a total of 160 million shares for subscription on the Stock Exchange on 12 January 2012 and the total amount of proceeds was approximately HK$200 million, after deducting underwriting commissions and other estimated expenses payable for the offering. Currently, we plan to use the net proceeds from the offering primarily for the following purposes:

- Approximately 60% of the net proceeds will be used for constructing new manufacturing facilities in Yantai, Changchun, Wuhu and Foshan and expanding and upgrading existing production facilities in Ningbo and Chengdu to increase production capacity.

- Approximately 20% of the net proceeds will be used for supporting our research and development of potential new products and production technologies and improving rubber performance and quality.

- Approximately 10% of the net proceeds will be used for acquiring companies to increase our product offerings, improve our product development capacity and expand our market share and revenue base.

- Approximately 10% of the net proceeds will be used for replenishing our working capital and other general purposes.

Corporate Governance Report

Corporate Governance Practices

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize returns for the Shareholders.

The Company adopted the new Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which will take effect from 1 April 2012. The Company was listed on the Stock Exchange on 12 January 2012 (the "Listing Date"). From the Listing Date up to the date of this report, all code provisions set out in the CG Code were fulfilled by the Company except for the deviation from Code Provision A.2.1 of the CG Code, which stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Please refer to the Chairman and Chief Executive section of this report below.

The Board

The Board consists of seven directors (the "Directors"), comprising two executive Directors, two non-executive Directors and three independent non-executive Directors.

Executive Directors
Mr. Zhou Minfeng *(Chairman)* (appointed on 3 December 2010)
Mr. Chang Jingzhou (appointed on 7 December 2011)

Non-Executive Directors
Ms. Lai Cairong (appointed on 7 December 2011)
Mr. Wang Yuming (appointed on 7 December 2011)

Independent Non-Executive Directors
Mr. Su Xijia (appointed on 7 December 2011)
Mr. Yu Shuli (appointed on 7 December 2011)
Mr. Tian Yushi (appointed on 7 December 2011)

The functions and duties conferred on the Board include convening Shareholders' meetings, reporting on the work of the Board to the Shareholders at Shareholders' meetings as may be required by applicable laws, implementing resolutions passed at Shareholders' meetings, determining the Company's business plans and investment plans, formulating the Company's annual budget and final accounts, formulating the Company's proposals for dividend and bonus distributions as well as exercising other powers, functions and duties as conferred on it by the articles of association of the Company (the "Articles") and applicable laws. The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. The Board meets regularly to review the financial and operating performance of the Company, and considers and approves the overall strategies and policies of the Company. The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The non-executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company.

All Directors have separate and independent access to the Company's senior management to fulfill their duties and, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense. All Directors also have access to the secretary of the Company ("Company Secretary") who is responsible for ensuring that the Board procedures and all applicable rules and regulations are followed. An agenda and accompanying Board committee papers are distributed to the Directors/Board committee members with reasonable notice in advance of the meetings. Minutes of Board meetings and meetings of Board committees, which record in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views expressed, are kept by the Company Secretary and are open for inspection by Directors.

Chairman and Chief Executive

The Group does not at present separate the roles of the chairman and chief executive. Mr. Zhou Minfeng is the chairman and chief executive of the Group. He has extensive experience in automobile body parts industry and is responsible for the overall corporate strategic planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. The Board currently comprises two executive Directors, two non-executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

Company Secretary

The Company Secretary is Mr. Lam King Hang. Details of the biography of the Company Secretary are set out in the section headed "Directors and Senior Management" of this report of which this corporate governance report forms part. The Company Secretary has been informed of the requirements under Rule 3.29 of the Listing Rules and his compliance with such requirement for the year ending 31 December 2012 will be reported in the corporate governance report in the 2012 annual report of the Company.

Non-executive Directors

Each of the non-executive Directors and the independent non-executive Directors has entered into a letter of appointment with the Company and is appointed for an initial term of three years commencing from the Listing Date.

In accordance with article 84 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

Board Committees

As an integral part of sound corporate governance practices, the Board has established the following Board committees to oversee the particular aspects of the Group's affairs:

Audit Committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 7 December 2011 in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules. The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The audit committee consists of three members, namely Mr. Su Xijia, Mr. Yu Shuli and Mr. Tian Yushi, all independent non-executive Directors. Mr. Su Xijia, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the audit committee.

No meeting was held by the audit committee during the year ended 31 December 2011 because the Company was listed in January 2012. Up to the date of this report, one meeting of the audit committee was held on 24 March 2012.

The audit committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2011, including the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors.

Remuneration Committee

The Company established a remuneration committee on 7 December 2011 with written terms of reference. The principal responsibilities of the remuneration committee are to determine the policies in relation to human resources management, to review the compensation strategies, to determine the remuneration packages of the senior executives and managers, to approve the terms of the service contract of the executive Directors, to assess the performance of the executive Directors, to recommend and establish annual and long-term performance criteria and targets as well as to review and supervise the implementation of all executive compensation packages and employee benefit plans. The remuneration committee currently consists of three members, namely, Mr. Yu Shuli, an independent non-executive Director as the chairman of the remuneration committee, Mr. Zhou Minfeng, an executive Director and Mr. Tian Yushi, an independent non-executive Director. The Board expects the remuneration committee to exercise independent judgment and ensure that executive Directors do not participate in the determination of their own remuneration.

No meeting was held by the remuneration committee during the year ended 31 December 2011 because the Company was listed in January 2012. Up to the date of this report, one meeting of the remuneration committee was held on 24 March 2012.

Nomination Committee

The Company established a nomination committee on 7 December 2011 with written terms of reference. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for Directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The nomination committee currently consists of three members, namely, Mr. Zhou Minfeng, an executive Director as the chairman of the nomination committee, and Mr. Yu Shuli and Mr. Tian Yushi, both independent non-executive Directors.

No meeting was held by the nomination committee during the year ended 31 December 2011 because the Company was listed in January 2012. Up to the date of this report, one meeting of the nomination committee was held on 24 March 2012.

Corporate Governance Function

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with Code Provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report. Details of the work of the Board in relation to the corporate governance function for the year ending 31 December 2012 will be disclosed in the corporate governance report in the Company's 2012 annual report.

Number of Meetings and Directors' Attendance

From the Listing Date and up to the date of this report, the Board held one meeting with all of the Directors attended. No general meeting was held during the same period.

Continuous Professional Development

The Directors have been informed of the requirement under Code Provision A.6.5 of the CG Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the Company's 2012 annual report.

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the period under review, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the period from the Listing Date to the date of this report.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparation of the financial statements of the Group for each financial period in accordance with the requirements of the laws and regulations and applicable accounting standards to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2011, the Directors have selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' Remuneration

The Company has appointed Ernst & Young as the auditors of the Company. The fees for the audit services, including annual audit services and reporting accountants' work in relation to the Listing, provided by the auditors to the Group for the year ended 31 December 2011 amounted to RMB4.0 million. The fees for the non-audit services of internal control review and assessment provided to the Group amounted to RMB0.4 million.

The statement of the auditors of the Company concerning their responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditors' Report on page 39 of this report.

Internal Control

The Board is responsible for maintaining sound and effective internal control systems in order to safeguard the Group's assets and Shareholders' interests, and review and monitor the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that internal control and risk management systems in place are adequate. The Company has established written policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Company also has a process for identifying, evaluating, and managing the significant risks to the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2011 and up to the date of this report. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance and is required to strictly adhere to the policies set by the Board. The Company carries out reviews on the effectiveness of the internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

During the year under review, the Board has conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance controls and risk management. External consultants were engaged to assist the Board in performing high-level review of the internal control systems for its business operations and processes. Such review covered the financial, compliance and operational controls as well as risk management mechanisms and the assessment was made by discussions with the management of the Company and its external consultants. The Board believes that the existing internal control system is adequate and effective.

Shareholders' Rights

How Shareholders can convene an extraordinary general meeting and put forward proposals at Shareholders' meetings

Pursuant to the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/herself (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.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail at Units 2009-2018, 20/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong or by email at huazhong@pordahavas.com. The Company Secretary forwards communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the chief executive of the Company.

During the year ended 31 December 2011, there has been no significant change in the Company's constitutional documents.

Communication with Shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with the Shareholders and investors of the Company. The Board also recognizes that effective communication with its investors is critical in establishing investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors of the Company and the Shareholders will receive accurate, clear, comprehensive and timely information of the Group through the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate communications on the Company's website at www.cn-huazhong.com. The Directors and members of various board committees will attend the annual general meeting of the Company to answer questions raised by the Shareholders. The resolution of every important proposal will be proposed at general meetings separately.

Voting at general meetings of the Company are conducted by way of poll in accordance with the Listing Rules. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media to keep them informed of the Group's strategy, operations, management and plans, and promptly releases information related to any significant progress of the Company, so as to promote the development of the Company through mutual and efficient communications.

DIRECTORS

Executive Directors

Mr. Zhou Minfeng (周敏峰), aged 45, is the chairman of the Board, executive Director and chief executive of the Company. He was appointed as an executive Director of the Company on 3 December 2010. Mr. Zhou is also a member of the remuneration committee and the chairman of the nomination committee of the Board. Mr. Zhou has over 18 years of experience in the automobile body parts industry and is primarily responsible for the overall corporate strategic planning and business development of the Group. Mr. Zhou is the founder of the Group and is also a director of all the subsidiaries of the Company. Mr. Zhou assumes several social positions, such as the vice chairman of the Ningbo Enterprise Federation (寧波企業聯合會), Ningbo Entrepreneurs Association (寧波市企業家協會) and Ningbo Federation of Industrial Economy (寧波市工業經濟聯合會) since 2009. Mr. Zhou is also a representative of the 12th and 13th Standing Committee of Ningbo Municipal People's Congress (寧波市第十二、十三屆人民代表大會常務委員會代表). Mr. Zhou received a diploma of Master Business Administration from China Europe International Business School (中歐國際工商學院) in March 2003. Mr. Zhou is the son of Ms. Lai Cairong (賴彩絨), a non-executive Director. With the extensive experience of Mr. Zhou in the industry of manufacturing and trading of automobile body parts, the Directors consider that it is in the best interest of the Group and the Shareholders as a whole for Mr. Zhou to be given the overall management responsibility of the Group as the chief executive of the Company. The Directors consider that vesting the roles of chairman of the Board and chief executive of the Company in the same person, namely Mr. Zhou, is appropriate to the Company at this stage of the corporate development of the Group and believe such arrangement will not result in any material adverse impact to the efficiency of operation and management and the quality of the corporate governance system of the Company.

Mr. Chang Jingzhou (常景洲), aged 51, is an executive Director. He was appointed as an executive Director on 7 December 2011. Mr. Chang has over 11 years of experience in the automobile body parts industry and is primarily responsible for overall production management, technology quality assurance and project management of the Group. Mr. Chang worked for the People's Liberation Army of PRC from January 1980 to December 1982. From 1996 to December 1998, Mr. Chang served various positions in Xi'an Airport Industry Wei Yuan Company (西安飛機工業渭原公司), including head of technical department and general engineer. Mr Chang joined the Group in June 2000 as supervisor of technology development and was promoted to vice general manager in August 2008. Mr. Chang obtained the bachelor's degree in Machinery Manufacturing Process and Equipment (機械製造工藝與設備) from Xi'an City Employee University (西安市職工大學) in June 1990.

Non-executive Directors

Ms. Lai Cairong (賴彩絨), aged 67, is a non-executive Director of the Company. She was appointed as a non-executive Director of the Company on 7 December 2011. Ms. Lai served as a director of Ningbo Huazhong Plastic since September 1999. Since August 2008, Ms Lai also served as the chairperson of the board of Xiangshan Huangxiang International Hotel (象山華翔國際大酒店). Ms. Lai is the mother of Mr. Zhou, the executive Director and chief executive of the Company. Ms. Lai graduated from Xizhou Middle School (西周中學) in July 1961.

Mr. Wang Yuming (王玉明), aged 55, is a non-executive Director. He was appointed as a non-executive Director on 7 December 2011. Mr. Wang served as the general manager of First Automobile Work Sihuan Group Company (一汽四環集團公司) since 2007. Mr. Wang served as the director of Changchun Faway Automobile Components Co., Ltd. (長春一汽富維汽車零部件股份有限公司) since December 2007. Mr. Wang received a master's degree in Senior Management and Business Management (高級管理人員與工商管理) from Dongbei University of Finance and Economics (東北財經大學) in June 2008.

Independent non-executive Directors

Mr. Su Xijia (蘇錫嘉), aged 57, was appointed as an independent non-executive Director on 7 December 2011. Mr. Su is also the chairman of the audit committee of the Board. Mr. Su obtained the bachelor's degree in financial accounting from Xiamen University (廈門大學) in July 1982 and further obtained his doctor degree in philosophy from Concordia University in Canada in May 1997. From August 1982 to December 1984, Mr. Su served as a lecturer in accounting of Shanghai University of Finance (上海財經大學). Mr. Su worked as an assistant professor, an associate professor in accounting and later an Associate Head and Acting Head of the Department of Accountancy of City University of Hong Kong(香港城市大學) from September 1996 to July 2011. On 1 July, 2010, Mr. Su joined China Europe International Business School (中歐國際工商學院) as a professor of accounting. Mr. Su served as an independent non-executive director of two listed companies on the main board of Shenzhen Stock Exchange, namely Shenzhen Seg Co., Ltd. (深圳賽格股份有限公司) and Shenzhen Topraysolar Co., Ltd. (深圳市拓日新能源科技股份有限公司), from 2002 to 2008 and from February 2007 to February 2010, respectively. Mr. Su currently also serves as the independent non-executive director of Franshion Properties (China) Limited (方興地產（中國）有限公司), a listed company on the Main Board since March 2007, Shenzhen Worldunion Properties Consultancy Co., Ltd. (世聯地產顧問股份有限公司), a listed company on the main board of Shenzhen Stock Exchange since August 2007 and Songdu Industrial Holdings Co., Ltd. (宋都置業股份有限公司), a listed company on the main board of Shanghai Stock Exchange since March 2010.

Mr. Yu Shuli (於樹立), aged 63, was appointed as an independent non-executive Director on 7 December 2011. Mr. Yu is also the chairman of the remuneration committee of the Board and a member of the nomination committee of the Board. Mr. Yu received a diploma in economics from Shanghai Financial School (上海財經學院) in July 1985. Mr. Yu served as the head of financial department, vice general accountant, general accountant and head of the factory of Aerospace Shanghai Xinxin Machine Factory (航天部上海新新機器廠) from 1986 to 1997. Mr. Yu then joined Shanghai Delphi Automotive Air Conditioning Systems Co., Ltd. (上海德爾福汽車空調系統有限公司) and worked as a general manager until June 2006. Subsequently, Mr. Yu served as the head of the Shanghai Automotive Air Conditioner Factory (上海汽車空調器廠) until November 2008. Mr. Yu currently serves as the director of Zhejiang Sanhua Co., Ltd. (浙江三花股份有限公司) since April 2006. Mr. Yu became a qualified senior accountant in the PRC in August 1995.

Mr. Tian Yushi (田雨時), aged 66, was appointed as an independent non-executive Director on 7 December 2011. Mr. Tian is also a member of the remuneration committee and nomination committee of the Board. Mr. Tian received the bachelor's degree in machinery from Harbin Industrial University (哈爾濱工業大學) in July 1970 and the bachelor's degree in party policy management (黨政管理) from correspondence school of CPC Central Committee Party School (中共 中央黨校函授學院) in December 1992. Mr. Tian served various positions in China First Automobile Group (中國第一汽車集團公司) (formerly known as CPC First Automobile Factory (中共第一汽車製造廠)), a state-owned enterprise which is principally engaged in automobile manufacturing, including department head of the party committee, director for production and dispatching, general director for dispatching, assistant to the general manager and director for coordination and supporting from May 1991 to January 2000. Mr. Tian was then designated as the general manager of Fawer Automotive Parts Company Ltd. (富奧汽車零部件有限公司), a subsidiary of China First Automobile Group in January 2000. From January 2000 to July 2005, Mr. Tian also served as the chairman of more than 12 subsidiaries of First Automobile Works (第一汽車集團公司). Mr. Tian was appointed as senior consultant of China Auto Parts & Accessories Corp. (中國汽車零部件工業公司) in October 1996. Mr. Tian currently serves as an evaluation expert of the Investment Projects of Jilin Province and an evaluation expert of the Key Projects of Changchun.

SENIOR MANAGEMENT

Mr. Zhou Ruqing (周汝青), aged 65, is the vice general manager and is primarily responsible for the daily management. From August 1988 to October 1993, Mr. Zhou served as a technician of Ningbo Huaxiang Electronics (a company listed on the Shenzhen Stock Exchange). Mr. Zhou then joined Ningbo Huazhong Plastic and worked as a head of the factory until June 1999. Mr Zhou served as the vice general manager of Ningbo Xinxing until May 2004. From May 2004 to September 2009, Mr. Zhou worked as the vice general manager of Ningbo Huaying Incos Mould Manufacturing Co., Ltd. (寧波華英模具科技發展有限公司), a private company which is principally engaged in mould manufacturing. Mr. Zhou worked as the vice general manager of Ningbo Huazhong Moulding since September 2009. Mr. Zhou became an engineer in December 1993. Mr. Zhou graduated from Xizhou Middle School (西周中學) in July 1963.

Mr. Le Jun (樂俊), aged 46, is the general supervisor of technical department and the assistant to general manager and is primarily responsible for technological analysis and development. Mr. Le joined the Group as an assistant to general manager in March 2006. Prior to joining the Group, Mr. Le served as a vice general manager for technical department of Ningbo Deye Technology Group Ltd. (寧波德業科技集團有限公司) from August 2004 to March 2005. From March 2005 to December 2005, Mr Le worked as a vice general manager for technical department of Shanghai Xinhang Metals Co., Ltd. (上海星航五金有限公司). Mr. Le obtained a bachelor's degree in Machinery from Shenyang Architecture University (瀋陽建築大學) (formally known as Shenyang Architecture and Engineering University (瀋陽建築工程學院)) in July 1986.

Mr. Huang Wenhao (黃文豪), aged 59, is the vice general manager for production and is primarily responsible for production. Mr. Huang served as the vice general manager of Ningbo Huazhong Plastic since April 2003. Mr. Huang also served as the general manager of Changchun Huateng from August 2010 to April 2011. Mr. Huang received a bachelor's degree from Taipei University of Science and Technology (臺北科技大學) (formerly known as Taipei Industrial Colleague) (臺北工業專科學校) in June 1975.

Mr. Lam King Hang (林景恒), aged 36, is the chief financial officer and the Company Secretary. He joined the Company on November 29, 2010. Mr. Lam received a bachelor's degree of Business Administration from Chinese University of Hong Kong in December 1997. Mr. Lam is a member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a fellow member of the Association of Chartered Certified Accountants (FCCA). From September 1997 to November 2010, Mr. Lam served various positions in Ernst & Young including staff accountant, senior accountant, manager and senior manager, responsible for auditing and quality and risk management.

Mr. Cui Jihong (崔繼宏), aged 46, is the assistant to general manager of the Company and is primarily responsible for sales. From February 2001 to October 2004, Mr. Cui served various positions in Ningbo Huazhong Plastic, including the department head for sales, production and technology. Mr. Cui was then delegated to join Nanchang Jiangling Huaxiang Automobile Parts Co., Ltd. (南昌江鈴華翔汽車零部件有限公司), a private company which is principally engaged in automobile body parts manufacturing in October 2004 and worked as the vice general manager until November 2007. Mr. Cui then joined Ningbo Huazhong Plastic and worked as the assistant of the general manager since April 2008. Mr. Cui became an engineer in September 1993. Mr. Cui obtained the bachelor's degree from Dalian University of Technology (大連理工大學) in July 1988.

COMPANY SECRETARY

Mr. Lam King Hang (林景恒) is a member of the senior management and the Company Secretary. Please refer to his biography under the paragraph headed "Senior Management" above.

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is one of the principal suppliers of automobile body parts in China. The Group offers one-stop solution to its customers, from the design and manufacture of moulds and tooling for mass production of specific products to the development and manufacture of new products which meet its customers' functional requirements and specifications.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2011 are set out in note 20 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 41 to 43 and page 49 of this report.

DIVIDENDS

The Board recommended a final dividend of HK 2.5 cents (equivalent to approximately RMB2.0 cents) per Share for the year ended 31 December 2011, payable out of the share premium account of the Company subject to approval by the Shareholders at the annual general meeting to be held on 18 May 2012. Details of the dividend for the year ended 31 December 2011 are set out in note 15 to the financial statements.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 39 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2011, the Company did not have reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2011 are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2011 are set out in note 37 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2011 were:

Executive Directors
Mr. Zhou Minfeng *(Chairman)* (appointed on 3 December 2010)
Mr. Chang Jingzhou (appointed on 7 December 2011)

Non-Executive Directors
Ms. Lai Cairong (appointed on 7 December 2011)
Mr. Wang Yuming (appointed on 7 December 2011)

Independent Non-Executive Directors
Mr. Su Xijia (appointed on 7 December 2011)
Mr. Yu Shuli (appointed on 7 December 2011)
Mr. Tian Yushi (appointed on 7 December 2011)

The Company has received annual confirmation of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Each of the executive Directors on the Board during the year ended 31 December 2011 had entered into a service contract with the Company for an initial term of three years commencing from the Listing Date and thereafter may be terminated by not less than three months' notice in writing or payment in lieu of such notice served by either party on the other. The service contracts are automatically renewed upon expiration.

Each of the non-executive Directors and independent non-executive Directors during the year ended 31 December 2011 had entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date and thereafter may be terminated by not less than three months' notice in writing served by the respective non-executive Directors and independent non-executive Directors on the Company, and by immediate notice in writing served by the Company on the respective non-executive Directors and independent non-executive Directors.

In accordance with article 87 of the Articles, Mr. Chang Jingzhou, Ms. Lai Cairong and Mr. Su Xijia will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 25 to 28 of this report.

DIRECTORS' INTERESTS IN CONTRACTS

Other than the contracts disclosed in section "Further Information About Our Business-Summary of the Material Contracts" of Appendix VI to the Prospectus, there was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during the year ended 31 December 2011.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the date of this report, the Directors and the chief executive of the Company had the following interests or short positions in the shares (the "Shares"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long position in the Company

Name of Director	Capacity/ Nature of interest	Number of Shares	Percentage of the issued share capital
Mr. Zhou Minfeng	Interests of controlled corporation(1)	600,000,000	73.35% (4)
	Beneficial owner	1,500,000(2)	0.18% (4)
	Spouse's interest	1,000,000(2)(3)	0.12% (4)
Mr. Chang Jingzhou	Beneficial owner	600,000(2)	0.07% (4)
Ms. Lai Cairong	Beneficial owner	3,800,000(2)	0.46% (4)

Notes:

(1) Mr. Zhou Minfeng is deemed to be interested in Shares held by Huayou Holdings Company Limited ("Huayou Holdings") by virtue of Huayou Holdings being wholly-owned by Mr. Zhou Minfeng.

(2) Shares subject to options under the Pre-IPO Share Option Scheme.

(3) Ms. Chen Chun'er, the spouse of Mr. Zhou Minfeng, has been granted an option to subscribe for Shares under the Pre-IPO Share Option Scheme, therefore, Mr. Zhou Minfeng is deemed to be interested in Ms. Chen Chun'er's option.

(4) Calculated based on the number of issued Shares taking into account Shares which may be allotted and issued to all grantees upon their full exercise of the options under the Pre-IPO Share Option Scheme.

Save as disclosed above, as at the date of this report, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company adopted the Pre-IPO Share Option Scheme on 15 December 2011 for the purpose of giving certain eligible persons an opportunity to have a personal stake in the Company and motivating them to optimize their future performance and efficiency to the Group and/or rewarding them for their past contributions, and attracting and retaining, or otherwise maintaining ongoing relationships with, such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Options to subscribe for an aggregate of 18,000,000 Shares were granted on 23 December 2011. The exercise price per Share is HK$1.12, representing a discount of 20% to the global offering price per Share. Save as disclosed below, no further options were granted under the Pre-IPO Share Option Scheme prior to the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised in the following manner:

Exercise period	Maximum percentage of options exercisable
Anytime after the first anniversary of the Listing Date	35 % of the total number of options granted
Anytime after the second anniversary of the Listing Date	70 % of the total number of options granted
Anytime after the third anniversary of the Listing Date	100 % of the total number of options granted

Details of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2011 are as follows:

Name	Outstanding as at 1 January 2011	Granted during the period	Outstanding as at 31 December 2011
Directors			
Mr. Zhou Minfeng	—	1,500,000	1,500,000
Mr. Chang Jingzhou	—	600,000	600,000
Ms. Lai Cairong	—	3,800,000	3,800,000
Senior Management			
In aggregate	—	2,200,000	2,200,000
Others			
In aggregate	—	9,900,000	9,900,000
Total	—	18,000,000	18,000,000

No options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2011.

Further details of the Pre-IPO Share Option Scheme are set out in note 38 to the financial statements.

Share Option Scheme

The Company adopted the Share Option Scheme on 15 December 2011 for the purpose of giving certain eligible persons an opportunity to have a personal stake in the Company and motivating them to optimize their future performance and efficiency to the Group and/or rewarding them for their past contributions, and attracting and retaining, or otherwise maintaining on-going relationships with, such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, i.e. 80,000,000 Shares. The maximum number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to any one person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the date that the Board meeting proposes such grant (the "Offer Date"). The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the Offer Date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the Offer Date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting option granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

As at 31 December 2011, no option had been granted by the Board under the Share Option Scheme.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Director or chief executive of the Company, as at the date of this report, the persons or corporations (other than Director or chief executive of the Company) who had interests or short positions in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO , or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding
Huayou Holdings	Beneficial owner	600,000,000	75%

Direct or indirect interests in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name	Shareholder	Approximate percentage of shareholding
Shanghai Huaxin	Shanghai Automobile Air Conditioner Factory*(上海汽車空調器廠)	30%
Shanghai Huaxin	Shanghai Beicai Industrial Co., Ltd.(上海北蔡工業有限公司)	19%
Changxing Huaxin[1]	Shanghai Automobile Air Conditioner Factory*(上海汽車空調器廠)	30%
Changxing Huaxin[1]	Shanghai Beicai Industrial Co., Ltd.(上海北蔡工業有限公司)	19%

Note:

(1) Shanghai Automobile Air Conditioner Factory*(上海汽車空調器廠)and Shanghai Beicai Industrial Co., Ltd.(上海北蔡工業有限公司)directly hold 30% and 19% interests in Shanghai Huaxin, respectively. Changxing Huaxin is wholly-owned by Shanghai Huaxin and as a result, Shanghai Automobile Air Conditioner Factory*(上海汽車空調器廠)and Shanghai Beicai Industrial Co., Ltd.(上海北蔡工業有限公司)also indirectly hold 30% and 19% interests in Changxing Huaxin, respectively.

Save as disclosed above, as at the date of this report, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities from the Listing Date to the date of this report.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries has entered into any connected transaction which is subject to the annual review of the independent non-executive Directors. The related party transactions set out in note 42 to the financial statements, except for note 42(c)(xi), did not constitute connected transaction under the Listing Rules.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Other than the contracts disclosed in section "Further Information About Our Business-Summary of the Material Contracts" of Appendix VI to the Prospectus, no contract of significance was entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2011.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders has confirmed to the Company of his/its compliance with the non-compete undertakings provided to the Company under the Deed of Non-Competition (as defined in the Prospectus). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the controlling shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business, apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2011 and up to and including the date of this report.

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 ended 31 December 2011.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands where the Company is incorporated applicable to the Company.

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and details of the Pre-IPO Share Option Scheme are set out in note 38 to the financial statements.

PENSION SCHEME

The employees of the Group's subsidiaries which operate in China are required to participate in defined contribution central pension schemes operated by the local municipal government. The subsidiaries of the Group are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension schemes.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales to the Group's largest and five largest customers accounted for 42.9% (2010: 48.9%) and 70.3% (2010: 77.3%), respectively, of the Group's total revenue from operations.

Aggregate purchases from the Group's largest and five largest suppliers accounted for 9.2% (2010: 8.7%) and 32.7% (2010: 30.3%), respectively, of the Group's total purchases from suppliers.

At no time during the year ended 31 December 2011, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

AUDITORS

Ernst & Young will retire and, being eligible, offer themselves for reappointment. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules from the Listing Date to the date of this report.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2011 are set out in note 31 to the financial statements.

On behalf of the Board
Zhou Minfeng
Chairman

Beijing, 24 March 2012

ERNST & YOUNG
安永

To the shareholders of Huazhong Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Huazhong Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 131, which comprise the consolidated and company statements of financial position as at 31 December 2011, and 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 a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

24 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	6	**1,168,886**	1,006,908
Cost of sales		**(875,784)**	(748,663)
Gross profit		**293,102**	258,245
Other income and gains	6	**70,692**	9,993
Gain on bargain purchase	7	**9,766**	21,560
Selling and distribution costs		**(83,529)**	(75,622)
Administrative expenses		**(105,721)**	(51,133)
Other expenses		**(3,456)**	(5,346)
Operating profit		**180,854**	157,697
Share of profits/(losses) of:			
Associates		**425**	(422)
Jointly-controlled entities	22	**(1,529)**	9,054
Finance income	8	**16,398**	9,585
Finance costs	9	**(44,971)**	(34,266)
Profit before tax	10	**151,177**	141,648
Income tax expense	13	**(38,252)**	(35,275)
Profit and total comprehensive income for the year		**112,925**	106,373
Profit and total comprehensive income for the year attributable to:			
Owners of the parent		**110,168**	105,839
Non-controlling interests		**2,757**	534
		112,925	106,373
Earnings per share attributable to ordinary equity holders of the parent	16		
Basic and diluted		**RMB0.17**	RMB0.17

Consolidated Statement of Financial Position

31 December 2011

	Notes	**31 December 2011 RMB'000**	31 December 2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**256,319**	259,171
Investment properties	18	**45,197**	4,234
Prepaid land lease payments	19	**92,618**	93,055
Investments in associates	21	**2,774**	7,044
Investments in jointly-controlled entities	22	**56,505**	21,923
Prepayments for acquiring property, plant and equipment		**75,236**	7,315
Deferred tax assets	34	**9,939**	10,840
Total non-current assets		**538,588**	403,582
CURRENT ASSETS			
Inventories	23	**107,825**	89,469
Trade and notes receivables	24	**281,679**	305,386
Prepayments and other receivables	25	**154,394**	76,729
Due from the ultimate shareholder	42(d)	**6,284**	—
Due from related parties	42(d)	**112,587**	471,692
Loans and receivables	27	**—**	10,000
Pledged deposits	28	**155,126**	157,602
Cash and cash equivalents	28	**145,909**	30,080
Total current assets		**963,804**	1,140,958
CURRENT LIABILITIES			
Trade and notes payables	29	**515,245**	409,822
Other payables, advances from customers and accruals	30	**106,358**	55,458
Interest-bearing bank borrowings	31	**440,147**	547,000
Due to the ultimate shareholder	42(d)	**—**	21,851
Due to related parties	42(d)	**134,742**	124,805
Income tax payable		**43,993**	27,214
Total current liabilities		**1,240,485**	1,186,150
NET CURRENT LIABILITIES		**276,681**	45,192

	Notes	31 December 2011 RMB'000	31 December 2010 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**261,907**	358,390
NON-CURRENT LIABILITIES			
Deferred revenue	33	**—**	67,000
Deferred tax liabilities	34	**5,711**	11,553
Total non-current liabilities		**5,711**	78,553
Net assets		**256,196**	279,837
EQUITY			
Equity attributable to owners of the parent			
Share capital	37	**—**	44,179
Reserves	39	**216,008**	231,629
Proposed final dividend	15	**16,214**	—
		232,222	275,808
Non-controlling interests		**23,974**	4,029
Total equity		**256,196**	279,837

Zhou Minfeng
Director

Chang Jingzhou
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Attributable to owners of the parent									
	Share capital RMB'000 (Note 37)	Capital reserve RMB'000 (Note 39(a)(ii))	Statutory reserve funds RMB'000 (Note 39(a)(i))	Merger reserve RMB'000 (Note 39(a)(iii))	Share option reserve RMB'000 (Note 39(a)(vi))	Proposed final dividend RMB'000	Retained earnings RMB'000	Total RMB'000	Non–controlling interests RMB'000	Total equity RMB'000
As at 1 January 2010	58,602	5,580	21,317	(8,236)	–	–	109,420	186,683	1,920	188,603
Profit and total comprehensive income	–	–	–	–	–	–	105,839	105,839	534	106,373
Transfer to statutory reserve funds	–	–	1,291	–	–	–	(1,291)	–	–	–
Deemed distribution to an equity holder (Note 39(a)(iv))	(17,623)	–	–	–	–	–	–	(17,623)	–	(17,623)
Deemed capital contribution (Note 39(a)(v))	3,200	–	–	–	–	–	–	3,200	–	3,200
Acquisition of an additional interest in a jointly-controlled entity (Note 39(a)(iii))	–	–	–	(1,322)	–	–	–	(1,322)	–	(1,322)
Dividends paid by a jointly-controlled entity to its then equity holder	–	–	–	–	–	–	(2,507)	(2,507)	–	(2,507)
Acquisition of a subsidiary (Note 35)	–	–	–	–	–	–	–	–	3,612	3,612
Acquisition of non-controlling interests	–	–	–	1,538	–	–	–	1,538	(2,037)	(499)
As at 31 December 2010	44,179	5,580*	22,608*	(8,020)*	– *	–	211,461*	275,808	4,029	279,837

	Attributable to owners of the parent									
	Share capital RMB'000 (Note 37)	Capital reserve RMB'000 (Note 39(a)(ii))	Statutory reserve funds RMB'000 (Note 39(a)(i))	Merger reserve RMB'000 (Note 39(a)(iii))	Share option reserve RMB'000 (Note 39(a)(vi))	Proposed final dividend RMB'000 (Note 15)	Retained earnings RMB'000	Total RMB'000	Non– controlling interests RMB'000	Total equity RMB'000
As at 1 January 2011	44,179	5,580	22,608	(8,020)	–	–	211,461	275,808	4,029	279,837
Profit and total comprehensive income	–	–	–	–	–	–	110,168	110,168	2,757	112,925
Transfer to statutory reserve funds	–	–	4,894	–	–	–	(4,894)	–	–	–
Deemed capital contribution (Note 39(a)(v))	12,800	–	–	–	–	–	–	12,800	–	12,800
Deemed contribution (Note 39(a)(iii))	–	–	–	95,763	–	–	–	95,763	–	95,763
Dividends paid to then shareholders (Note 39(a)(vii))	–	–	–	–	–	–	(206,000)	(206,000)	–	(206,000)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(4,768)	(4,768)
Acquisition of a subsidiary (Note 35)	–	–	–	–	–	–	–	–	25,628	25,628
Disposal of a subsidiary (Note 36)	–	–	–	–	–	–	–	–	(3,616)	(3,616)
Deemed distribution to an equity holder (Note 39(a)(iv))	(56,979)	–	–	515	–	–	–	(56,464)	–	(56,464)
Equity-settled share option arrangements	–	–	–	–	127	–	–	127	–	127
Proposed final dividend	–	–	–	–	–	16,214	(16,214)	–	–	–
Acquisition of non-controlling interests	–	–	–	20	–	–	–	20	(56)	(36)
As at 31 December 2011	–	5,580*	27,502*	88,278*	127*	16,214	94,521*	232,222	23,974	256,196

* These reserve accounts comprise the consolidated reserves of RMB216,008,000 (2010: RMB231,629,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Cash flows from operating activities:			
Profit before tax		**151,177**	141,648
Adjustments for:			
Finance costs	9	**44,971**	34,266
Share of profits of jointly-controlled entities and associates		**1,104**	(8,632)
Interest income	8	**(16,398)**	(9,585)
Gain on disposal of items of property, plant and equipment	6	**(11,308)**	(362)
Gain on disposal of items of prepaid land lease payments	6	**(39,202)**	—
Gain on disposal of an internally generated intangible asset	6	**(9,500)**	—
Depreciation of property, plant and equipment	17	**34,419**	36,372
Depreciation of investment properties	18	**1,214**	249
Amortisation of prepaid land lease payments	19	**2,211**	1,358
Gain on bargain purchase	7	**(9,766)**	(21,560)
Gain on disposal of investments in associates	6	**(714)**	—
Loss on disposal of a subsidiary	36	**29**	—
Equity settled share option expense		**127**	—
Provision for/(reversal of) inventories written down		**(29)**	569
Provision for impairment of receivables	24	**1,068**	383
Increase in inventories		**(12,348)**	(4,605)
Decrease/(increase) in trade and notes receivable		**56,500**	(57,033)
Increase in prepayments and other receivables		**(116,428)**	(6,681)
Increase in amounts due from related parties		**(5,535)**	(3,412)
Increase in trade and notes payables		**87,485**	81,599
Increase in other payables, advances from customers and accruals		**20,248**	37,950
Increase/(decrease) in amounts due to related parties		**33,783**	(55,370)
Cash generated from operations		**213,108**	167,154
Income tax paid		**(38,210)**	(18,734)
Net cash flows generated from operating activities		**174,898**	148,420

	Notes	2011 RMB'000	2010 RMB'000
Cash flows from investing activities:			
Interest received		**17,220**	9,585
Purchases of items of property, plant and equipment		**(187,878)**	(39,388)
Purchases of items of investment properties		**(1,186)**	—
Proceeds from disposal of items of property, plant and equipment		**73,972**	11,105
Proceeds from disposal of items of prepaid land lease payments		**67,000**	—
Additions to prepaid land lease payments		**(4,376)**	(46,004)
Acquisition of subsidiaries	35	**7,566**	(11,299)
Purchase of equity interests in a jointly-controlled entity		**—**	(5,268)
Capital injection to a jointly-controlled entity		**(60,000)**	—
Capital injection to an associate		**—**	(3,000)
Disposal of a subsidiary		**(15)**	—
Dividends received from a jointly-controlled entity		**4,000**	—
Advance to the ultimate shareholder	42(b)	**(76,790)**	(613)
Advance to related parties	42(b)	**(446,873)**	(512,620)
Recovery of advance to the ultimate shareholder		**202**	192
Recovery of advance to related parties		**627,814**	429,375
Decrease in loans and receivables		**10,000**	20,000
Increase in non-pledged time deposits with original maturity of three months or more when acquired		**(25,000)**	—
Decrease in pledged deposits		**2,476**	42,501
Net cash flows generated from/(used in) investing activities		**8,132**	(105,434)
Cash flows from financing activities:			
New bank loans		**667,147**	928,002
Repayment of bank loans		**(778,000)**	(895,000)
Acquisition of non-controlling interests		**—**	(499)
Deemed distribution to an equity holder		**(28,000)**	(17,623)
Deemed capital contribution from then equity holders		**12,800**	3,200
Interest paid		**(44,971)**	(34,266)
Advance from the ultimate shareholder	42(b)	**55,689**	28,191
Dividends paid to non-controlling shareholders		**(4,768)**	—
Advance from related parties	42(b)	**168,865**	134,669
Repayment of advance from the ultimate shareholder		**(27,546)**	(209,517)
Repayment of advance from related parties		**(113,417)**	(48,933)
Net cash flows used in financing activities		**(92,201)**	(111,776)

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Net increase/(decrease) in cash and cash equivalents		**90,829**	(68,790)
Cash and cash equivalents at beginning of year		**25,080**	93,870
Cash and cash equivalents at end of year		**115,909**	25,080
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the consolidated statement of cash flows		**115,909**	25,080
Cash and bank balances	28	**115,909**	25,080
Non-pledged time deposits with original maturity of three months or more when acquired	28	**30,000**	5,000
Cash and cash equivalents as stated in the consolidated statement of financial position		**145,909**	30,080

Details of major non-cash transactions are included in Note 45.

Statement of Financial Position

Year ended 31 December 2011

	Notes	31 December 2011 RMB'000	31 December 2010 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	20	**86**	—
CURRENT LIABILITIES			
Due to a shareholder	32	**—**	—
Due to a subsidiary		**25**	—
Total and net current liabilities		**25**	—
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS		**61**	—
EQUITY			
Share capital	37	**—**	—
Reserves	39	**(16,153)**	—
Proposed final dividend	15	**16,214**	—
TOTAL EQUITY		**61**	—

Zhou Minfeng
Director

Chang Jingzhou
Director

Notes to Financial Statements

31 December 2011

1. Corporate information

The Company is a limited liability company incorporated in the Cayman Islands on 3 December 2010. The registered office address of the Company is Cricket Square, Hutchins Drive, PO BOX 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 January 2012 (the "Listing Date").

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively referred to as the "Group") was involved in the manufacture and sale of automobile internal and external structural and decorative parts, moulds and tooling, casing and liquid tanks of air conditioning or heater units and other non-automobile products, such as top cowl covers and office chairs.

Particulars of the companies now comprising the Group are set out in Note 20.

In the opinion of the directors, the holding company of the Company is Huayou Holdings Company Limited ("Huayou Holdings"), which is incorporated in the British Virgin Islands ("BVI").

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Hong Kong Companies Ordnance. All IFRSs effective for the accounting periods commencing from 1 January 2011, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements throughout the years presented.

The financial statements have been prepared on a historical cost convention. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousands, except when otherwise indicated.

Pursuant to the Reorganisation as described in the section headed "History and Corporate Structure" to the Prospectus of the Company dated 30 December 2011 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 29 July 2011. Except for Ningbo Huafeng Plastic and Latex Products Co., Ltd. ("Ningbo Huafeng"), Ningbo Xinxing Automobile Plastic Parts Manufacturing Co., Ltd. ("Ningbo Xinxing") and Changchun Huateng Automobile Parts Co., Ltd. ("Changchun Huateng") acquired in 2008, Ningbo Huazhong Moulding Manufacturing Co., Ltd. ("Ningbo Huazhong Moulding") and Guangzhou Huazhong Automobile Decorative Parts Co., Ltd. ("Guangzhou Huazhong") acquired in 2010 (Note 35) and Shanghai Huaxin Automobile Latex and Plastic Co., Ltd. ("Shanghai Huaxin") acquired in 2011 (Note 35), the companies now comprising the Group were under the common control of Mr. Zhou Minfeng ("Mr. Zhou"), the ultimate controlling shareholder, before and after the Reorganisation. Accordingly, the consolidated financial statements for the years ended 31 December 2010 and 2011 have been prepared as if the Company had always been the holding company of the subsidiaries now comprising the Group by applying the pooling of interest accounting as if the Reorganisation had been completed at the beginning of the 1 January 2010 or since their respective dates of incorporation, whichever is shorter, except for the acquisitions of Ningbo Huafeng, Ningbo Xinxing and Changchun Huateng in 2008, the acquisitions of Ningbo Huazhong Moulding and Guangzhou Huazhong in 2010 and the acquisition of Shanghai Huaxin in 2011, for which the acquisition method of accounting is applied.

2.1 Basis of preparation *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statement of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. 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.

2.2 Net current liabilities

Notwithstanding that the Group had consolidated net current liabilities of RMB276,681,000 at 31 December 2011, the financial statements have been prepared by the directors on a going concern basis.

In order to improve the Group's financial position, the directors of the Company have adopted the following measures:

(i) as at 31 December 2011, the Group had unutilised credit facilities from banks of approximately RMB225,000,000;

(ii) the directors continue to take action to tighten cost controls over various operating expenses, and are actively seeking new investment and business opportunities with an aim to attaining profitable and positive cash flow operations; and

(iii) subsequent to 31 December 2011, the Company was listed on the Stock Exchange and raised funds from initial offering amounting to approximately 224,000,000 Hong Kong dollars ("HK$") (equivalent to RMB182,336,000) (before issue expenses).

In the opinion of the directors, in light of the measures taken to date, together with the expected results of other measures in progress, it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity positions at 31 December 2011.

2.3 Issued but not yet effective IFRSs

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Initial Application of IFRS 9*[6]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 Amendments	*Employee Benefits*[4]
IAS 27 (2011)	*Separate Financial Statement*[4]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
IAS 32 Amendments	Amendment to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
IFRS 9	*Financial Instruments*[6]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Group's results of operations and financial position.

3. Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity, whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

3. Summary of significant accounting policies *(continued)*

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities 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 reserves of jointly-controlled entities is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates 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 reserves of associates is included in the profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

3. Summary of significant accounting policies *(continued)*

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 it measures 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 either 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 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 by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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 of the subsidiary acquired, the difference is, after reassessment, recognised in 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.

3. Summary of significant accounting policies *(continued)*

Business combinations and goodwill *(continued)*

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 forms part of a cash-generating unit (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 disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax 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 to sell, 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 profit or loss in the period in which it arises in those expense categories consist with the function of the impaired asset,

An assessment is made at the end of each reporting period as to whether there is any 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 profit or loss in the period in which it arises.

3. Summary of significant accounting policies *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group 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 employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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.

3. Summary of significant accounting policies *(continued)*

Property, plant and equipment and depreciation *(continued)*

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the 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 a 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 useful lives used for this purpose are as follows:

Estimated useful lives

Plant and buildings	20 years
Machinery	5-10 years
Motor vehicles	5 years
Furniture and fixtures	3-5 years
Tooling	3 years

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 and 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 profit or loss in the year the asset is derecognised is the difference between the net disposal proceeds and the carrying amount of the relevant asset.

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

Investment properties

Investment properties are interests in buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose; or for sale in the ordinary course of business.

3. Summary of significant accounting policies *(continued)*

Investment properties *(continued)*

Investment properties are measured at cost less accumulated depreciation and any impairment losses. Depreciation is provided over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values. The estimated useful life of the investment properties are 20 years.

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the profit or loss in the period of derecognition. Transfers are made to or from investment property only when there is a change in use.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

3. Summary of significant accounting policies *(continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are recognised as expenses on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the terms.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

The Group's financial assets include cash and cash equivalents, pledged deposits, trade and notes receivables, loans and receivables, other receivables, an amount due from the ultimate shareholder and amounts due from related parties.

Subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the profit or loss. The loss arising from impairment is recognised in the profit or loss in finance costs for loans and in other expenses for receivables.

3. Summary of significant accounting policies *(continued)*

Financial assets *(continued)*

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 derecognised 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 asset is recognised to the extent of the Group's continuing involvement in the asset. 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 asset 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.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3. Summary of significant accounting policies *(continued)*

Financial assets *(continued)*

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 of the Group are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and notes payables, other payables, amounts due to related parties, amounts due to the ultimate shareholder and interest-bearing bank borrowings.

3. Summary of significant accounting policies *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

Loans and borrowings

After initial recognition, loan and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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 profit or loss.

Derecognition of financial liabilities

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

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 profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently an 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.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

3. Summary of significant accounting policies *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. 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.

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.

For the purpose of the 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.

Income tax

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

Current tax assets and liabilities for the current and prior periods 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 countries in which the Group operates.

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

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, associates and jointly-controlled entities, 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.

3. Summary of significant accounting policies *(continued)*

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, the carryforward 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 carryforward 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, associates 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 each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the profit or loss by way of a reduced depreciation charge.

3. Summary of significant accounting policies *(continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership and title have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, on the percentage of completion basis;

(c) rental income, on a time proportion basis over the lease terms; and

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

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in Note 38 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

3. Summary of significant accounting policies *(continued)*

Share-based payment transactions *(continued)*

The Company grants the share options to its subsidiaries' employees to exchange for their services provided to the subsidiaries. Accordingly, in the Company's statement of financial position, the equity-settled share option expense, which is recognised in the consolidated financial statements, is treated as part of the "investments in subsidiaries".

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Retirement benefits

Pursuant to the relevant regulations, the subsidiaries of the Group in the People's Republic of China ("PRC") have participated in a local municipal government retirement benefit scheme (the "Scheme"), whereby the subsidiaries are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Borrowing costs

Borrowings costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3. Summary of significant accounting policies *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The 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 ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to 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 determined.

4. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each reporting period. However, 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Operating lease commitments — Group as lessor

The Group has entered into plant and building leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

4. Significant accounting judgements, estimates and assumptions *(continued)*

Judgements *(continued)*

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimates and assumptions

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

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Details of unrecognised tax losses as at the end of the reporting period are contained in Note 34 to the financial statements.

Provision for impairment of trade and notes receivables

The provision policy for impairment of trade and notes receivables is based on ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group and the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. Further details are contained in Note 24.

4. Significant accounting judgements, estimates and assumptions *(continued)*

Estimates and assumptions *(continued)*

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets as at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. 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 to sell and its value in use. The calculation of the fair value less costs to sell 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 must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Recognition of share-based compensation costs

As further disclosed in Note 38, the Company has granted share options to its employees. The directors have used the Binomial option pricing model, where appropriate, to determine the total fair value of the options granted, which is expensed over the vesting period. Significant estimates, such as the risk-free rate, dividend yield, expected volatility and expected life of options, are required to be made by the directors as the parameters for applying the option pricing model. The Company engaged Asset Appraisal Limited, an independent appraiser, to perform an appraisal of the fair value of the Company's share options granted during the year ended 31 December 2011.

The grant of equity instruments might be conditional upon satisfying specified vesting conditions, mainly including the service period. Significant management judgment is required to take into account the vesting conditions and adjust the number of equity instruments included in the measurement of share-based compensation costs. Determining the number of equity instruments that eventually vest requires management to make assumptions regarding the profit forecast and likelihood of successful initial public offering, and hence it is subject to uncertainty.

5. Segment information

For management purposes, the Group is organised into one single business unit that includes primarily the manufacture and sale of internal and external decorative and structural automobile parts, moulds and tooling, casing and liquid tank of air conditioning or heater units and other non-automobile products. Management reviews the consolidated results when making decisions about allocating resources and assessing the performance of the Group. Accordingly, no segment analysis is presented.

Geographical information

(a) *Revenue from external customers*

An analysis of the Group's geographical information on revenue on the basis of the customers' locations is set out in the following table:

	2011 **RMB'000**	2010 RMB'000
Mainland China	**1,100,145**	952,046
Overseas	**68,741**	54,862
Total	**1,168,886**	1,006,908

(b) *Non-current assets*

Since all the non-current assets, other than deferred tax assets, employed by the Group are located in Mainland China, no geographical information for non-current assets is presented.

Information about major customers

Revenues from sales to customers that individually amounted to 10 percent or more of the Group's revenue for the year are set out in the following table:

Company	**2011** **RMB'000**	2010 RMB'000
Customer A	**501,973**	492,304
Customer B	**117,368**	119,633

The above sales to major customers include sales to a group of entities which are known to be under common control with those customers.

6. Revenue and other income

An analysis of revenue and other income is as follows:

	Note	**2011** **RMB'000**	2010 RMB'000
Revenue:			
Sales of goods		**1,151,753**	1,006,908
Sales of materials		**17,133**	—
		1,168,886	1,006,908
Other income and gains:			
Government grants		**1,164**	1,553
Rental income	10	**2,484**	1,594
Gain on sales of scrap materials		**2,556**	5,908
Gain on disposal of property, plant and equipment	10	**11,308**	362
Gain on disposal of an internally generated intangible asset	10	**9,500**	—
Gain on disposal of prepaid land lease payments	10	**39,202**	—
Gain on disposal of investment in associates	10	**714**	—
Management fee (Note (a))		**2,500**	—
Others		**1,264**	576
Total		**70,692**	9,993

Note (a) The amount represents a management fee receivable from Changchun Huaxiang Faurecia Automotive Plastic Components Company Limited ("Changchun Huaxiang Faurecia"), a jointly controlled entity to the Group, for administrative services rendered.

7. Gain on bargain purchase

	2011 **RMB'000**	2010 RMB'000
Gain on bargain purchase (Note 35)	**9,766**	21,560

8. Finance income

	2011 RMB'000	2010 RMB'000
Interest income from a related party through entrusted loans (Note 42(b))	**10,770**	276
Interest income on loans and receivables	**2,043**	5,308
Interest income on bank deposits	**3,585**	4,001
	16,398	9,585

9. Finance costs

	2011 RMB'000	2010 RMB'000
Interest expense on bank loans and borrowings	**44,971**	34,266

10. Profit before tax

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

	Notes	2011 RMB'000	2010 RMB'000
Cost of inventories recognised as expenses		**875,784**	786,387
Depreciation of property, plant and equipment	17	**34,419**	36,372
Depreciation of investment properties	18	**1,214**	249
Amortisation of land lease payments	19	**2,211**	1,358
Research and development costs		**22,590**	5,774
Lease payments under operating leases in respect of properties		**9,977**	8,047
Auditors' remuneration		**4,394**	1,008
Employee benefit expense			
Wages and salaries		**85,173**	62,928
Pension scheme costs		**5,961**	4,892
Equity-settled share option expense		**127**	—
		91,261	67,820
Gross rental income		**(4,286)**	(4,420)
Less: Direct expenses that generated rental income		**1,802**	2,826
Rental income, net	6	**(2,484)**	(1,594)
Net foreign exchange losses		**367**	666
Provision for impairment of receivables	24	**1,068**	383
(Reversal of)/provision for inventories written down		**(29)**	569
Gain on bargain purchase	7	**(9,766)**	(21,560)
Gain on disposal of items of investments in associates	6	**(714)**	—
Gain on disposal of items of prepaid land lease payments	6	**(39,202)**	—
Gain on disposal of an internally generated intangible asset	6	**(9,500)**	—
Gain on disposal of items of property, plant and equipment	6	**(11,308)**	(362)
Interest income	8	**(16,398)**	(9,585)

11. Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2011 **RMB'000**	2010 RMB'000
Fees	**51**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**561**	564
Equity-settled share option expense	**42**	—
Pension scheme contributions	**13**	12
	616	576
	667	576

During the year ended 31 December 2011, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in Note 38 to the financial statements. The fair value of such options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

There was no fee or emolument paid or payable to independent non-executive directors during the year (2010: nil).

11. Directors' remuneration *(continued)*

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2011					
Executive directors:					
Mr. Zhou Minfeng	24	327	11	11	373
Mr. Chang Jingzhou	9	234	4	2	249
	33	561	15	13	622
Non-executive directors:					
Ms. Lai Cairong	9	–	27	–	36
Mr. Wang Yuming	9	–	–	–	9
	18	–	27	–	45

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2010					
Executive directors:					
Mr. Zhou Minfeng	–	362	–	10	372
Mr. Chang Jingzhou	–	202	–	2	204
	–	564	–	12	576
Non-executive directors:					
Ms. Lai Cairong	–	–	–	–	–
Mr. Wang Yuming	–	–	–	–	–
	–	–	–	–	–

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

12. Five highest paid employees

The five highest paid employees during the year included one (2010: two) director, details of whose remuneration are set out in Note 11 above. Details of the remuneration of the remaining four (2010: three) non-director, highest paid employees for the reporting period are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	2,423	1,093
Equity-settled share option expense	9	—
Pension scheme contributions	12	28
	2,444	1,121

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	2011 RMB'000	2010 RMB'000
Nil to RMB1,000,000	3	3
RMB1,000,000 to RMB1,500,000	1	—

During the year ended 31 December 2011, share options were granted to a non-director, highest paid employee in respect of the services to the Group, further details of which are included in the disclosures in Note 38 to the financial statements. The fair value of such options, which has been recognised in to the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

During the year ended 31 December 2011, none of the directors or the non-director, highest paid employees waived or agreed to waive any remuneration (2010: Nil).

13. Income tax

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong during the year.

All of the Group's subsidiaries registered in the PRC that have operations only in Mainland China are subject to PRC enterprise income tax ("EIT") on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws. On 16 March 2007, the PRC government promulgated the Enterprise Income Tax Law of the PRC (the "EIT Law"), which was effective from 1 January 2008. On 6 December 2007, the State Council issued the Implementation Regulation of the EIT Law. The EIT Law and Implementation Regulation changed the tax rate for the PRC enterprises from 33% to 25% from 1 January 2008 onwards.

Pursuant to the relevant tax rules in the PRC, Chongqing Huazhong Automobile Decorative Parts Co., Ltd. ("Chongqing Huazhong") was qualified as a Western China development enterprise and was entitled to a preferential rate of 15% during the year ended 31 December 2011 (2010: 15%).

Shanghai Huaxin was subject to a preferential tax rate of 15% prior to 2008 since it is located in Pudong New Area. Following the implementation of the EIT Law in 2008, Shanghai Huaxin's tax rate gradually increases to 25% within five years and Shanghai Huaxin will be subject to a uniformed rate of 25% from 1 January 2012. For the year ended 31 December 2011, Shanghai Huaxin enjoyed a preferential rate of 24% (2010: 22%). All other subsidiaries operating in Mainland China were subject to tax rate of 25% during the year.

According to the requirements of the Provisional Regulations of the PRC on Land Appreciation Tax ("LAT") effective from 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT effective from 27 January 1995, all income from the sale or transfer of state-owned leasehold interests on land, buildings and their attached facilities in Mainland China is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, with an exemption provided for property sales of ordinary residential properties if their appreciation values do not exceed 20% of the sum of the total deductible items.

The Group has estimated, made and included in tax provision for LAT according to the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the tax authorities upon completion of the property development projects and the tax authorities might disagree with the basis on which the provision for LAT is calculated.

13. Income tax *(continued)*

The major components of income tax expense of the Group are as follows:

	2011 RMB'000	2010 RMB'000
Current income tax		
Income tax for the year	46,094	27,379
Under provision in prior years	13	5
LAT	—	13,474
Deferred income tax (Note 34)	(7,855)	(5,583)
Total tax charge for the year	38,252	35,275

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate for each of the year is as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	151,177	141,648
Tax at the statutory tax rate	37,794	35,412
Lower tax rate for specific province or local tax authority	(1,105)	(1,144)
Tax losses not recognised	391	78
Profits and losses attributable to jointly-controlled entities and associates	276	(2,158)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	(6,264)	9,188
Non-taxable income	(2,558)	(5,673)
Under provision in prior years	13	5
Expenses not deductible for tax	3,648	709
Tax losses utilized	(4,049)	(1,142)
Sub-total	28,146	35,275
LAT provision released from deferred tax assets	13,474	—
Tax effect on LAT	(3,368)	—
Tax charge for the year	38,252	35,275

14. Profit attributable to owners of the parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of RMB66,000 (2010: Nil) which has been dealt with in the financial statements of the Company (Note 39(b)).

15. Dividends

	2011	2010
	RMB'000	RMB'000
Special dividend declared	**206,000**	—
Proposed final dividend- HK$0.025 per ordinary share	**16,214**	—
	222,214	—

Special dividend of RMB206,000,000 was declared by a subsidiary in 2011 to its then equity holders before the completion of the Reorganisation (Note 39 (a)(vii)).

On 24 March 2012, the board of directors of the Company proposed a final dividend of HK$0.025 per ordinary share totalling HK$20,000,000, approximately RMB16,214,000, for the year ended 31 December 2011, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

16. Earnings per share

The calculation of basic earnings per share for the year is based on the consolidated net profit attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 640,000,000 in issue during the year ended 31 December 2011 (2010: 639,999,999), as though the capitalisation issue of shares of 639,999,999 shares prior to the Global Offering had been issued on 1 January 2010.

The share option scheme (see Note 38) does not give rise to any dilution effect on the Company's earnings per share and there were no other dilutive potential ordinary shares during the year ended 31 December 2011.

No options were exercised during the year ended 31 December 2011.

16. Earnings per share *(continued)*

The calculations of basic and diluted earnings per share are based on:

	2011 **RMB'000**	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**110,168**	105,839

	Number of shares **2011**	2010
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**640,000,000**	639,999,999
Effect of dilution — weighted average number of ordinary shares:		
Share options	**—**	—
	640,000,000	639,999,999

17. Property, plant and equipment

	Plant and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Tooling RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
As at 31 December 2009 and 1 January 2010	129,960	262,607	6,432	11,571	46,424	1,713	458,707
Additions	1,312	9,811	2,472	900	5,705	13,007	33,207
Acquisition of subsidiaries (Note 35)	296	4,161	223	–	–	–	4,680
Transfers	265	342	–	–	–	(607)	–
Disposals	(1,125)	(14,523)	(1,229)	(183)	(1,793)	–	(18,853)
As at 31 December 2010 and 1 January 2011	130,708	262,398	7,898	12,288	50,336	14,113	477,741
Additions	481	37,407	4,297	1,591	23,758	52,423	119,957
Transfers	36,478	–	–	–	3,819	(40,297)	–
Acquisition of a subsidiary (Note 35)	12,608	5,599	560	182	–	–	18,949
Disposals	(18,387)	(102,251)	(2,711)	(539)	(41,889)	–	(165,777)
Transfer to investment properties (Note 18)	(50,463)	–	–	–	–	–	(50,463)
As at 31 December 2011	111,425	203,153	10,044	13,522	36,024	26,239	400,407
Accumulated depreciation:							
As at 31 December 2009 and 1 January 2010	21,248	116,005	4,008	9,035	40,012	–	190,308
Depreciation charge	5,429	23,378	386	925	6,254	–	36,372
Disposals	(98)	(6,735)	(1,105)	(172)	–	–	(8,110)
As at 31 December 2010 and 1 January 2011	26,579	132,648	3,289	9,788	46,266	–	218,570
Depreciation charge	5,928	14,180	1,277	786	12,248	–	34,419
Disposals	(3,968)	(51,075)	(2,075)	(422)	(41,889)	–	(99,429)
Transfer to investment properties (Note 18)	(9,472)	–	–	–	–	–	(9,472)
As at 31 December 2011	19,067	95,753	2,491	10,152	16,625	–	144,088
Net book value:							
As at 31 December 2011	92,358	107,400	7,553	3,370	19,399	26,239	256,319
As at 31 December 2010	104,129	129,750	4,609	2,500	4,070	14,113	259,171

17. Property, plant and equipment *(continued)*

Included in the property, plant and equipment as at 31 December 2011 were certain buildings with a net carrying value of RMB39,643,000 (2010: RMB17,447,000), of which the property certificates have not been obtained. The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above mentioned buildings. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2011.

Certain of the Group's buildings with a net carrying value of RMB20,889,000 as at 31 December 2011 (2010: RMB9,571,000) were pledged to secure bank loans granted to the Group (Note 31).

18. Investment properties

	Note	RMB'000
Cost:		
As at 31 December 2009, 1 January 2010 and 31 December 2010		5,542
Transfer from owner-occupied property	17	50,463
Addition		1,186
As at 31 December 2011		57,191
Accumulated depreciation:		
As at 31 December 2009 and 1 January 2010		1,059
Depreciation charge		249
As at 31 December 2010 and 1 January 2011		1,308
Transfer from owner-occupied property	17	9,472
Depreciation charge		1,214
As at 31 December 2011		11,994
Net book value:		
As at 31 December 2011		45,197
As at 31 December 2010		4,234

The Group's investment properties are situated in Mainland China and on the land that is held under medium term leases.

The fair value of the Group's investment property was RMB49,040,000 as at 31 December 2011 (2010: RMB5,544,000), according to the valuation performed by an independent professionally qualified valuer, on an open market basis. The Group's investment properties are leased to related parties under operating leases, further summary details of which are included in Note 42(b).

18. Investment properties *(continued)*

Included in the investment property as at 31 December 2011 were certain buildings with a net carrying value of RMB14,521,000 (2010: Nil) of which the property certificates have not been obtained. The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above mentioned buildings. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2011.

The Group's investment property with a net carrying value of RMB3,879,000 as at 31 December 2011 (2010: RMB4,234,000) was pledged to secure bank loans granted to the Group (Note 31).

19. Prepaid land lease payments

	2011 **RMB'000**	2010 RMB'000
At beginning of year	**94,800**	50,154
Additions	**4,376**	46,004
Acquisition of subsidiaries (Note 35)	**10,640**	—
Disposals	**(12,918)**	—
Amortisation	**(2,211)**	(1,358)
At end of year	**94,687**	94,800
Current portion included in prepayments and other receivables (Note 25)	**(2,069)**	(1,745)
At end of year	**92,618**	93,055

The leasehold land is situated in Mainland China and is held under medium term leases.

Included in the prepaid land lease payments as at 31 December 2011 were certain lands with a net book value of RMB16,269,600 (2010: RMB16,680,000) of which the land use right certificates have not been obtained.

Certain of the Group's prepaid land lease payments with a carrying value of RMB13,118,000 as at 31 December 2011 (2010: RMB2,857,000) were pledged to secure bank loans granted to the Group (Note 31).

20. Investments in subsidiaries

Company

	2011 **RMB'000**	2010 RMB'000
Unlisted equity investment, at cost	**—**	—
Capital contribution in respect of employee share-based compensation	**86**	—
Less: Impairment of investment	**—**	—
	86	—

20. Investments in subsidiaries *(continued)*

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company Direct	Indirect	Nominal value of issued ordinary/ registered share capital	Principal activities
Subsidiaries					
Huazhong Investment Company Limited ("Huazhong Investment")	BVI 7 December 2010	100%	–	US$1	Investment holding
Huayou Investment (Hong Kong) Limited ("Huayou Investment")	Hong Kong 28 December 2010	–	100%	HK$1	Investment Holding
Ningbo Huazhong Plastic Products Co., Ltd. ("Ningbo Huazhong Plastic")	PRC 11 September 1993	–	100%	US$5,000,000	Manufacture and sale of plastic auto products
Ningbo Xinxing	PRC 25 December 1984	–	100%	RMB3,400,000	Manufacture and sale of plastic auto products
Changchun Huateng	PRC 22 July 1997	–	100%	RMB1,000,000	Manufacture and sale of plastic auto products
Changchun Huaxiang Automobile Plastic Parts Manufacturing Co., Ltd. ("Changchun Huaxiang")	PRC 9 June 2000	–	100%	RMB75,000,000	Manufacture and sale of plastic auto products

20. Investments in subsidiaries *(continued)*

Particulars of the subsidiaries are as follows: *(continued)*

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company Direct	Indirect	Nominal value of issued ordinary/ registered share capital	Principal activities
Ningbo Huazhong Moulding	PRC 25 January 2002	–	100%	RMB10,000,000	Design, manufacturing and processing of moulds
Guangzhou Huazhong	PRC 24 September 2004	–	100%	RMB3,000,000	Manufacture and sale of plastic auto products
Chongqing Huazhong	PRC 30 August 2007	–	100%	RMB5,000,000	Manufacture and sale of plastic auto products
Chengdu Huazhong Automobile Parts Co., Ltd. ("Chengdu Huazhong")	PRC 22 October 2009	–	100%	RMB20,000,000	Manufacture and sale of plastic auto products
Shanghai Xiangmao Automobile Parts Co., Ltd. ("Shanghai Xiangmao")	PRC 30 November 2009	–	100%	RMB500,000	Manufacture and sale of plastic auto products
Ningbo Huafeng	PRC 17 March 1999	–	100%	RMB1,500,000	Manufacture and sale of plastic auto products
Beijing Huaerte Automobile Parts Co., Ltd. ("Beijing Huaerte") *	PRC 25 February 2008	–	80%	RMB1,000,000	Manufacture and sale of plastic auto products
Ningbo Huayue Automobile Trimming Co., Ltd. ("Ningbo Huayue") ^	PRC 7 April 2005	–	70%	US$1,500,000	Manufacture and sale of plastic auto products

20. Investments in subsidiaries *(continued)*

Particulars of the subsidiaries are as follows: *(continued)*

Name	Place and date of incorporation/ registration	Percentage of equity interest attributable to the Company Direct	Indirect	Nominal value of issued ordinary/ registered share capital	Principal activities
Wuhu Huazhong Automotive Parts Co., Ltd. ("Wuhu Huazhong")	PRC 1 June 2010	–	100%	RMB10,000,000	Manufacture and sale of plastic auto products
Yantai Huaxiang Automotive Parts Co., Ltd. ("Yantai Huaxiang")	PRC 16 April 2010	–	100%	RMB10,000,000	Manufacture and sale of plastic auto products
Shanghai Huaxin #	PRC 21 June 1993	–	51%	RMB20,000,000	Import and export of products and technologies (except for the products and technologies restricted or prohibited by the State); sale and processing of plastic and latex products and spare and accessory parts
Changxing Huaxin Automobile Latex and Plastic Co., Ltd. ("Changxing Huaxin")	PRC 10 May 2011	–	51%	RMB3,000,000	Manufacture and sale of plastic auto products

* the entity was deregistered in 2011;
# the entity was acquired in 2011; and
^ the entity was disposed of in 2011

The financial statements of these companies were not audited by Ernst & Young, Hong Kong, or another member firm of the Ernst & Young global network.

21. Investments in associates

	2011 RMB'000	2010 RMB'000
Share of net assets	**2,774**	7,044

Particulars of the associates are as follows:

Name	Place and date of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Changchun Huayou Real Estate Co., Ltd. ("Changchun Huayou") (Note (i))	PRC 5 February 2010	20%	Real estate development
Ningbo City Huaxiang Technology Co., Ltd. ("Huaxiang Technology") (Note (ii))	PRC 28 May 2010	48%	Research, development and manufacture and sale of plastic components, trading
Shanghai Baodegu Plastic Science & Technology Co., Ltd. ("Shanghai Baodegu") (Note (iii))	PRC 14 June 1995	23%	Manufacture and sale of plastic auto parts

(i) On 5 February 2010, Changchun Huayou was incorporated in Changchun with a 20% equity interest indirectly held by the Group through its subsidiary, Changchun Huateng. Changchun Huayou then became an associate of the Group. On 31 March 2011, Changchun Huayou was disposed of by the Group to Ningbo Huayou Properties Co., Ltd. ("Ningbo Huayou Properties"). Further details of the transaction are included in Note 42(c)(viii).

(ii) On 28 May 2010, Huaxiang Technology was incorporated in Ningbo with a 48% equity interest held by Ningbo Huazhong Moulding. On 29 October 2010, Ningbo Huazhong Moulding was acquired by the Group and Huaxiang Technology became an associate of the Group thereafter. Further details of the transaction of acquisition of Ningbo Huazhong Moulding are included in Note 35. On 24 June 2011, Huaxiang Technology was disposed of by the Group to Mr. Zhou. Further details of the transaction are included in Note 42(c)(ix).

(iii) Since 10 August 1999, Shanghai Huaxin held a 45% equity interest in Shanghai Baodegu. On 11 February 2011, the Group acquired a 51% equity interest in Shanghai Huaxin from Huaxiang Group Co., Ltd. ("Huaxiang Group") and Shanghai Baodegu became an associate of the Group thereafter. Further details of the transaction of acquisition of Shanghai Huaxin are included in Note 35.

21. Investments in associates *(continued)*

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts or financial statements:

	2011 RMB'000	2010 RMB'000
Assets	**8,839**	174,892
Liabilities	**(2,671)**	(152,223)
Revenues	**10,453**	—
Profits/(losses)	**830**	(1,635)

The financial statements of these companies were not audited by Ernst & Young, Hong Kong, or another member firm of the Ernst & Young global network.

22. Investments in jointly-controlled entities

	2011 RMB'000	2010 RMB'000
Share of net assets	**56,505**	21,923

Particulars of the jointly-controlled entities are as follows:

		Percentage of			
Name	**Place and date of registration**	**Ownership interest**	**Voting power**	**Profit sharing**	**Principal activities**
Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd. ("Ningbo Hualete") (Note (i))	PRC 17 March 2004	50%	50%	50%	Manufacture and sale of auto parts, designing and manufacture of high-grade textiles
Changchun Huaxiang Faurecia (Note (ii))	PRC 3 June 2011	50%	50%	50%	Manufacture and sale of auto parts, provision of after-sale services and technical consultations

22. Investments in jointly-controlled entities *(continued)*

(i) On 17 March 2004, Ningbo Hualete was incorporated in Zhejiang with a 41% equity interest beneficially held by the Group. On 24 December 2010, the Group acquired an additional 9% equity interest in Ningbo Hualete from Ningbo Huayou Properties, a related party. The Group currently holds a 50% equity interest and Ningbo Hualete remains to be jointly controlled by the Group.

(ii) On 3 June 2011, Changchun Huaxiang Faurecia was incorporated in Changchun with a 50% equity interest held by the Group.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2011 RMB'000	2010 RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Current assets	**108,890**	35,154
Non-current assets	**35,379**	6,189
Current liabilities	**(87,764)**	(19,420)
Non-current liabilities	**—**	—
Net assets	**56,505**	21,923

	2011 RMB'000	2010 RMB'000
Share of the jointly-controlled entities' results:		
Revenue	**120,410**	57,930
Other income	**1,007**	286
	121,417	58,216
Total expenses	**(121,508)**	(47,721)
Tax	**(1,438)**	(1,441)
Profit after tax	**(1,529)**	9,054

The financial statements of these companies were not audited by Ernst & Young, Hong Kong, or another member firm of the Ernst & Young global network.

23. Inventories

	2011 **RMB'000**	2010 RMB'000
Raw materials	**33,679**	31,309
Work in progress	**3,356**	4,023
Finished goods	**70,790**	54,137
	107,825	89,469

24. Trade and notes receivables

	2011 **RMB'000**	2010 RMB'000
Trade receivables	**262,807**	271,475
Notes receivable	**33,930**	47,901
	296,737	319,376
Impairment of the trade receivables	**(15,058)**	(13,990)
	281,679	305,386

The Group's trading terms with its customers are mainly on credit. The credit period is from one to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Certain of the Group's trade receivables with a carrying value of RMB10,327,000 as at 31 December 2011 (2010: RMB13,556,000) were pledged to secure bank loans granted to the Group (Note 31).

The Group's notes receivable all age within six months and are neither past due nor impaired.

24. Trade and notes receivables *(continued)*

An aged analysis of the trade receivables of the Group, based on the invoice date and net of provisions, is as follows:

	2011 RMB'000	2010 RMB'000
Within 3 months	**222,783**	229,627
3 to 6 months	**19,222**	24,789
6 months to 1 year	**5,744**	3,069
	247,749	257,485

Movements in the provision for impairment of trade receivables are as follows:

	2011 RMB'000	2010 RMB'000
At beginning of year	**13,990**	13,607
Impairment for the year	**1,068**	383
At end of year	**15,058**	13,990

An aged analysis of the trade receivables of the Group that are neither individually nor collectively considered to be impaired is as follows:

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	**222,990**	235,034
Less than 1 month past due	**14,652**	10,298
1 to 2 months past due	**2,686**	2,642
2 to 3 months past due	**1,808**	3,355
Over 3 months and within 1 year past due	**5,613**	6,156
	247,749	257,485

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The carrying amounts of the trade and notes receivables approximate to their fair values due to their short term maturity.

25. Prepayments and other receivables

	2011 RMB'000	2010 RMB'000
Prepayments	**71,101**	14,210
Other receivables	**81,224**	60,774
Current portion of prepaid land lease payments (Note 19)	**2,069**	1,745
	154,394	76,729

The above balances are unsecured, interest-free and have no fixed terms of repayment.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The carrying amount of other receivables approximates to their fair value due to their short term maturity.

26. Loans to directors

Loans to directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name	**31 December 2011** RMB'000 (Note 42(d))	**Maximum amount outstanding during the year** RMB'000	**1 January 2011** RMB'000	**Security held**
Mr. Zhou	6,284	76,790	—	None
Ningbo Huayou Properties (controlled by Mr. Zhou)	35,209	555,641	270,997	None
Changchun Huayou (controlled by Mr. Zhou)	100	238,117	120,419	None
Guangzhou Chengli (controlled by Mr. Zhou)	2,083	2,083	2,078	None
寧波翔潤石化科技有限公司 (controlled by Mr. Zhou)	—	4,339	2,441	None
Huaxiang Group Co., Ltd. (collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong)	—	38,997	38,403	None
寧波華越置業有限公司 (Jointly controlled by Mr. Zhou and Mr. Zhou Cimei)	—	21,512	21,512	None
	43,676	937,479	455,850	

Except for the entrusted loans granted to Ningbo Huayou Properties as discussed in Note 42 (b)(vi), the other loans granted to directors bear no interest, with no security held and have no fixed terms of repayment.

27. Loans and receivables

	2011 RMB'000	2010 RMB'000
Bank entrusted loans, at amortised cost	–	10,000

As at December 2010, the bank entrusted loans, which were all due within one year, bore an annual interest rate of 13.22%.

28. Cash and cash equivalents

	2011 RMB'000	2010 RMB'000
Cash and bank balances	115,909	25,080
Time deposits	185,126	162,602
	301,035	187,682
Less: Pledged deposits	(155,126)	(157,602)
Cash and cash equivalents in the consolidated statement of financial position	145,909	30,080
Less: Non-pledged time deposits with original maturity of three months or more when acquired	(30,000)	(5,000)
Cash and cash equivalents in the consolidated statement of cash flows	115,909	25,080

The RMB is not freely convertible into other currencies, however, under 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. Short term time deposits are made for varying periods within one year, depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and presaged deposits are deposited with creditworthy banks with no recent history of default.

Pledged deposits with a carrying value of RMB151,876,000 as at 31 December 2011 (2010: RMB152,602,000) were pledged to secure the issuance of notes payable (Note 29).

Pledged deposits with a carrying value of RMB3,250,000 as at 31 December 2011 (2010: Nil) were pledged to secure the bank loans granted to the Group (Note 31).

Pledged deposits with a carrying value of RMB5,000,000 as at 31 December 2010 were pledged to secure the bank borrowings of a related company (Note 42(c)(i)).

29. Trade and notes payables

An aged analysis of the trade and notes payables of the Group as at 31 December 2011, based on the invoice date, is as follows:

	2011 **RMB'000**	2010 RMB'000
Within 3 months	**470,137**	360,616
3 to 12 months	**44,082**	46,000
1 to 2 years	**91**	1,327
2 to 3 years	**746**	275
Over 3 years	**189**	1,604
	515,245	409,822

The trade payables due to third parties are non-interest-bearing and normally settled on terms of 30 to 90 days. Notes payable are generally with a maturity period of six months.

Certain issuance of notes payable was secured by pledged deposits with a carrying value of RMB151,876,000 as at 31 December 2011 (2010: RMB152,602,000) (Note 28).

The carrying amounts of the trade and notes payables approximate to their fair values due to their short term maturity.

30. Other payables, advances from customers and accruals

	2011 **RMB'000**	2010 RMB'000
Other payables	**86,832**	48,983
Advances from customers	**7,440**	6,196
Accruals	**12,086**	279
	106,358	55,458

Other payables are non-interest-bearing and repayable on demand. The carrying amounts of other payables approximate to their fair values due to their short term maturity.

31. Interest-bearing bank borrowings

	2011			2010		
	%	Effective interest rate maturity	RMB'000	%	Effective interest rate maturity	RMB'000
Current						
Bank loans — secured	**3.1-7.544**	**2012**	**399,824**	4.779-5.841	2011	447,000
Bank loans — unsecured	**5.0-6.8014**	**2012**	**20,323**	—	—	—
Discounted bank accepted notes	**5.6746**	**2012**	**20,000**	4.217-5.523	2011	100,000
			440,147			547,000

	2011 RMB'000	2010 RMB'000
Analysed into:		
Bank loans and discounted bank accepted notes repayable:		
Within one year	**440,147**	547,000

All short term bank borrowings were obtained from third party financial institutions.

As at 31 December 2011, the Group's bank loans of RMB99,824,000 (2010: RMB70,000,000) were secured by the pledges of the Group's assets with carrying values as follows:

	Notes	2011 RMB'000	2010 RMB'000
Property, plant and equipment	17	**20,889**	9,571
Investment property	18	**3,879**	4,234
Prepaid land lease payments	19	**13,118**	2,857
Trade receivables	24	**10,327**	13,556
Pledged deposits	28	**3,250**	—
		51,463	30,218

Certain related parties also provided guarantees amounting to RMB300,000,000 as at 31 December 2011 (2010: RMB377,000,000) to the Group's secured bank loans. These guarantees were subsequently released in January 2012. For details, please refer to Note 42(c)(ii).

The carrying amounts of the Group's current interest-bearing bank borrowings approximate to their fair values due to their short term maturity.

32. Amount due to a shareholder

The amount due to Huayou Holdings, the shareholder of the Company, as at 31 December 2011 amounting to RMB7 (2010: RMB7), was unsecured, interest-free and had no fixed terms of repayment.

33. Deferred revenue

Deferred revenue as at 31 December 2010 represents proceeds received for a piece of land and certain buildings and machinery to be disposed of. The disposal has been completed as at 31 December 2011 and the amount was recognised into profit or loss in 2011.

34. Deferred tax

Deferred tax of the Group as at 31 December relates to the following:

	2011 **RMB'000**	2010 RMB'000
Deferred tax assets arising from:		
— Provision for receivables	**3,765**	3,439
— Write-down of inventories	**2,708**	1,140
— Accruals	**6,015**	1,126
— Unrealized profits	**5,754**	—
— Provision for LAT	**—**	13,474
	18,242	19,179
Deferred tax liabilities arising from:		
— Valuation surplus	**3,227**	3,249
— Withholding taxes	**10,787**	16,643
	14,014	19,892

34. Deferred tax *(continued)*

Deferred tax assets recognised and their movements during the year are as follows:

	Provision for receivables RMB'000	Write-down of inventories RMB'000	Tax losses RMB'000	Accruals RMB'000	Provision for LAT RMB'000	Unrealized Profits RMB'000	Total RMB'000
As at 31 December 2009 and 1 January 2010	3,402	1,140	147	137	–	–	4,826
Acquisition of subsidiaries (Note 35)	–	–	–	96	–	–	96
Credited/(charged) to profit or loss (Note 13)	37	–	(147)	893	13,474	–	14,257
As at 31 December 2010 and 1 January 2011	3,439	1,140	–	1,126	13,474	–	19,179
Acquisition of subsidiaries (Note 35)	–	36	–	163	–	–	199
Credited/(charged) to profit or loss (Note 13)	326	1,532	–	4,726	(13,474)	5,754	(1,136)
As at 31 December 2011	3,765	2,708	–	6,015	–	5,754	18,242

Deferred tax liabilities recognised and their movements during the year are as follows:

	Valuation surplus RMB'000	Withholding taxes RMB'000	Total RMB'000
As at 31 December 2009 and 1 January 2010	3,633	6,793	10,426
Acquisition of subsidiaries (Note 35)	130	662	792
(Credited)/charged to profit or loss (Note 13)	(514)	9,188	8,674
As at 31 December 2010 and 1 January 2011	3,249	16,643	19,892
Acquisition of subsidiaries (Note 35)	2,705	408	3,113
Credited to profit or loss (Note 13)	(2,727)	(6,264)	(8,991)
As at 31 December 2011	3,227	10,787	14,014

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. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. For the Group, the applicable rate is 10%.

34. Deferred tax *(continued)*

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2011 **RMB'000**	2010 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**9,939**	10,840
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(5,711)**	(11,553)
	4,228	(713)

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

	2011 **RMB'000**	2010 RMB'000
Unused tax losses	**1,649**	15,063
Deductible temporary differences	**—**	1,770
	1,649	16,833

The above tax losses are subject to an expiry period of 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 the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

35. Business combinations

Acquisition of Shanghai Huaxin

On 11 February 2011, the Group acquired Shanghai Huaxin through the acquisition of a 51% equity interest from Huaxiang Group at a consideration mutually agreed of RMB16,500,000, which was determined with reference to the value of 51% of the net assets of Shanghai Huaxin as at 31 December 2009. Huaxing Group was collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong, parents of Mr. Zhou. Mr. Zhou's parents and Mr. Zhou act independently. Accordingly, the acquisition of Shanghai Huaxin was not treated as a business combination under common control and the acquisition method of accounting was applied. Shanghai Huaxin then became a subsidiary of the Group. Further details of the transaction are included in Note 42(c)(vii) to the financial statements.

35. Business combinations *(continued)*

Acquisition of Shanghai Huaxin *(continued)*

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

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	17	18,949
Prepaid land lease payments	19	10,640
Investment in an associate		2,850
Deferred tax assets	34	199
Inventories		6,786
Trade and other receivables		44,501
Cash and cash equivalents		7,566
Trade and other payables		(29,781)
Income tax payable		(2,703)
Interest-bearing bank borrowings		(4,000)
Deferred tax liabilities	34	(2,705)
Non-controlling interests		(25,628)
Total identifiable net assets at fair value		26,674
Less: Gain on bargain purchase recognised in the profit or loss	7	(9,766)
Withholding tax at 10% on the distributable profits arising from the business combination	34	(408)
		16,500
Offset by:		
An amount due from a related party		16,500

35. Business combinations *(continued)*

Acquisition of Shanghai Huaxin *(continued)*

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

	RMB'000
Cash consideration	—
Cash and cash equivalents acquired	7,566
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	7,566

Since the acquisition, Shanghai Huaxin has contributed RMB91,855,000 to the turnover and RMB6,357,000 to the profit of the Group for the year ended 31 December 2011.

The consideration transferred was lower than the fair value of the net identifiable assets acquired and liabilities assumed. The difference, after reassessment, was recognised in profit or loss as a gain on bargain purchase.

Acquisition of Huazhong Moulding and its subsidiary

On 29 October 2010, the Group acquired Ningbo Huazhong Moulding and its subsidiary, Ningbo Huayue, through the acquisition of an aggregate 100% equity interest from Huaxiang Group and Ningbo Zhongxin Investment Co., Ltd. ("Ningbo Zhongxin"), two related parties, at considerations mutually agreed. Ningbo Huazhong Moulding and Ningbo Huayue then became wholly-owned subsidiaries of the Group. Huaxiang Technology, an associate held by Ningbo Huazhong Moulding, became an associate of the Group after the transaction. Ningbo Zhongxin was collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong, parents of Mr. Zhou. Mr. Zhou's parents and Mr. Zhou act independently. Accordingly, the acquisition of Ningbo Huazhong Moulding and its subsidiary was also not treated as a business combination under common control and the acquisition method of accounting was applied. Further details of the transaction are included in Note 42(c)(v) to the financial statements.

35. Business combinations *(continued)*

Acquisition of Huazhong Moulding and its subsidiary *(continued)*

The fair values of the identifiable assets and liabilities of Ningbo Huazhong Moulding and its subsidiary as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	17	2,875
Investment in an associate		4,466
Deferred tax assets	34	96
Inventories		11,328
Trade and other receivables		26,925
Cash and cash equivalents		326
Trade and other payables		(17,375)
Income tax payable		(741)
Deferred tax liabilities	34	(130)
Non-controlling interests		(3,612)
Total identifiable net assets at fair value		24,158
Less: Gain on bargain purchase recognised in the profit or loss	7	(14,003)
Withholding tax at 10% on the distributable profits arising from the business combination	34	(155)
		10,000
Satisfied by:		
Cash		10,000

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition is as follows:

	RMB'000
Cash consideration	(10,000)
Cash and cash equivalents acquired	326
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(9,674)

Since the acquisition, Ningbo Huazhong Moulding and its subsidiary have not contributed any amount to the turnover of the Group and have caused a net loss of RMB512,000 to the profit of the Group for the year ended 31 December 2010.

The aggregate of the consideration transferred was lower than the fair value of the net identifiable assets acquired and liabilities assumed. The difference, after reassessment, was recognised in profit or loss as a gain on bargain purchase.

35. Business combinations *(continued)*

Acquisition of Guangzhou Huazhong

On 28 October 2010, the Group acquired Guangzhou Huazhong through the acquisition of an additional 59% equity interest from Ningbo Huazhong Moulding, a related party and a non-controlling interest at consideration mutually agreed. Guangzhou Huazhong then became a wholly-owned subsidiary of the Group. Ningbo Huazhong Moulding was then collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong, parents of Mr. Zhou, via Huaxiang Group and Ningbo Zhongxin. Mr. Zhou's parents and Mr. Zhou act independently. Accordingly, the acquisition of Guangzhou Huazhong was not treated as a business combination under common control and the acquisition method of accounting was applied. Further details of the transaction are included in Note 42(c)(vi) to the financial statements.

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

	Notes	**Fair value recognised on acquisition** RMB'000
Property, plant and equipment	17	1,805
Inventories		734
Trade and other receivables		28,600
Cash and cash equivalents		145
Trade and other payables		(13,623)
Income tax payable		(993)
Total identifiable net assets at fair value		16,668
Less: Gain on bargain purchase recognised in the profit or loss	7	(7,557)
Withholding tax at 10% on the distributable profits arising from the business combination	34	(507)
		8,604
Satisfied by:		
Cash		1,770
Carrying value of the pre-existing equity interest		6,834
		8,604

35. Business combinations *(continued)*

Acquisition of Guangzhou Huazhong *(continued)*

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

	RMB'000
Cash consideration	(1,770)
Cash and cash equivalents acquired	145
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(1,625)

Since the acquisition, Guangzhou Huazhong has not contributed any amount to the turnover of the Group and contributed RMB345,000 to the profit of the Group for the year ended 31 December 2010.

The aggregate of the consideration transferred and the fair value of the pre-existing equity interest in the acquiree was lower than the fair value of the net identifiable assets acquired and liabilities assumed. The difference, after reassessment, was recognised in profit or loss as a gain on bargain purchase.

36. Disposal of a subsidiary

	2011 RMB'000
Net assets disposed of:	
Cash and bank balances	**15**
Due from a related party	**12,010**
Prepayments and other receivables	**21**
Due to a related party	**(1)**
Non-controlling interests	**(3,616)**
	8,429
Loss on disposal of a subsidiary	**(29)**
	8,400
Satisfied by:	
Due from a related party	**8,400**

36. Disposal of a subsidiary *(continued)*

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

	2011 RMB'000
Cash consideration	–
Cash and bank balances disposed of	**(15)**
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	**(15)**

37. Share capital

(a) Group

The Reorganisation was completed on 29 July 2011. Accordingly, the share capital reflected in the consolidated statement of financial position as at 31 December 2010 represented the aggregate amount of paid-in capital of the companies now comprising the Group as at that date, after elimination of investments in subsidiaries.

The share capital reflected in the consolidated statement of financial position as at 31 December 2011 represented the Company's issued share capital.

(b) Company

The changes in the authorised and issued share capital of the Company are as follows:

(i) The Company was incorporated on 3 December 2010 with an authorised share capital of HK$380,000 divided into 3,800,000 shares with par value of HK$0.10 each. On the same date, one share with par value of HK$0.10 in the share capital of the Company was allotted and issued as nil paid to Codan Trust Company (Cayman) Limited, which was then transferred to Huayou Holdings. The said share was credited as fully paid on 7 December 2011.

(ii) Pursuant to an ordinary resolution passed on 15 December 2011, the authorised share capital of the Company increased from HK$380,000 to HK$1,000,000,000 by the creation of 9,996,200,000 ordinary shares of HK$0.10 each.

38. Share option scheme

The Company operates a Pre-IPO share option scheme (the "Scheme") for the purpose to aid the Group in recruiting and retaining key employees, directors or consultants of outstanding ability and to motivate such employees, directors or consultants to exert their best efforts on behalf of the Company. Under a Pre-IPO share option scheme, the Company granted options to subscribe at an exercise price equivalent to 80% of the offer price for an aggregate of 18,000,000 shares in the Company ("Pre-IPO Share Option Scheme"). The Scheme became effective on 15 December 2011.

All the options under the Scheme were granted on 23 December 2011 and no further options will be granted under the Pre-IPO Share Option Scheme on and after the Listing Date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price HK$ per share	**Number of options** '000
At 1 January 2011	—	—
Granted during the year	1.12	18,000
At 31 December 2011	1.12	18,000

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011 Number of options '000	**Exercise price** HK$ per share	**Exercise period**
6,300	1.12	12 January 2013 to 11 January 2017
6,300	1.12	12 January 2014 to 11 January 2017
5,400	1.12	12 January 2015 to 11 January 2017
18,000		

The fair value of the share options granted during the year was RMB10,011,000 (RMB0.56 each) (2010: Nil) of which the Group recognised a share option expense of RMB127,000 during the year ended 31 December 2011 (2010: Nil).

38. Share option scheme *(continued)*

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2011
Dividend yield (%)	**0**
Expected volatility (%)	**57.69**
Risk-free interest rate (%)	**0.9725**
Contract life of options (year)	**5.06**
Expected exercise multiple	**1.5-2**

The expected exercise multiple of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 18,000,000 share options outstanding under the Scheme, which represented approximately 2.25% of the Company's share in issue as at the date of these financial statements. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,000,000 additional ordinary shares of the Company and additional share capital of HK$1,800,000, equivalent to RMB1,459,000, and share premium of HK$18,360,000, equivalent to RMB14,884,000 (before issue expenses).

39. Reserves

(a) Group

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 to the financial statements.

(i) Statutory reserve funds

Statutory reserve funds comprise:

Reserve fund

PRC laws and regulations require wholly-owned foreign enterprises ("WOFE") to provide for the reserve fund by appropriating a part of the net profit (based on the entity's statutory accounts) before dividend distribution. Each subsidiary being WOFE is required to appropriate at least 10% of its net profit after tax to the reserve fund until the balance of such fund has reached 50% of its registered capital. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

Enterprise expansion fund

In accordance with relevant regulations and articles of association of the subsidiaries in Mainland China, for the subsidiary registered in the PRC as a foreign invested company, appropriations from net profit should be made to the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to its investors. The percentages to be appropriated to the enterprise expansion fund are determined by the boards of directors of the subsidiaries.

Statutory surplus reserve

Each of the subsidiaries in Mainland China is required to transfer 10% of its profit after taxation, as determined under the PRC accounting regulations, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders.

The statutory surplus reserve can be used to offset accumulated losses or convert into share capital by the issue of new shares to shareholders in proportion to their existing equity holdings.

(ii) Capital reserve

Capital reserve represents the excess capital paid over the registered capital to the Group's subsidiaries by the equity holders.

39. Reserves *(continued)*

(a) Group *(continued)*

(iii) Merger reserve

(a) Prior to 19 October 2010, Chongqing Huazhong was owned by Mr. Zhou and Ningbo Huayou Properties, a company beneficially owned by Mr. Zhou as to 82% and controlled by Mr. Zhou, as to 51% and 49%, respectively. On 19 October 2010, the Group acquired the entire equity interest in Chongqing Huazhong from Mr. Zhou and Ningbo Huayou Properties and Chongqing Huazhong became a wholly-owned subsidiary of the Group thereafter. For the acquisition of non-controlling interest, the excess of net asset value of Chongqing Huazhong shared by the non-controlling interest over the consideration paid amounting to RMB1,299,000 was recognised directly in the merger reserve account.

(b) Prior to 25 October 2010, the equity interest of Ningbo Xinxing was held by the Group as to 90%, beneficially by Mr. Zhou as to 8.2% via Ningbo Huayou Properties, and by a non-controlling shareholder, Huaxiang Group, as to 1.8% via Ningbo Huayou Properties. On 25 October 2010, the Group acquired the aggregate 10% equity interest in Ningbo Xinxing from Ningbo Huayou Properties and Ningbo Xinxing became a wholly-owned subsidiary of the Group thereafter. For the acquisition of 1.8% non-controlling interest, the excess of the net asset value of Ningbo Xinxing shared by the non-controlling interest over the consideration paid amounting to RMB239,000 was recognised directly in the merger reserve account.

(c) Prior to 24 December 2010, a 50% equity interest of Ningbo Hualete was held by Ningbo Huayou Properties. Hence, the Group effectively held 41% equity interests in Ningbo Hualete via Ningbo Huayou Properties. The non-controlling shareholder of Ningbo Huayou Properties, which held the remaining 18% equity interest, was Huaxiang Group. On 24 December 2010, the Group acquired an additional 9% equity interest in Ningbo Hualete effectively held by Huaxiang Group via Ningbo Huayou Properties and the excess of the consideration paid to Ningbo Huayou Properties over the 9% net asset value of Ningbo Hualete amounting to RMB1,322,000 was recognised directly in the merger reserve account.

(d) Prior to 23 April 2011, Shanghai Xiangmao was owned by Mr. Zhou and Ningbo Huayou Properties as to 60% and 40%, respectively. On 23 April 2011, the Group acquired the entire equity interest in Shanghai Xiangmao from Mr. Zhou and Ningbo Huayou Properties and Shanghai Xiangmao became a wholly-owned subsidiary of the Group thereafter. For the acquisition of non-controlling interests, the excess of net asset value of Shanghai Xiangmao shared by the non-controlling interests over the consideration paid amounting to RMB20,000 was recognised directly in the merger reserve account.

39. Reserves *(continued)*

(a) Group *(continued)*

(iii) Merger reserve *(continued)*

(e) Prior to 29 July 2011, Ningbo Huazhong Plastic was owned by Mr. Zhou, Mr. Chen Yuncai ("Mr. Chen") and Macau Hong Un Real Estate Company ("Macau Hong Un") as to 49%, 21% and 30%, respectively. Both Macau Hong Un and Mr. Chen hold their interests in Ningbo Huazhong on behalf of Mr. Zhou. Hence, Mr. Zhou was then the sole beneficial owner of Ningbo Huazhong. On 29 July 2011, Huayou Investment acquired the entire equity interest in Ningbo Huazhong Plastic at a consideration of RMB40,000,000. The excess of book value of Ningbo Huazhong Plastic's share capital over consideration, amounting to RMB515,000, was recognised directly in the merger reserve account.

(f) Pursuant to the board resolution of Ningbo Huazhong Plastic on 18 July 2011, Ningbo Huazhong Plastic declared a special dividend of RMB206,000,000 to its then shareholders, of which RMB61,800,000, or 30%, was due to Macau Hong Un, which was beneficially owned by Mr. Zhou. Macau Hong Un waived the dividend payable to it on 18 July 2011. Hence, after deduction of a 10% RRC withholding tax for foreign investors, the remaining amount of RMB55,620,000 was recognised directly in merger reserve account as a deemed contribution.

(g) As part of the Reorganisation, Huayou Investment acquired the entire equity interest of Ningbo Huazhong Plastic from Mr. Zhou, Macau Hong Un and Mr. Chen at a total consideration of RMB40,000,000 on 29 July 2011. Immediately prior to the acquisition, the equity interests of Ningbo Huazhong Plastic were held as to 30% by Macau Hong Un, 21% by Mr. Chen and 49% by Mr. Zhou. Both Macau Hong Un and Mr. Chen held their interests in Ningbo Huazhong Plastic on behalf of Mr. Zhou. Subsequently on 22 December 2011, Macau Hong Un waived its RMB12,000,000 due from Huayou Investment resulting from the acquisition of Ningbo Huazhong Plastic and this amount was recognised directly in the merger reserve account as a deemed contribution.

(h) On 23 December 2011, Mr. Zhou advanced to Huayou Investment an amount of RMB28,143,000 and subsequently waived the advance on 29 December 2011. The amount was recognised directly in the merger reserve account as a deemed contribution.

39. Reserves *(continued)*

(a) Group *(continued)*

(iv) Deemed distribution to an equity holder

(a) On 3 September 2010, the Group acquired an additional 20% equity interest in Changchun Huaxiang from Mr. Zhou, and the consideration paid to Mr. Zhou amounting to RMB3,000,000 was regarded as a deemed distribution to an equity holder.

(b) Prior to 19 October 2010, the Group effectively held a 91.18% equity interest in Chongqing Huazhong via Mr. Zhou and Ningbo Huayou Properties. On 19 October 2010, the Group acquired a 51% equity interest in Chongqing Huazhong from Mr. Zhou and a 40.18% equity interest in Chongqing Huazhong beneficially owned by Mr. Zhou via Ningbo Huayou Properties and the consideration paid to Mr. Zhou and Ningbo Huayou Properties amounting to RMB4,559,000 in aggregate was regarded as a deemed distribution to an equity holder.

(c) On 22 October 2010, the Group acquired an additional 20% equity interest in Changchun Huateng from Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB200,000 was regarded as a deemed distribution to an equity holder.

(d) On 25 October 2010, the Group acquired an additional 8.2% equity interest in Ningbo Xinxing beneficially owned by Mr. Zhou via Ningbo Huayou Properties and the consideration paid to Ningbo Huayou Properties amounting to RMB279,000 was regarded as a deemed distribution to an equity holder.

(e) Prior to 28 October 2010, the Group effectively held a 41% equity interest in Guangzhou Huazhong via Ningbo Huayou Properties. On 28 October 2010, the Group acquired a 41% equity interest in Guangzhou Huazhong beneficially owned by Mr. Zhou via Ningbo Huayou Properties and the consideration paid to Ningbo Huayou Properties amounting to RMB1,230,000 was regarded as a deemed distribution to an equity holder.

(f) On 10 December 2010, the Group acquired an additional 49% equity interest in Chengdu Huazhong from Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB1,960,000 was regarded as a deemed distribution to an equity holder.

(g) On 20 December 2010, the Group acquired an additional 10% equity interest in Ningbo Huafeng from Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB150,000 was regarded as a deemed distribution to an equity holder.

39. Reserves *(continued)*

(a) Group *(continued)*

(iv) Deemed distribution to an equity holder (continued)

(h) Prior to 24 December 2010, the Group effectively held a 41% equity interest in Ningbo Hualete via Ningbo Huayou Properties. On 24 December 2010, the Group acquired a 41% equity interest in Ningbo Hualete beneficially owned by Mr. Zhou via Ningbo Huayou Properties and the consideration paid to Ningbo Huayou Properties amounting to RMB6,245,000 was regarded as a deemed distribution to an equity holder.

(i) Prior to 23 April 2011, the Group effectively held a 92.8% equity interest in Shanghai Xiangmao via Mr. Zhou and Ningbo Huayou Properties. On 23 April 2011, the Group acquired a 60% equity interest in Shanghai Xiangmao from Mr. Zhou and a 32.8% equity interest in Shanghai Xiangmao beneficially owned by Mr. Zhou via Ningbo Huayou Properties and the consideration paid to Mr. Zhou and Ningbo Huayou Properties amounting to RMB464,000 in aggregate was regarded as a deemed distribution to an equity holder.

(j) Prior to 1 June 2011, the Group effectively held a 100% equity interest in Yantai Huaxiang, of which 80% was held via Mr. Zhou. On 1 June 2011, the Group acquired an 80% equity interest in Yantai Huaxiang owned by Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB8,000,000 was regarded as a deemed distribution to an equity holder.

(k) Prior to 15 June 2011, the Group effectively held a 100% equity interest in Wuhu Huazhong, of which 80% was held via Mr. Zhou. On 15 June 2011, the Group acquired an 80% equity interest in Wuhu Huazhong owned by Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB8,000,000 was regarded as a deemed distribution to an equity holder

(l) On 29 July 2011, the Group acquired the entire equity interest in Ningbo Huazhong Plastic owned by Mr. Zhou and the consideration paid to Mr. Zhou amounting to RMB40,000,000 was regarded as a deemed distribution to an equity holder.

39. Reserves *(continued)*

(a) Group *(continued)*

(v) Deemed capital contribution

In 2010, the Group and Mr. Zhou established Wuhu Huazhong and Yantai Huaxiang. The capital injections made by Mr. Zhou to Wuhu Huazhong and Yantai Huaxiang in 2010 of RMB1,600,000 and RMB1,600,000, respectively, and in 2011 of RMB6,400,000 and RMB6,400,000, respectively, were regarded as deemed capital contributions.

(vi) Share option reserve

Details of the Company's share option scheme and the share options issued under the scheme are included in Note 38 to the financial statements.

(vii) Dividend paid to then shareholders

Pursuant to the board resolution of Ningbo Huazhong Plastic on 18 July 2011, a special dividend of RMB206,000,000 was declared by Ningbo Huazhong Plastic to its then shareholders.

(b) Company

	Share option reserve RMB'000	**Accumulated loss** RMB'000	**Total** RMB'000
At 1 January 2011	—	—	—
Equity-settled share option arrangements	127	—	127
Loss for the year	—	(66)	(66)
Proposed final 2011 dividend	—	(16,214)	(16,214)
At 31 December 2011	127	(16,280)	(16,153)

The Company was established on 3 December 2010 and there was no profit or loss during the period from 3 December 2010 to 31 December 2010.

40. Operating lease arrangements

Group as lessee

The Group leases certain of its plants and warehouses under operating lease arrangements.

As at the end of each reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	2,666	2,133
After one year but not more than five years	3,305	—
	5,971	2,133

Group as lessor

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's surplus offices and manufacturing plants.

Future minimum rentals receivable under non-cancellable operating leases as at the end of each reporting period are as follows:

	2011 RMB'000	2010 RMB'000
Within one year	7,521	1,025
In the second to fifth years inclusive	23,295	—
	30,816	1,025

41. Commitments

In addition to the operating lease commitments detailed in Note 40 above, the Group had the following capital commitments as at the end of each reporting period:

	2011 RMB'000	2010 RMB'000
Contracted, but not provided for in respect of acquisition of:		
property, plant and equipment	19,895	23,541

42. Related party transactions and balances

(a) Name and relationship

Name of related party	Relationship with the Group
Mr. Zhou	Ultimate controlling shareholder
Mr. Zhou Cimei	Father of Mr. Zhou
Ms. Lai Cairong	Mother of Mr. Zhou
Ms. Lai Danfen	Cousin of Mr. Zhou
Huaxiang Group	Collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong
Ningbo Huaxiang Electronic Co., Ltd. ("Ningbo Huaxiang Electronics")	Significantly influenced by the brother of Mr. Zhou
Ningbo Huayou Properties	Controlled by Mr. Zhou
Ningbo Zhongxin	Collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong
寧波華翔汽車後視鏡有限公司 ("Huaxiang Rearview Mirror")	Controlled by Ningbo Huaxiang Electronics
寧波華翔汽車飾件有限公司 ("Huaxiang Trim")	Controlled by Ningbo Huaxiang Electronics
Shanghai Huaxin	Controlled by Huaxiang Group before acquired as a subsidiary on 11 February 2011
寧波瑪克特汽車飾件有限公司 ("Ningbo Makete")	Controlled by Ningbo Huaxiang Electronics
寧波井上華翔汽車零部件有限公司 ("Jingshang Huaxiang")	Controlled by Ningbo Huaxiang Electronics
寧波翔潤石化科技有限公司 ("Xiangrun Petrochemical")	Controlled by Ningbo Huayou Properties
寧波華英模具科技發展有限公司 ("Huaying Moulding")	Jointly controlled by Ningbo Huayou Properties

42. Related party transactions and balances *(continued)*

(a) Name and relationship *(continued)*

Name of related party	Relationship with the Group
寧波華越置業有限公司 (“Huayue Properties”)	Jointly controlled by Huaxiang Group and Ningbo Huayou Properties
Ningbo Huazhong Moulding	Controlled by Ningbo Zhongxin before acquired as a subsidiary in 2010
寧波翔越實業投資有限公司 (“Xiangyue Industry”)	Controlled by Huaxiang Group
寧波華翔汽車銷售服務有限公司 (“Huaxiang Sales Co”)	Controlled by Huaxiang Group
南昌江鈴華翔汽車零部件有限公司 (“Nanchang Jiangling”)	Jointly controlled by Ningbo Huaxiang Electronics
Ningbo Hualete	Jointly-controlled by the Group
Guangzhou Huazhong	Jointly-controlled by the Group in 2008 and 2009 and became a subsidiary in 2010
象山華翔國際酒店有限公司 (“Huaxiang Resort”)	Collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong
Changchun Huayou	An associate to the Group prior to disposal on 31 March 2011 and controlled by Mr. Zhou
Huaxiang Technology	An associate to the Group prior to disposal on 24 June 2011 and controlled by Ningbo Huayou Properties
Guangzhou Chengli Industrial Co., Ltd. (Guangzhou Chengli)	Controlled by Mr. Zhou
Ningbo Huayue	Controlled by Ningbo Huazhong Moulding and became a subsidiary in 2010 and disposed of to Ms. Lai Danfen in 2011
Changchun Huaxiang Faurecia	Jointly controlled by the Group
Shanghai Baodegu	An associate to the Group

42. Related party transactions and balances *(continued)*

(b) Related party transactions

In addition to the transactions and balances disclosed elsewhere in this report, the Group had the following material transactions with related parties during the year:

	Notes	2011 RMB'000	2010 RMB'000
Sales of goods to related parties	(i)		
Shanghai Huaxin*		—	2,909
Ningbo Huaxiang Electronics		767	904
Changchun Huaxiang Faurecia		4,491	—
		5,258	3,813
Purchase of goods from related parties	(ii)		
Guangzhou Huazhong*		—	37,066
Ningbo Huazhong Moulding*		—	16,677
Ningbo Makete		5,159	11,615
Huaying Moulding*		—	569
Shanghai Huaxin*		—	4,138
Huaxiang Trim*		3,387	3,742
Nanchang Jiangling*		5,290	4,136
Huaxiang Resort*		867	—
Changchun Huaxiang Faurecia		43,075	—
Ningbo Huaxiang Electronics*		—	1,951
Huaxiang Sales Co*		35	—
		57,813	79,894
Sales of raw materials to a related party	(i)		
Changchun Huaxiang Faurecia		16,544	—
Purchase of raw materials from related parties	(ii)		
Shanghai Baodegu		5,049	—
Ningbo Hualete		68,042	56,520
		73,091	56,520

42. Related party transactions and balances *(continued)*

(b) Related party transactions *(continued)*

	Notes	2011 RMB'000	2010 RMB'000
Sales of property, plant and equipment to related parties*	(iii)		
Ningbo Hualete		**—**	7,586
Changchun Huaxiang Faurecia		**88,724**	—
		88,724	7,586
Sales of an internally generated intangible asset to a related party*	(iii)		
Changchun Huaxiang Faurecia		**20,000**	—
Gross rental income from related parties	(iv)		
Ningbo Hualete		**1,019**	3,233
Ningbo Huazhong Moulding*		**—**	1,187
Changchun Huaxiang Faurecia		**2,709**	—
		3,728	4,420
Interest income from a related party*	(v)		
Ningbo Huayou Properties		**10,770**	276
Management fee income from a related party	(vii)		
Changchun Huaxiang Faurecia		**2,500**	—
Advance to the ultimate shareholder*	(vi)		
Mr. Zhou		**76,790**	613
Advances to related parties*	(vi)		
Ningbo Huayou Properties		**284,644**	255,155
Changchun Huayou		**127,697**	150,420
Huaxiang Group		**594**	72,122
Huayue Properties		**—**	24,491
Xiangrun Petrochemical		**1,898**	4,518
Ningbo Huaxiang Electronics		**—**	290
Ningbo Huayue		**32,040**	—
Ningbo Hualete		**—**	5,624
		446,873	512,620

42. Related party transactions and balances *(continued)*

(b) Related party transactions *(continued)*

	Notes	2011 RMB'000	2010 RMB'000
Advance from the ultimate shareholder*	(vi)		
Mr. Zhou		**55,689**	28,191
Advances from related parties*	(vi)		
Huaxiang Group		**1,991**	—
Ningbo Hualete		**93,790**	20,000
Ningbo Huayou Properties		**3,506**	60,000
Changchun Huayou		**18,701**	44,950
Huaying Moulding		**280**	—
Huaxiang Technology		**—**	8,876
Huaxiang Sales Co		**—**	34
Huaxiang Resort		**597**	706
Ningbo Huaxiang Electronics		**—**	103
Xiangyue Industry		**50,000**	—
		168,865	134,669

Note (i): The sales of goods and materials to the related parties were made according to the prices and terms agreed between the related parties.

Note (ii): The purchases of goods and raw materials from the related parties were made according to the prices and terms offered by the related parties.

Note (iii): The sales of property, plant and equipment and an internally generated intangible asset to a related party were made according to the prices and terms agreed between the related parties.

Note (iv): The gross rental income from related parties was made according to the terms and conditions agreed between the related parties through lease agreements.

Note (v): The interest income from related parties was made according to the terms and conditions agreed between the related parties.

Note (vi): During the year ended 31 December 2011, the Group granted entrusted loans with an aggregation amount of RMB140,000,000 at an interest rate of 12% per annum to Ningbo Huayou Properties, of which RMB10,000,000 and RMB102,000,000 were settled in May 2011 and December 2011, respectively. The remaining RMB28,000,000 were subsequently settled on 11 January 2012. Except for these entrusted loans, the other advances from/to related parties are interest-free and repayable on demand.

Note (vii): The management fee income from a related party was made according to the terms and conditions agreed between the related parties.

* The directors confirmed that the related party transactions in respect of these items above will not continue after the listing of shares of the Company on the Stock Exchange.

42. Related party transactions and balances *(continued)*

(c) Other transactions with related parties

(i) During the year ended 31 December 2011, the Group provided guarantees to Ningbo Hualete for its bank facilities amounting to RMB7,020,000 as at 31 December 2011 (2010: RMB7,170,000). As at 31 December 2010, RMB3,500,000 of aforementioned bank facilities of Ningbo Hualete were pledged by the deposits of the Group amounting to RMB5,000,000 (Note 28) and the pledge was released in 2011.

As at 31 December 2010, the Group also provided guarantees to Ningbo Huayou Properties and Huaxiang Group for their bank facilities amounting to RMB100,000,000 and RMB300,000,000, respectively, both of which were released in 2011.

(ii) During the year ended 31 December 2011, the Group received guarantees from Mr. Zhou and Huaxiang Group for the Group's bank borrowings amounting to RMB300,000,000 as at 31 December 2011 (2010: RMB377,000,000). These guarantees were subsequently released in January 2012.

(iii) During the year ended 31 December 2011, the Group offset its amounts due from Huaxiang Group, Huayue Properties, Xiangrun Petrochemical, Xiangyue Industry, Ningbo Huaxiang Electronics, Changchun Huayou against amounts due to Ningbo Huayou Properties, Mr. Zhou, Ningbo Huayue, Xiangyue Industry, Ms. Lai Cairong, Ningbo Huaxiang Electronics, Changchun Huayou, Huaxiang Technology and its trade payable to a third party of RMB275,564,000 in aggregate.

(iv) During the year ended 31 December 2010, the Group offset its amounts due from Mr. Zhou, Ningbo Zhongxin, Huaxiang Trim, Huaxiang Group and Jingshang Huaxiang against amounts due to Ningbo Huayou Properties, Ningbo Huayue, Huaxiang Rearview Mirror and its trade payable to a third party of RMB148,187,000 in aggregate.

(v) During the year ended 31 December 2010, the Group acquired 49% and 51% equity interests in Ningbo Huazhong Moulding and its subsidiary, Ningbo Huayue, from Huaxiang Group and Ningbo Zhongxin at considerations of RMB4,900,000 and RMB5,100,000, respectively, which were determined with reference to the register capital of Ningbo Huazhong Moulding. Details are described in Note 35. The acquisition of subsidiaries was made according to the considerations and terms agreed between the related parties.

42. Related party transactions and balances *(continued)*

(c) Other transactions with related parties *(continued)*

(vi) During the year ended 31 December 2010, the Group acquired 50% and 50% equity interests in Guangzhou Huazhong from Ningbo Huazhong Moulding and Ningbo Huayou Properties, a company beneficially owned by Mr. Zhou as to 82%, at considerations of RMB1,500,000 and RMB1,500,000, respectively, which were determined with reference to the register capital of Guangzhou Huazhong. Details are described in Note 35. The acquisition of subsidiaries was made according to the considerations and terms agreed between the related parties.

(vii) During the year ended 31 December 2011, the Group acquired a 51% equity interest in Shanghai Huaxin from Huaxiang Group at a consideration of RMB16,500,000, which was determined with reference to 51% of the net assets of Shanghai Huaxin as at 31 December 2009. Details are described in Note 35. The acquisition of subsidiaries was made according to the considerations and terms agreed between the related parties.

(viii) During the year ended 31 December 2011, the Group disposed a 20% equity interest in Changchun Huayou to Ningbo Huayou Properties for a consideration of RMB3,000,000, which was determined with reference to the register capital of Changchun Huayou. Details are described in Note 21. The disposal of an associate was made according to the considerations and terms agreed between the related parties.

(ix) During the year ended 31 December 2011, the Group disposed a 48% equity interest in Huaxiang Technology to Mr. Zhou for a consideration of RMB4,800,000, which was determined with reference to the register capital of Huaxiang Technology. Details are described in Note 21. The disposal of an associate was made according to the considerations and terms agreed between the related parties.

(x) During the year ended 31 December 2011, the Group disposed a 70% equity interest in Ningbo Huayue to Ms. Lai Danfen for a consideration of RMB8,400,000, which was determined with reference to the register capital of Ningbo Huayue. Details are described in Note 36. The disposal of a subsidiary was made according to the consideration and terms agreed between the related parties.

(xi) During the year ended 31 December 2011, the Group leased certain of its offices from Guangzhou Chengli at nil consideration (2010: Nil).

The related party transactions of office leasing from Guangzhou Chengli as disclosed in item (c)(xi) above constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules, which will be continued in the future after the listing of the Company's shares on the Stock Exchange.

The directors confirmed that the related party transactions in respect of items from (c)(i) to (c)(x) will not be continued in the future after the listing of shares of the Company on the Stock Exchange.

42. Related party transactions and balances *(continued)*

(d) Outstanding balances with related parties

GROUP

	2011 RMB'000	2010 RMB'000
Amount due from the ultimate shareholder		
Mr. Zhou	**6,284**	—
Amounts due from related parties		
Ningbo Huayou Properties	**35,209**	270,997
Changchun Huayou	**100**	120,419
Xiangyue Industry	**—**	13,036
Huaxiang Group	**—**	38,403
Huaxiang Technology	**105**	—
Huayue Properties	**—**	21,512
Changchun Huaxiang Faurecia	**43,258**	—
Shanghai Huaxin	**—**	1,882
Ningbo Huayue	**23,008**	—
Ms. Lai Danfen	**8,400**	—
Xiangrun Petrochemical	**—**	2,441
Jingshang Huaxiang	**—**	30
Changchun Xuyang	**—**	150
Ningbo Huaxiang Electronics	**424**	744
Guangzhou Chengli	**2,083**	2,078
	112,587	471,692
Amount due to the ultimate shareholder		
Mr. Zhou	**—**	21,851
Amounts due to related parties		
Ningbo Huayou Properties	**60,506**	59,862
Ningbo Hualete	**24,046**	13,916
Huaying Moulding	**4,995**	16,185
Huaxiang Trim	**4,631**	4,703
Changchun Huayou	**—**	13,153
Changchun Huaxiang Faurecia	**36,190**	—
Ms. Lai Cairong	**—**	5,000
Nanchang Jiangling	**1,252**	441
Ningbo Makete	**1,082**	2,656
Huaxiang Technology	**—**	8,876
Shanghai Baodegu	**2,022**	—
Huaxiang Sales Co	**6**	10
Huaxiang Resort	**12**	3
	134,742	124,805

Included in the amounts due from Ningbo Huayou Properties as at 31 December 2011 was an entrusted loan of RMB28,000,000 (2010: RMB15,000,000) due within one year at an interest rate of 12% per annum in accordance with the terms of an entrusted loan agreement. Except for these entrusted loans, the remaining amounts due from/to the ultimate shareholder and related parties are unsecured, interest-free and repayable on demand.

42. Related party transactions and balances *(continued)*

(d) Outstanding balances with related parties *(continued)*

COMPANY

	2011 **RMB'000**	2010 RMB'000
Amount due to a shareholder		
Huayou Holdings	**—**	—

The amount due to a shareholder and the balance with a subsidiary are unsecured, interest free and repayable on demand.

(e) Compensation of key management personnel of the Group

	2011 **RMB'000**	2010 RMB'000
Short term employee benefits	**3,412**	1,921
Post-employment benefits	**28**	25
Equity-settled scheme option expense	**57**	—
Total compensation paid to key management personnel	**3,497**	1,946

Further details of directors' remuneration are included in Note 11 to the financial statements.

43. Financial instruments by category

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

(a) Group

Financial assets

As at 31 December 2011	**Loans and receivables RMB'000**
Trade and notes receivables	**281,679**
Financial assets included in prepayments and other receivables (Note 25)	**81,224**
Due from the ultimate shareholder	**6,284**
Due from related parties	**112,587**
Pledged deposits	**155,126**
Cash and cash equivalents	**145,909**
	782,809

As at 31 December 2010	Loans and receivables RMB'000
Trade and notes receivables	305,386
Financial assets included in prepayments and other receivables (Note 25)	60,774
Due from related parties	471,692
Loans and receivables	10,000
Pledged deposits	157,602
Cash and cash equivalents	30,080
	1,035,534

43. Financial instruments by category *(continued)*

(a) Group *(continued)*

Financial liabilities

As at 31 December 2011	**Financial liabilities at amortised cost RMB'000**
Financial liabilities included in other payables, advances from customers and accruals (Note 30)	**86,832**
Trade and notes payables	**515,245**
Interest-bearing bank borrowings	**440,147**
Due to related parties	**134,742**
	1,176,966

As at 31 December 2010	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables, advances from customers and accruals (Note 30)	48,983
Trade and notes payables	409,822
Interest-bearing bank borrowings	547,000
Due to the ultimate shareholder	21,851
Due to related parties	124,805
	1,152,461

(b) Company

Financial liabilities

As at 31 December 2011	**Financial liabilities at amortised cost RMB'000**
Due to a shareholder	**—**
Due to a subsidiary	**25**

As at 31 December 2010	Financial liabilities at amortised cost RMB'000
Due to a shareholder	—

44. Financial risk management objectives and policies

The Group's principal financial liabilities comprise interest-bearing bank borrowings, trade and notes payables, other payables, an amount due to the ultimate shareholder and amounts due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade and notes receivables, other receivables, loan and receivables, cash and cash equivalents, pledged deposits, an amount due from the ultimate shareholder and amounts due from related parties, which arise directly from its operations.

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

Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The interest rate and terms of repayment of borrowings are disclosed in Note 31.

The Group has not used any interest swaps to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in RMB interest rate with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/(decrease) in basis points	**Effect on profit before tax** RMB'000
Year ended 31 December 2011		
RMB	**100**	**(4,100)**
RMB	**(100)**	**4,100**
Year ended 31 December 2010		
RMB	100	(3,520)
RMB	(100)	3,520

A reasonably possible change by 100 basis points in the RMB interest rate, with all other variables held constant, has no material impact on the Group's equity other than retained earnings.

44. 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.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, other receivables, pledged deposits, loans and receivables, an amount due from the ultimate shareholder and amounts due from related parties, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. As at the end of each reporting period, except for the trade and notes receivables, there is no significant concentration of credit risk within the Group. The trade and notes receivables arising from the five largest customers accounted for 59% (2010: 69%) of total the trade and notes receivables as at 31 December 2011.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

44. Financial risk management objectives and policies *(continued)*

Liquidity risk

The Group monitors its exposure to liquidity risk by monitoring the current ratio, which is calculated by comparing the current assets with the current liabilities.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The tables below summarise the maturity profile of the Group's financial liabilities at the end of each reporting period based on contractual undiscounted payments.

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
31 December 2011					
Interest-bearing bank borrowings	**—**	**121,544**	**336,225**	**—**	**457,769**
Trade and notes payables	**4,958**	**295,440**	**214,847**	**—**	**515,245**
Other payables (Note 30)	**86,832**	**—**	**—**	**—**	**86,832**
Amounts due to related parties	**134,742**	**—**	**—**	**—**	**134,742**
	226,532	**416,984**	**551,072**	**—**	**1,194,588**

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
31 December 2010					
Interest-bearing bank borrowings	—	257,511	307,612	—	565,123
Trade and notes payables	14,206	260,616	135,000	—	409,822
Other payables (Note 30)	48,983	—	—	—	48,983
Amount due to the ultimate shareholder	21,851	—	—	—	21,851
Amounts due to related parties	124,805	—	—	—	124,805
	209,845	518,127	442,612	—	1,170,584

44. Financial risk management objectives and policies *(continued)*

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit profile and 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 light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The net debt includes interest-bearing bank borrowings, trade and notes payables, other payables, advances from customers and accruals, an amount due to the ultimate shareholder and amounts due to related parties less cash and cash equivalents. Capital represents equity attributable to the owners of the parent.

The gearing ratios as at the end of the reporting periods were as follows:

	2011 **RMB'000**	2010 RMB'000
Trade and notes payables	**515,245**	409,822
Other payables, advances from customers and accruals	**106,358**	55,458
Interest-bearing bank borrowings	**440,147**	547,000
Amount due to the ultimate shareholder	**—**	21,851
Amounts due to related parties	**134,742**	124,805
Less: Cash and cash equivalents	**(145,909)**	(30,080)
Net debt	**1,050,583**	1,128,856
Equity attributable to owners of the parent	**232,222**	275,808
Capital and net debt	**1,282,805**	1,404,664
Gearing ratio	**82%**	80%

45. Major non-cash transactions

(i) During the year ended 31 December 2011, the Group offset its amounts due from Huaxiang Group, Huayue Properties, Xiangrun Petrochemical, Xiangyue Industry, Ningbo Huaxiang Electronics, Changchun Huayou against amounts due to Ningbo Huayou Properties, Mr. Zhou, Ningbo Huayue, Xiangyue Industry, Ms. Lai Cairong, Ningbo Huaxiang Electronics, Changchun Huayou, Huaxiang Technology and its trade payable to a third party of RMB275,564,000 in aggregate.

(ii) During the year ended 31 December 2010, the Group offset its amounts due from Mr. Zhou, Ningbo Zhongxin, Huaxiang Trim, Huaxiang Group and Jingshang Huaxiang against amounts due to Ningbo Huayou Properties, Ningbo Huayue, Huaxiang Rearview Mirror and its trade payable to a third party of RMB148,187,000 in aggregate.

(iii) During the year ended 31 December 2011, the Group acquired Shanghai Huaxin through the acquisition of a 51% equity interest from Huaxiang Group at a consideration mutually agreed of RMB16,500,000, which was satisfied by offsetting the amount due from Ningbo Huayou Properties.

(iv) During the year ended 31 December 2011, the Group disposed a 20% equity interest in Changchun Huayou to Ningbo Huayou Properties for a consideration of RMB3,000,000, which was determined with reference to the register capital of Changchun Huayou and was satisfied by offsetting the amount due to Ningbo Huayou Properties.

(v) During the year ended 31 December 2011, the Group disposed a 48% equity interest in Huaxiang Technology to Mr. Zhou for a consideration of RMB4,800,000, which was determined with reference to the register capital of Huaxiang Technology and was satisfied by the amount due from Mr. Zhou.

(vi) During the year ended 31 December 2011, the Group disposed a 70% equity interest in Ningbo Huayue to Ms. Lai Danfen for a consideration of RMB8,400,000, which was determined with reference to the register capital of Ningbo Huayue and was satisfied by the amount due from Ms. Lai Danfen.

46. Contingent liabilities

The Group had issued guarantees to banks in respect of the banking facilities granted to the following parties:

	2011 **RMB'000**	2010 RMB'000
Related parties (Note 42(c)(i))	**7,020**	407,170
A third party	**—**	30,000
	7,020	437,170

47. Events after the reporting period

On 15 December 2011, pursuant to the resolution of Board of Director, the Company authorised the issue of 639,999,999 ordinary shares of HK$0.10 each to the then shareholder of the Company by way of capitalisation of HK$63,999,999.90 (equivalent to RMB52,096,000) from the share premium account upon the listing of the Company's shares on the Stock Exchange. The above shares were issued on 12 January 2012.

On 12 January 2012, 160,000,000 ordinary shares of HK$0.10 each were issued at a price of HK$1.40 per share. The proceeds of HK$16,000,000 (equivalent to RMB13,024,000) representing the par value were credited to the Company's share capital. The remaining proceeds of HK$208,000,000 (equivalent to RMB169,312,000), before the share issue expenses, were credited to the share premium account. The shares of the Company were listed on the Stock Exchange on the same date.

On 24 March 2012, the board of directors of the Company proposed a final dividend of HK$0.025 per ordinary share totalling HK$20,000,000, approximately RMB16,214,000, for the year ended 31 December 2011, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (Note 15).

48. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 24 March 2012.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS				
REVENUE	**1,168,886**	1,006,908	826,216	755,014
Cost of sales	**(875,784)**	(748,663)	(651,324)	(623,006)
Gross profit	**293,102**	258,245	174,892	132,008
Other income and gains	**70,692**	9,993	7,382	13,390
Gain on bargain purchase	**9,766**	21,560	—	37,080
Selling and distribution costs	**(83,529)**	(75,622)	(67,423)	(70,265)
Administrative expenses	**(105,721)**	(51,133)	(41,018)	(37,467)
Other expenses	**(3,456)**	(5,346)	(4,521)	(6,100)
Finance income	**16,398**	9,585	7,766	9,681
Finance costs	**(44,971)**	(34,266)	(29,234)	(22,570)
Share of profits/(losses) of:				
Jointly-controlled entities	**(1,529)**	9,054	3,443	3,980
Associates	**425**	(422)	—	895
PROFIT BEFORE TAX	**151,177**	141,648	51,287	60,632
Income tax expense	**(38,252)**	(35,275)	(15,558)	(9,502)
PROFIT FOR THE YEAR	**112,925**	106,373	35,729	51,130
Attributable to:				
Owners of the parent	**110,168**	105,839	35,371	57,496
Non-controlling interests	**2,757**	534	358	(6,366)
	112,925	106,373	35,729	51,130

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December			
	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,502,392**	1,544,540	1,295,031	1,127,515
TOTAL LIABILITIES	**(1,246,196)**	(1,264,703)	(1,106,428)	(977,101)
NON-CONTROLLING INTERESTS	**(23,974)**	(4,029)	(1,920)	(1,526)
	232,222	275,808	186,683	148,888