Huazhong Holdings Company Limited

華眾控股有限公司

Annual Report 2012

(incorporated in the Cayman Islands with limited liability)

Stock code:6830

CONTENTS

COMPANY PROFILE

Huazhong Holdings Company Limited (the "Company" or "Huazhong Holdings") 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 massproduction of specific products to the development and manufacture of new products which meet customers' functional requirements and specifications.

With an 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 in total 13 factories, amongst which 12 factories operating in different regions in China to cover major automakers in China. As at December 2012, the Group, together with its jointly controlled entities, had manufacturing facilities in Ningbo, Changchun, Shanghai, Chongqing, Yantai, Guangzhou and Chengdu. In addition, a moulding factory was established through acquisition in Germany with a view to assist the Group in enhancing and upgrading its production techniques and upgrade manufacturing equipment, while expanding to the overseas market.

In 2013, 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.

On behalf of the board (the "Board") of directors (the "Directors") of the Company 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 2012 (the "Year").

In 2012, the passenger vehicle market in China was generally stable with steady growth. Despite this, competition remains in the market, resulting in relatively volatile movement in the entire sales of passenger vehicles.

According to the statistics of China Association of Automobile Manufacturers, in 2012, the sale of passenger vehicles with Chinese brands was 6,485,000 units, representing a year-to-year increase of 6.10% and accounting for 41.85% of the total sales of passenger vehicles. As compared against the same period in 2011, the sales slightly edged down by 0.38%. Amongst the overseas brand, the sale of Japanese passenger vehicles at the end of 2012 dived significantly as a result of the Diaoyu Island incident, reporting a total sale of 2,542,000 units with a decrease of 9.44% as compared against the same period last year. The sale of German vehicles was relatively extraordinary, reporting a sale of 2,857,400 units with an increase of 19.81% as compared against the same period last year. The sale of American vehicles amounted to 1,812,100 units in total, representing a growth of 14.92% as compared against the same period last year. On the other hand, the sale of Korean and French passenger vehicles amounted to 1,340,000 units and 440,000 units respectively, representing an increase of 14.31% and 8.88% as compared against the same period last year, respectively.

Under such volatile circumstances, 2012 was an extremely challenging year for Huazhong Holdings. Despite the impact of various adverse factors including the regulation of China macro-economy policies, the retreat from the tax-favoured policy for purchase, the rising oil prices, the upgraded threshold of the allowance for energy-saving cars, the municipal quota imposed on purchase, the substantial increase in the cost of raw materials and labour remuneration, the European debt crisis, and the slowing economic recovery in the U.S.A., the Group has managed to obtain obvious effectiveness in various aspect with the great and persistent efforts of all personnel, and continued to be one of the leading independent manufacturers for automobile plastic body components. The Company's annual turnover was RMB 1.16 billion, slightly edging down by 1.1% as compared against last year, while the profit was RMB 5.9 million for the year, representing a year-on-year decrease of 94.8%.

Huazhong Holdings headed for a new milestone in 2012. In January 2012, the Company completed its listing smoothly in Hong Kong. Subsequently, as for the plant expansion, the new plant in Xizhou was launched into production after completing relocation during the year; the branch plants in Wuhu and Yantai, as well as the plant in Foshan, were in capacity ramp-up after completion of construction as well. In addition, the robotic arm was introduced for technological reform; the frequency conversion and energy-saving equipment was added to the existing equipment. In April 2012, a moulding factory was set up in Germany through asset acquisition in order to reinforce and upgrade the mould production technology of the Group and develop the overseas market.

Looking forward to 2013, the Company endeavors to become a leading manufacturer of automobile body components in terms of market recognition and share. Though we are optimistic for the economic situation in 2013, there is the possibility of imposing the quota on car registration plates in more cities to prevent the number of cars on the road from growing too fast. In light of these two factors, we anticipate that the output and sales volume of cars are expected to grow approximately 5% in 2013, hopefully with more than 20 million cars manufactured and sold for the year. All these factors will bring about certain opportunities and challenges for the future development of the Company.

CHAIRMAN'S STATEMENT

Huazhong Holdings will carry on with the development strategy of "expanding existing production facilities and capacity, committing to product research and development and product engineering, and implementing strategic investments". In 2013, the Group will keep on increasing the sources of profits by means of persistent expansion of productivity, improving production efficiency and upgrading product quality, including, in particular, the effective utilization of full productivity in the new plant of Xizhou, the use of the centralized system for supplying materials, the post-based air-conditioning system, the overall reformation of the apparatuses on the job, the use of robotic arms and the computerized production and management. A new spray-paint line has been launched into operation upon successful trial run after completion of construction. The branch plants in Wuhu and Yantai, as well as the plant in Foshan have been launched into production after completion of construction to supply products for the clients. The Company will also endeavour to lower the cost of production and purchase, upgrade the production efficiency and the product quality through process re-engineering, optimization of organizational structure, and improvement in management, carry out domestic and overseas merge or acquisition at the right time, continue to collaborate with international suppliers and manufacturers for automobile body components through the establishment of joint venture and manage to secure more new clients. All of the above have laid a solid foundation for the Group to achieve its business targets in 2013.

In face of opportunities and challenges, and adhering to the spirit of open cooperation, we will upgrade the standards of scientific management, optimize the product mix and the business layout, strengthen the Group's management and control to set up a management system adapted to the new competitive environment in future. I am full of 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 go ahead for its new targets, enhance its comprehensive competitiveness and market position, so as to secure fruitful returns for our Shareholders.

Finally, I would like to express my heart-felt gratitude on behalf of Huazhong Holdings to all of our clients and business partners for their support, and the Group's management and staff for their tireless diligence and great efforts. On the other hand, I would like to take this opportunity to extend my thanks to our investors and Shareholders for their support of and trust in the Group. We commit ourselves to generating bigger returns with all-out efforts for the Group and Shareholders.

Zhou Minfeng
Chairman

27 March 2013

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 predicted by the China Association of Automobile Manufacturers, it was likely that the sales volume would exceed 19 million cars in 2012 to continue to rank No. 1 in the world. The automobile product diversification, miniaturization and energy-saving will provide consumers with more choices. The national incentive policy for expanding domestic demand, the rigid demand for automobiles in China and so on have provided the good environment and conditions for the development of the automobile industry.

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

2012 was an extremely challenging year for the Group, as production costs, including the costs of raw materials and employee salary, continued to increase. In addition, China's economic slowdown along with traffic congestion relief and vehicle purchase quota in mega-size metropolitans weakened the market demand, thus intensifying the competition amongst the auto part manufacturers in China. Despite many obstacles troubling the market and the business environment, the Group together with its entire employees vigorously strove hard to implement stringent cost control and cement the long-term cooperation with our clients. In addition to these measures, work in other areas also yielded significant results. The Group not merely maintained the competitive advantages of its business, but also laid solid foundation for the continuance of its rapid development in future.

For the Year, the Group's revenue was approximately RMB1.156 billion, representing a slight decrease of approximately 1.1% as compared to approximately RMB1.169 billion in 2011. Profit attributable to the owners of the parent for the Year was approximately RMB2.0 million, representing a decrease of approximately 98.2% as compared to approximately RMB110.2 million in 2011.

During the Year, the Group acquired the assets and business of a bankrupt company in Germany which engaged in manufacturing and sales of moulding and tools at a consideration of approximately RMB31.9 million (equivalent to approximately Euro 3.8 million). The acquisition is to strengthen and enhance the Group's moulding manufacturing technology, production equipment and development of overseas market. The acquisition was completed in April 2012.

The expansion and upgrade of the existing manufacturing facilities in Ningbo and the new manufacturing facilities in Wuhu and Yantai were completed during the Year. The new manufacturing facilities in Foshan were under construction during the Year and were expected to be completed in 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, the Group also made partial payments for acquiring the land use right of some pieces of land in Chongqing and Hangzhou Bay for further development of the Group.

Other than the aforementioned, there was no material acquisition/disposal and investments during the Year.

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 five 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; and

(v) sales of raw materials.

Except for the casings and liquid tanks of air conditioners and heaters, revenue derived from products of the rest recorded a solid growth during the Year.

	2012		2011	
		Gross profit		Gross profit
	Revenue	**Margin**	Revenue	Margin
	RMB'000	**%**	RMB'000	%
Automotive interior and exterior structural and decorative parts	**766,597**	**23.6**	841,420	25.5
Moulds and tooling	**42,654**	**6.4**	50,906	26.7
Casings and liquid tanks of air conditioners and heaters	**200,662**	**19.0**	193,740	23.0
Non-automobile products	**64,185**	**25.9**	65,687	30.5
Sales of raw materials	**81,795**	**4.0**	17,133	4.0
Total	**1,155,893**	**20.9**	1,168,886	25.1

For the Year, the total revenue generated from automotive interior and exterior accessories was RMB766,597,000 (2011: RMB841,420,000), accounting for 66.3% of the Group's total revenue for the Year (2011: 72.0%). The decrease was primarily because, 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. Gross profit margin decreased from 25.5% for the year 2011 to 23.6% for the year 2012 and the decline was caused by annually discounted price offer to clients on the routine basis as well as investment on the development of new products of the Group, which did not bring immediate return to the Group.

For the Year, revenue from moulds and tooling was RMB42,654,000 (2011: RMB50,906,000), accounting for 3.7% of the Group's total revenue for the Year (2011: 4.4%). Gross profit margin decreased from 26.7% in 2011 to 6.4% in 2012, mainly because product mix experienced changes and the German mould plant had yet to contribute its profits.

For the Year, revenue from casings and liquid tanks of air conditioners and heaters was RMB200,662,000 (2011: RMB193,740,000), accounting for 17.4% of the Group's total revenue for the Year (2011: 16.6%). Gross profit margin decreased slightly from 23.0% in 2011 to 19.0% in 2012, mainly due to annual price markdown offer to the clients on a routine basis.

For the Year, revenue from non-automobile products was RMB64,185,000 (2011: RMB65,687,000), accounting for 5.6% of the Group's total revenue for the Year (2011: 5.6%). Gross profit margin decreased from 30.5% in 2011 to 25.9% in 2012, mainly attributable to annually discounted price offer to clients on the routine basis as well as changes of the product mix.

For the Year, revenue from the sale of raw materials was RMB81,795,000 (2011: RMB17,133,000), accounting for 7.0% of the Group's total revenue for the Year (2011: 1.4%). The sale of raw materials was resale business. The gross profit margin remained the same as that of 4% in 2011.

Other Income and Gains

Other income and gains of the Group for the Year amounted to RMB18,844,000, representing a decrease of approximately 73.3% as compared to 2011. Such decrease was mainly attributable to gains from one-off disposal of assets of the Group in 2011, including (1) disposal of production equipment and intangible assets, which generated disposal gain of RMB20,808,000; and (2) disposal of land use rights, which generated RMB39,202,000 of disposal gain.

Gain on Bargain Purchase

During the Year, the Group acquired the assets and businesses of a bankrupt German company, which recorded RMB14,756,000 of gain on bargain purchase. In 2011, the Group recorded a one-off gain of RMB9,766,000 upon its acquisition of the equity interests in Shanghai Huaxin Automobile Latex and Plastic Co., Ltd. ("Shanghai Huaxin") prior to listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing"). 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 Expenses

The Group's selling and distribution expenses for the Year amounted to approximately RMB94,208,000, representing an increase of approximately 12.8% as compared to 2011. The proportion of selling and distribution expenses in sales revenue increased by approximately 1.1% from approximately 7.1% in the previous year to approximately 8.2%. The increase in proportion was caused by substantial increase in the basic labor costs and the increase of logistics expenses.

Administrative Expenses

The Group's administrative expenses for the Year amounted to approximately RMB133,610,000, representing an increase of approximately 26.4% as compared to RMB105,721,000 in the previous year. The increase was mainly attributable to (i) increase in basic labor costs of approximately RMB6,154,000 caused by a rise in basic salary in 2012; (ii) the equity-settled share option expenses of approximately RMB5,450,000 recorded by the Group in connection with the grant of pre-IPO share option to certain directors and senior management of the Company prior to the Listing; and (iii) an increase of RMB16,343,000 in the expenses for the Group's active research and development on new products compared against that last year as a result from increasing need for new products in the market .

Share of Profits and Losses of Jointly-Controlled Entities

During the Year, the Group recorded RMB15,967,000 of the share of profits of jointly-controlled entities as compared to the share of losses of RMB1,529,000 for 2011. This was primarily attributable to Changchun Huaxiang Faurecia's started to contribute profits in 2012.

Finance Income

The Group's finance income decreased by approximately 60% from approximately RMB16,398,000 in 2011 to approximately RMB6,535,000 in 2012. The decrease in finance income was mainly attributable to the decrease in interest from the loans lent by the Group as a result of proactive recovery of bank entrusted loans during the Year.

Finance Costs

The Group's finance costs increased from approximately RMB44,971,000 in 2011 to approximately RMB47,785,000 in 2012, representing an increase of approximately 6.3%. 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 decrease by approximately 76.8% from approximately RMB38,252,000 in 2011 to approximately RMB8,864,000 in 2012. The decrease was attributable to the decrease in the Group's profit before tax as compared to the previous year.

Liquidity and Financial Resources

For the Year, the net cash used in operating activities was approximately RMB30,599,000 (2011: net cash generated from operating activities RMB174,898,000). The cash used in operating activities was mainly due to the decrease of profits during the Year. The increase of trade and notes receivables was of temporary nature as the majority of receivables aged within three months and remained within the credit term.

The net cash used in investing activities was approximately RMB202,776,000 (2011: net cash generated from investing activities RMB8,132,000). The net cash generated from financing activities was approximately RMB240,726,000 (2011: net cash used in financing activities RMB92,201,000). The net cash used in investing activities was mainly to pay the capital expenditure including the land-use right, the plant and production equipment. The net cash generated from financing activities mainly came from the net proceeds from the listing of the Group in January 2012 and the new interest-bearing bank borrowings.

As affected by the above-mentioned comprehensive factors, the net cash inflow of the Group was RMB7,351,000 (2011: net cash inflow RMB90,829,000).

As at 31 December 2012, the cash and cash equivalents of the Group (including cash and bank deposits) was approximately RMB133,260,000 (31 December 2011: RMB145,909,000).

As at 31 December 2012, the interest-bearing bank borrowings of the Group was approximately RMB621,186,000 (31 December 2011: approximately RMB440,147,000) of which approximately RMB77,986,000 (equivalent to EUR 9,376,000) was borrowed in EURO and were all due within one year. Effective interest rate ranges from 2.47% to 6.89%. Amongst the bank borrowings, RMB79,000,000 were borrowed at floating interest rate, representing 12.7% of total borrowings (87.3% of total borrowings at fixed interest rate).

The Board expected that the bank loans would be settled by fund from internal resources or extended as it was due. All principal banks will continue to provide fund to the Group for its business operation.

Capital Commitments

As at 31 December 2012, the Group had the capital commitments amounting to RMB641,812,000 (31 December 2011: RMB19,895,000) including property, plant, equipment and prepaid land lease payments.

Foreign Exchange Exposure

The sales and purchases of the Group were mainly denominated in Renminbi and Euro. The cash and cash equivalents of the Group were mainly denominated in Renminbi, Hong Kong dollars and Euro. The borrowings are denominated in Renminbi and Euro. Since the Group's exposure to fluctuations in foreign exchange rates was minimal, the Group has not implemented any foreign currency hedging policy at the moment. However, the management will closely monitor the foreign exchange exposure of the Group and will consider hedging the foreign exchange exposure if it becomes significant to the Group.

Contingent Liabilities

The Group issued a guarantee of RMB4,530,000 for bank facilities of a jointly-controlled entity of the Group as at 31 December 2012. As at 31 December 2011, the total amount of guarantees issued by the Group for the bank loans of a jointly-controlled entity was RMB7,020,000.

Pledge of Assets

As at 31 December 2012, the Group's assets of approximately RMB169,629,000 (2011: approximately RMB51,463,000) were pledged to secure some of the Group's interest-bearing bank borrowings. The book value of the pledged assets is set out below:

	2012 RMB'000	2011 RMB'000
Property, plant and equipment	**16,517**	20,889
Investment properties	**3,630**	3,879
Prepaid land lease payments	**32,256**	13,118
Trade receivables	**24,526**	10,327
Pledged deposits	**92,700**	3,250
Total	**169,629**	51,463

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2012, pledged deposits with book value of approximately RMB105,251,000 (2011: approximately RMB151,876,000) were used as security to provide guarantee for the issuance of notes payable.

Certain of the Group's buildings with a net carrying value of RMB25,991,000 as at 31 December 2012 were pledged to secure aval commitments of RMB3,795,000, a form of Bank guarantees obtained by the Group in favour of certain customers for their advance payments.

Restructuring and Significant Investments

During the Year, the Group acquired the assets and businesses of a bankrupt German company that is principally engaged in the production and sales of molds and tools. The consideration was approximately RMB31,899,000, representing approximately Euro 3,800,000. Such acquisition consolidated and improved the Group's production technology for its molds, upgraded the production facilities, and helped the Group expand towards the overseas market. The acquisition was completed in April 2012.

Gearing Ratio

As at 31 December 2012, the Group's gearing ratio was approximately 75.7%, which was close to the gearing ratio of approximately 81.9% as at 31 December 2011. The gearing ratio is derived by dividing net liabilities (including interest-bearing bank borrowings, trade and notes payables, other payables and accruals, and payables to related parties and the ultimate controlling 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.

Employees and Remuneration Policies

The Group had a total of 2,277 employees as at 31 December 2012. Total staff costs of the Group for 2012 was approximately RMB130,502,000 (2011: approximately RMB91,261,000). The increase was attributable to the increase in the number of employees of the Group in 2012 as a result of the acquisition of assets and businesses (including manpower) of a bankrupt German company in April 2012 and construction of a mould plant by the Group. The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of our employees.

OUTLOOK

We believe, according to the forecasts delivered by various reports prepared by many research institutions over China automobile industry in 2013, that the domestic automobile industry, following the rebounding national economy, is expected to be better than the two previous years, with the stable increase of automobile sales volume in 2013. It is expected that more than 20 million cars will be sold. In terms of exports, China exported more than 1 million cars in 2012 for the first time. As the sale of domestic automobile remains high and continues to grow at a stable pace, the export of automobiles in 2013 will become the market highlight.

Transformation remains to be the main rhythm of the macro-economy in 2013. We expect that the Chinese government will continue to stabilize the GDP growth rate. Hence, it creates more favourable conditions for the steady growth of 2013 automobile market. On the other hand, the bottleneck restriction imposed on the automobile market will be more stringent. In 2013, the macro-economy will continue to develop steadily while the market structure will be adjusted gradually. The automobile product diversification, miniaturization and energy-saving will provide consumers with more choices. The national incentive policy for increasing domestic demand, the rigid demand for automobiles in China and so on will provide good environment and conditions for the development of the automobile industry. However, various adverse factors, including the slowing 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.

Nonetheless, according to the forecast on the growth momentum of China's automobile market previously delivered 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 2013, automobile production and sale will undergo structural differentiations.

In light of the above, the Group 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.

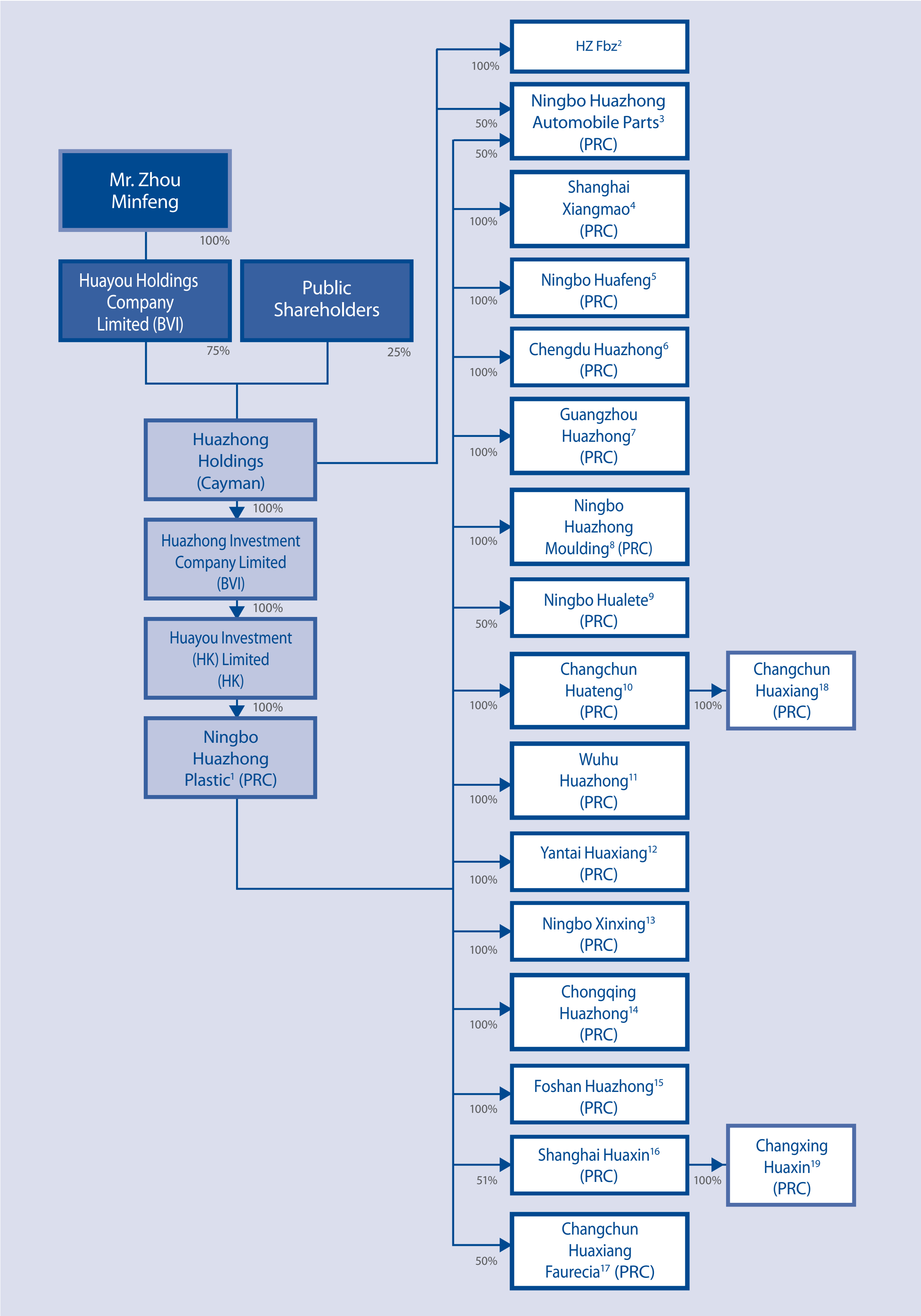
USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Company was successfully listed on the Main Board of the Stock Exchange on 12 January 2012. Net proceeds received from the Listing was approximately HK$200.0 million (approximately RMB162.8 million) after deducting underwriting commission and related expenses. The unused proceeds have been placed with licenced financial institutions.

The utilization of net proceeds as at 31 December 2012 is set out as follows:

	Planned at the Global Offering	Used in the Year 2012	Balance as at 31 December 2012
	RMB in million	RMB in million	RMB in million
Constructing new manufacturing facilities, expanding and upgrading existing production facilities to increase production capacity	97.8	97.8	0.0
Research and development	32.6	32.6	0.0
Acquiring companies to increase product offerings capacity and expand our market share and revenue base	16.2	16.2	0.0
Working capital and general purposes	16.2	16.2	0.0
Total	162.8	162.8	0.0

COMPANY STRUCTURE



Notes:

1. Ningbo Huazhong Plastic Products Co., Ltd.
(寧波華眾塑料製品有限公司)

2. HZ Fbz Formenbau Züttlingen GmbH

3. Ningbo Huazhong Automobile Parts Co., Ltd.
(寧波華眾汽車零部件有限公司)

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

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

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

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

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

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

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

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

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

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

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

15. Foshan Huazhong Automobile Parts Co., Ltd.
佛山華眾汽車零部件有限公司

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

17. 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)

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

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

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.

On 1 April 2012, the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Former CG Code") was amended and renamed as the Corporate Governance Code and Corporate Governance Report (the "New CG Code"). The Company has adopted the provisions as set out in the New CG Code as the code of the Company in substitution for and to the exclusion of the Former CG Code with effect from 1 April 2012. The Company was listed on the Stock Exchange on 12 January 2012 (the "Listing Date").

The Board is of the view that the Company has complied with all applicable provisions set out in the Former CG Code and the New CG Code from the Listing Date to 31 March 2012 and from 1 April 2012 to 31 December 2012 respectively, except for deviation from provision A.2.1, 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 below.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct governing dealings by all Directors in the securities of the Company. Specific enquiries have been made with all Directors, who have confirmed that, during the Year, 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 31 December 2012 and up to the date of this report.

THE BOARD

As at 31 December 2012 and the date of this annual report, the Board consisted of eight directors (the "Directors"), comprising two executive Directors, three non-executive Directors and three independent non-executive Directors. During the Year, four Board meetings and one general meeting were held. Details of the attendance of the Directors are as follows:

	Attendance/Number of Meetings	
Name of Director	**Board Meetings**	**Shareholders Meeting**
Executive Directors		
Mr. Zhou Minfeng *(Chairman)*	4/4	1/1
Mr. Chang Jingzhou	3/4	1/1
Non-Executive Directors		
Ms. Lai Cairong	2/4	0/1
Mr. Wang Yuming	2/4	0/1
Ms. Kuang Min (appointed on 26 July 2012)	0/1	0/1
Independent Non-Executive Directors		
Mr. Su Xijia	2/4	0/1
Mr. Yu Shuli	3/4	0/1
Mr. Tian Yushi	3/4	0/1

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 joint company secretaries of the Company (the "Joint Company Secretaries") who are 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 Joint Company Secretaries and are open for inspection by Directors.

Among the members of the Board, Mr. Zhou Minfeng, an executive Director, is the son of Ms. Lai Cairong, a non-executive Director. Save as disclosed herein, there is no other relationship among the Board members.

Directors' Training

According to the provision A.6.5 of the New CG Code, all directors should participate in a programme of continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant. The Company should be responsible for arranging and funding training, placing an appropriate emphasis on the roles, functions and duties of the Directors of the Company.

During the Year, the Company had arranged to provide to all Directors with the "Guidelines for Directors" and the "Guide for Independent Non-executive Directors" issued by the Hong Kong Institute of Directors. Each of the Directors has noted and studied the above mentioned documents and the Company has received from each of the Directors confirmation of taking continuous professional training.

Meanwhile, all the newly appointed Directors will receive a personalised induction programme, tailored to their experience and background, which is designed to enhance their knowledge and understanding of the Group's culture and operations. Such programme usually includes a briefing on the Group's structure, businesses and governance practices. An induction programme was held for Ms. Kuang Min who was appointed as a non-executive Director on 26 July 2012.

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 the 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, three non-executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

NON-EXECUTIVE DIRECTORS

Terms of Appointment of Non-executive Directors

Each of the 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 15 December 2011, except for Ms. Kuang Min, who was appointed on 26 July 2012, will hold office until the conclusion of the next annual general meeting of the Company after her appointment, being eligible for re-election.

Each of 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.

Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions; in particular, they bring an impartial view to bear on issues arising from the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of all the Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors representing more than one-third of the Board.

Among the three independent non-executive Directors, Mr. Su Xijia has appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

JOINT COMPANY SECRETARIES

Mr. Lian Wei Chung was appointed as the company secretary of the Company on 28 December 2012 and was then re-designated as a Joint Company Secretary on 6 February 2013. Ms. Ho Wing Yan was appointed as a Joint Company Secretary on 6 February 2013. Biographies of the Joint Company Secretaries are set out in the section headed "Directors and Senior Management" of this report of which this corporate governance report forms part. The Joint Company Secretaries have complied with the requirements under Rule 3.29 of the Listing Rules for the Year.

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 has established an audit committee (the "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 recommendations to the Board on the appointment and removal of external auditors, review the financial statements and give 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 of whom are independent non-executive Directors. Mr. Su Xijia, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

The Audit Committee mainly performed the following duties during the Year:

— reviewed the Group's audited annual results for the year ended 31 December 2011 and 31 December 2012 and the unaudited interim results for the six months ended 30 June 2012, met with the external auditors to discuss such annual results and interim results (without the Company's management being present), and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure had been made; and

— assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the Year, two meetings were held by the Audit Committee. The individual attendance record of each member at the meetings of the Audit Committee is set out below:

Name of member	Attendance/Number of Meetings
Mr. Su Xijia *(Chairman)*	2/2
Mr. Yu Shuli	2/2
Mr. Tian Yushi	2/2

Remuneration Committee

The Company established a remuneration committee (the "Remuneration Committee") on 7 December 2011 with written terms of reference. The primary duties of the Remuneration Committee are to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of non-executive Directors. The Remuneration Committee currently consists of three members, namely, Mr. Yu Shuli, an independent non-executive Director who is 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 remunerations.

The Remuneration Committee reviewed and made recommendations to the Board on the Company's policy and structure for all directors' and senior management's remunerations and on the establishment of a formal and transparent procedure for developing remuneration policy.

During the Year, one meeting were held by the Remuneration Committee. The individual attendance record of each member at the meetings of the Remuneration Committee is set out below:

Name of member	Attendance/Number of Meeting
Mr. Yu Shuli *(Chairman)*	1/1
Mr. Zhou Minfeng	1/1
Mr. Tian Yushi	1/1

The remuneration of Directors is determined with reference to their duties and responsibilities in the Company as well as the prevailing market conditions. Details of emoluments of Directors for the year ended 31 December 2012 are set out in note 11 to the financial statements. The number of senior management of the Group whose remuneration for the year ended 31 December 2012 fell within the following band is as follows:

	Number of senior management
Nil to RMB1,000,000	5

Nomination Committee

The Company established a nomination committee (the "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 suitable candidates for Directors after consideration of the nominees' independence and quality in order to ensure 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.

The Nomination Committee mainly performed the following duties:

— reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence;

— reviewed the structure, size and composition of the Board during the year of 2012; and;

— made suggestion to the board on the retirement and re-election of Directors.

During the Year, one meeting were held by the Nomination Committee. The individual attendance record of each member at the meetings of the Nomination Committee is set out below:

Name of member	Attendance/Number of Meeting
Mr. Zhou Minfeng *(Chairman)*	1/1
Mr. Yu Shuli	1/1
Mr. Tian Yushi	1/1

Corporate Governance Functions

The Company's corporate governance functions are carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with provision D.3.1 of the New 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 in 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 New CG Code and disclosure in the corporate governance report.

Financial Reporting

The Directors acknowledge their responsibility for the 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 2012, 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.

The statement of the auditors of the Company concerning their responsibilities for the consolidated financial statements of the Company is set out in the Independent Auditors' Report on page 32 of this report.

AUDITORS' REMUNERATION

The Company has appointed Ernst & Young as the external auditors of the Company. During the year ended 31 December 2012, the Group was required to pay an aggregate of approximately 2.8 million (2011: RMB4.0 million) to the external auditors for their audit services relating to financial information and no payment (2011: RMB0.4 million) for non-audit services of internal control review and assessment was made.

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 the Year 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, 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. There were certain deficiencies in inventory management during the Year. However, since 2013, we have developed a plan and taken actions to strengthen our internal control over inventory management, including increasing our internal resources to address inventory matters and increasing the frequency of management review. The Board therefore believes that the existing internal control systems are adequate and effective. The Board's annual review also covered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

SHAREHOLDERS' RIGHTS

To convene an extraordinary general meeting

Pursuant to article 50 of 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 Joint Company Secretaries, 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 Joint Company Secretaries by mail at Room 1704, 17/F., Tai Yau Building, 181 Johnston Road, Wanchai, Hong Kong or by email at huazhong6830@yahoo.com.hk. The Joint Company Secretaries forward 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.

Procedures for putting forward proposals at general meeting

The number of Shareholders necessary for a requisition for putting forward a proposal at a Shareholders' meeting shall be any number of Shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the requisition.

A copy or copies of requisition signed by all requisitionists shall be deposited, with a sum reasonably sufficient to meet the Company's expenses in giving notice of the proposed resolution or circulating any necessary statement, at the Company's headquarters in China and principal place of business in Hong Kong in the case of:

(i) a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

(ii) any other requisition, not less than one week before the meeting.

The Company will verify the requisition and upon confirming that the requisition is proper and in order, the Board will proceed with necessary procedures.

During the Year, 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 46, was appointed as an executive Director on 3 December 2010. He is the chairman of the Board, executive Director and chief executive of the Company. He is also a member of the remuneration committee and the chairman of the nomination committee of the Company. Mr. Zhou has over 19 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 the 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 the chairman of the Board and chief executive of the Company in the same person, namely Mr. Zhou, is appropriate to the Company at the present stage of the corporate development of the Group and believe that such arrangement will not result in any material adverse impact on the efficiency of operation and management and the quality of the corporate governance system of the Company.

Mr. Chang Jingzhou (常景洲), aged 52, was appointed as an executive Director on 7 December 2011. Mr. Chang has over 12 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 68, was appointed as a non-executive Director 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 56, was appointed as a non-executive Director on 7 December 2011. Mr. Wang currently serves 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.

Ms. Kuang Min (匡敏), aged 43, was appointed as a non-executive Director on 26 July 2012. She has been serving as the chief executive officer of Asia Select Asset Management Inc. and Orient Venture Capital Inc. since May 2007 and as the chief executive officer of Urban Select Capital Partners Corporation since January 2010. Both Orient Venture Capital Inc. and Urban Select Capital Partners Corporation are listed on the TSX Venture Exchange of Canada. From March 2005 to August 2006, Ms. Kuang served as the chief executive officer of Joymain Technology Inc.. In 2002, Ms. Kuang founded Orient Ventures Ltd., a Vancouver-based investment and financial advisory firm engaged in mergers and acquisition transactions in China and Canada, and has served as its chief executive officer until January 2007. From January 1995 to December 2001, Ms. Kuang served as the chief executive officer of Nanjing Andis Electronical Engineering Company Limited. Ms. Kuang received a master's degree in business administration from Lawrence Technology University in Michigan in December 2003.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Su Xijia (**蘇錫嘉**), aged 58, was appointed as an independent non-executive Director on 7 December 2011. Mr. Su is also the chairman of the audit committee of the Company. 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 64, was appointed as an independent non-executive Director on 7 December 2011. Mr. Yu is also the chairman of the remuneration committee of the Company and a member of the nomination committee of the Company. 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 67, 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 Company. 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 66, 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 47, 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 60, 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. Lian Wei Chung (**連巍鐘**), aged 46, joined the Company on 28 December 2012 and is the chief financial officer and a joint company secretary of the Company. He has more than 17 years of professional experience in accounting, finance and taxation. Prior to joining the Company, Mr. Lian served as the chief financial officer of Kinsus Interconnect Technology Corporation, a company listed on Taiwan Stock Exchange, from 2010 to 2012. He also served as the chief financial officer of Christine International Holdings Limited, a company listed on the main board of the Stock Exchange from 2009 to 2010. Mr. Lian worked with United Microelectronics Corporation ("UMC"), a company listed on Taiwan Stock Exchange and New York Stock Exchange, as an accounting manager and accounting division director from 1995 to 2009, during which he was seconded to UMC Japan, a then subsidiary of UMC previously listed on Jasdaq Securities Exchange Inc., where he worked as an accounting manager, board member and chief financial officer.

Mr. Cui Jihong (崔繼宏), aged 47, 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.

JOINT COMPANY SECRETARIES

Mr. Lian Wei Chung (**連巍鐘**) is a member of the senior management and a Joint Company Secretary of the Company. Please refer to his biography under the paragraph headed "Senior Management" above.

Ms. Ho Wing Yan (**何詠欣**) was appointed as a Joint Company Secretary on 6 February 2013. She has over eight years of experience in serving as company secretary of Hong Kong companies and providing company secretary services to companies listed on the Stock Exchange. Ms. Ho Wing Yan is an associate member of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Institute of Chartered Secretaries and Administrators. She is also a holder of the Practitioner's Endorsement issued by HKICS.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 December 2012.

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 2012 are set out in note 20 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2012 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 34 to 36 and page 42 of this report.

DIVIDENDS

The Board recommended a final dividend of HK1 cent (equivalent to approximately RMB0.8108 cent at exchange rate 1: 0.8108) per Share for the year ended 31 December 2012 (2011: HK2.5 cents), 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 16 May 2013. Details of the dividend for the year ended 31 December 2012 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 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2012, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to HK$88,473,000 (approximately RMB71,734,000), of which HK$8,000,000 (approximately RMB6,486,000) has been proposed as a final dividend for the Year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2012 are set out in note 17 to the financial statements.

ISSUED CAPITAL

Details of the movements in issued capital of the Company during the year ended 31 December 2012 are set out in note 34 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2012 were:

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

Non-Executive Directors
Ms. Lai Cairong
Mr. Wang Yuming
Ms. Kuang Min (appointed on 26 July 2012)

Independent Non-Executive Directors
Mr. Su Xijia
Mr. Yu Shuli
Mr. Tian Yushi

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 2012 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 has entered into a letter of appointment with the Company and is appointed for an initial term of three years commencing from 15 December 2011, except for Ms. Kuang Min who was appointed on 26 July 2012, will hold office only until the forthcoming annual general meeting of the Company and will, being eligible, offer herself for re-election at the forthcoming annual general meeting of the Company. Each of 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. All of them subject to the termination 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.

By virtue of article 83(3) of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Ms. Kuang Min, who was appointed on 26 July 2012, will hold office only until the forthcoming annual general meeting of the Company and will, being eligible, offer herself for re-election at the forthcoming annual general meeting of the Company.

In accordance with article 84(1) 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 an annual general meeting at least once every three years. As such, Mr. Zhou Minfeng, Mr. Wang Yuming and Mr. Yu Shuli 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 21 to 23 of this report.

DIRECTORS' INTERESTS IN CONTRACTS

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 2012.

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

As at 31 December 2012, 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	Number of Underlying Shares	Approximate percentage of the issued share capital
Mr. Zhou Minfeng	Interests of controlled corporation (1)	600,000,000	—	75.00%
	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 31 December 2012, 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 till the Expiring Date (1)	35 % of the total number of options granted
Anytime after the second anniversary of the Listing Date till the Expiring Date (1)	70 % of the total number of options granted
Anytime after the third anniversary of the Listing Date till the Expiring Date (1)	100 % of the total number of options granted

Note:

(1) The Expiring Date of the Pre-IPO Share Option Scheme will be 11 January 2017.

Details of the share options movement under the Pre-IPO Share Option Scheme for the Year are as follows:

Name	Outstanding as at 1 January 2012	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31 December 2012
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	—	—	(300,000)	—	1,900,000
Others						
In aggregate	9,900,000	—	—	—	—	9,900,000
Total	18,000,000	—	—	(300,000)	—	17,700,000

Save as disclosed above, there is no options outstanding, granted exercised, lapsed and cancelled under the Pre-IPO Share Option Scheme during the Year.

Further details of the Pre-IPO Share Option Scheme are set out in note 35 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.

During the Year, there is no option outstanding, granted, exercised, lapsed and cancelled 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 31 December 2012, 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:

Long position in the Company

Name	Capacity/Nature of Interest	Number of Shares	Number of Underlying Shares	Approximate percentage of issued share capital
Huayou Holdings (1)	Beneficial owner	600,000,000	—	75.00%
Chen Chun'er (2)	Beneficial owner	—	1,000,000 (3)	0.12% (6)
	Spouse's interest	600,000,000 (4)	—	75.00%
		—	1,500,000 (5)	0.18% (6)

Notes:

(1) Huayou Holdings is wholly-owned by Mr. Zhou Minfeng.

(2) Spouse of Mr. Zhou Minfeng.

(3) Underlying shares subject to option under the Pre-IPO Share Option Scheme.

(4) Shares held by Huayou Holdings Company, in which Mr. Zhou is deemed to be interested by venture of Huayou Holdings being wholly-owned by Mr. Zhou Minfeng.

(5) Shares subject to options granted to Mr. Zhou Minfeng under the Pre-IPO Share Option Scheme.

(6) 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 as at 31 December 2012.

Save as disclosed above, as at 31 December 2012, 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.

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 the 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 31 December 2012, the Directors and the chief executive of the Company are not aware of any other person or corporation who is, directly or indirectly, interested 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 the Group.

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 during the Year.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group had the following connected and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of the Listing Rules.

Connected transactions

Certain related party transactions as disclosed in note 39 to the financial statements also constituted exempted connected transactions under Chapter 14A of the Listing Rules, except for the transactions with Mr. Zhou Minfeng and Ningbo Huayou Properties Co., Ltd., which are connected transactions exempt from the independent shareholders' approval requirement.

Continuing connected transactions

Certain related party transactions as disclosed in note 39 to the financial statements also constituted exempted continuing connected transactions under Chapter 14A of the Listing Rules.

EVENT AFTER THE FINANCIAL PERIOD UNDER REVIEW

On 27 March 2013, the Board approved the Group to enter into a sale and purchase agreement with Ningbo Huayou Properties Co., Ltd., a connected person of the Company, to acquire office premises for a total consideration of RMB41,000,000 for business and management use. The transaction is expected to be completed in June 2014.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

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 2012.

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) during the year ended 31 December 2012. 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.

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.

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 35 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 36.1% (2011: 42.9%) and 69.5% (2011: 70.3%), respectively, of the Group's total revenue from operations.

Aggregate purchases from the Group's largest and five largest suppliers accounted for 12.9% (2011: 9.2%) and 32.2% (2011: 32.7%), respectively, of the Group's total purchases from suppliers.

At no time during the Year, 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 for the Year.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2012 are set out in note 30 to the financial statements.

On behalf of the Board
Zhou Minfeng
Chairman

Changchun, 27 March 2013

INDEPENDENT AUDITORS' REPORT

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 34 to 104, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012, 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
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

27 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	6	**1,155,893**	1,168,886
Cost of sales		**(914,320)**	(875,784)
Gross profit		**241,573**	293,102
Other income and gains	6	**18,844**	70,692
Gain on bargain purchase	7	**14,756**	9,766
Selling and distribution expenses		**(94,208)**	(83,529)
Administrative expenses		**(133,610)**	(105,721)
Other expenses		**(7,774)**	(3,456)
Operating profit		**39,581**	180,854
Share of profits and losses of:			
Associates		**441**	425
Jointly-controlled entities	22	**15,967**	(1,529)
Finance income	8	**6,535**	16,398
Finance costs	9	**(47,785)**	(44,971)
PROFIT BEFORE TAX	10	**14,739**	151,177
Income tax expense	13	**(8,864)**	(38,252)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,875**	112,925
Attributable to:			
Owners of the parent		**1,969**	110,168
Non-controlling interests		**3,906**	2,757
		5,875	112,925
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	16		
Basic and diluted		**RMB0.0025**	RMB0.1721
PROFIT FOR THE YEAR		**5,875**	112,925
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**265**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**265**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**6,140**	112,925
Attributable to:			
Owners of the parent		**2,234**	110,168
Non-controlling interests		**3,906**	2,757
		6,140	112,925

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**430,715**	256,319
Investment properties	18	**42,754**	45,197
Prepaid land lease payments	19	**142,248**	92,618
Investment in an associate	21	**2,880**	2,774
Investments in jointly-controlled entities	22	**65,333**	56,505
Prepayments for acquiring property, plant and equipment		**4,465**	75,236
Deferred tax assets	32	**21,654**	9,939
Total non-current assets		**710,049**	538,588
CURRENT ASSETS			
Inventories	23	**170,107**	107,825
Trade and notes receivables	24	**320,307**	281,679
Prepayments and other receivables	25	**235,892**	154,394
Due from the ultimate controlling shareholder	39(d)	**30,163**	6,284
Due from related parties	39(d)	**55,804**	112,587
Pledged deposits	27	**197,951**	155,126
Cash and cash equivalents	27	**133,260**	145,909
Total current assets		**1,143,484**	963,804
CURRENT LIABILITIES			
Trade and notes payables	28	**573,893**	515,245
Other payables, advances from customers and accruals	29	**107,471**	106,358
Interest-bearing bank borrowings	30	**621,186**	440,147
Due to the ultimate controlling shareholder	39(d)	**687**	—
Due to related parties	39(d)	**76,138**	134,742
Income tax payable		**30,459**	43,993
Total current liabilities		**1,409,834**	1,240,485
NET CURRENT LIABILITIES		**266,350**	276,681

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**443,699**	261,907
NON-CURRENT LIABILITIES			
Government grants	31	**2,300**	—
Deferred tax liabilities	32	**21,732**	5,711
Total non-current liabilities		**24,032**	5,711
Net assets		**419,667**	256,196
EQUITY			
Equity attributable to owners of the parent			
Issued capital	34	**65,120**	—
Reserves	36	**323,856**	216,008
Proposed final dividend	15	**6,486**	16,214
		395,462	232,222
Non-controlling interests		**24,205**	23,974
Total equity		**419,667**	256,196

Zhou Minfeng
Director

Chang Jingzhou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Merger reserve RMB'000	Share option reserve RMB'000	Proposed final dividend RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2012	—	—	5,580	27,502	88,278	127	16,214	—	94,521	232,222	23,974	256,196
Total comprehensive income for the year												
Profit for the year	—	—	—	—	—	—	—	—	1,969	1,969	3,906	5,875
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	265	—	265	—	265
Capitalisation issue of shares (Note 34)	52,096	(52,096)	—	—	—	—	—	—	—	—	—	—
Dividends (Note 15)	—	(6,486)	—	—	—	—	(9,728)	—	—	(16,214)	—	(16,214)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	(3,675)	(3,675)
New issue of shares from placing and public offering (Note 34)	13,024	169,312	—	—	—	—	—	—	—	182,336	—	182,336
Share issue expense (Note 34)	—	(10,864)	—	—	—	—	—	—	—	(10,864)	—	(10,864)
Transfer to statutory reserve funds (Note 36(a))	—	—	—	216	—	—	—	—	(216)	—	—	—
Equity-settled share option arrangements (Note 35)	—	—	—	—	—	5,748	—	—	—	5,748	—	5,748
As at 31 December 2012	65,120	99,866*	5,580*	27,718*	88,278*	5,875*	6,486	265*	96,274*	395,462	24,205	419,667

* These reserve accounts comprise the consolidated reserves of RMB323,856,000 (2011: RMB216,008,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to owners of the parent											
	Issued capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Merger reserve RMB'000	Share option reserve RMB'000	Proposed final dividend RMB'000	Exchange fluctuation reserve RMB'000	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 (Note 36(a))	—	—	—	4,894	—	—	—	—	(4,894)	—	—	—
Deemed capital contribution	12,800	—	—	—	—	—	—	—	—	12,800	—	12,800
Deemed contribution	—	—	—	—	95,763	—	—	—	—	95,763	—	95,763
Dividends paid to then shareholders	—	—	—	—	—	—	—	—	(206,000)	(206,000)	—	(206,000)
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	(4,768)	(4,768)
Acquisition of a subsidiary (Note 33)	—	—	—	—	—	—	—	—	—	—	25,628	25,628
Disposal of a subsidiary	—	—	—	—	—	—	—	—	—	—	(3,616)	(3,616)
Deemed distribution to an equity holder	(56,979)	—	—	—	515	—	—	—	—	(56,464)	—	(56,464)
Equity-settled share option arrangements (Note 35)	—	—	—	—	—	127	—	—	—	127	—	127
Proposed final dividend (Note 15)	—	—	—	—	—	—	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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from operating activities:			
Profit before tax		**14,739**	151,177
Adjustments for:			
Finance costs	9	**47,785**	44,971
Share of profits and losses of jointly-controlled entities and associates		**(16,408)**	1,104
Interest income	8	**(6,535)**	(16,398)
Gain on disposal of items of property, plant and equipment	6	**(74)**	(11,308)
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)
Release of government grants	31	**(329)**	—
Depreciation of property, plant and equipment	17	**36,913**	34,419
Depreciation of investment properties	18	**2,443**	1,214
Amortisation of prepaid land lease payments	19	**2,174**	2,211
Gain on bargain purchase	7	**(14,756)**	(9,766)
Gain on disposal of investments in associates	6	**—**	(714)
Loss on disposal of a subsidiary		**—**	29
Equity-settled share option expense		**5,748**	127
Provision for/(reversal of) inventories written down		**13,833**	(29)
Provision for impairment of property, plant and equipment	17	**1,598**	—
Provision for impairment of receivables	24	**98**	1,068
Increase in inventories		**(75,128)**	(12,348)
(Increase)/decrease in trade and notes receivables		**(38,778)**	56,500
Increase in prepayments and other receivables		**(53,889)**	(116,428)
Increase in amounts due from related parties		**(1,339)**	(5,535)
Increase in trade and notes payables		**58,648**	87,485
Increase in other payables, advances from customers and accruals		**784**	20,248
Increase in amounts due to related parties		**15,726**	33,783
Cash (used in)/generated from operations		**(6,747)**	213,108
Income tax paid		**(23,852)**	(38,210)
Net cash flows (used in)/from operating activities		**(30,599)**	174,898

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Cash flows from investing activities:			
Interest received		**6,535**	17,220
Purchases of items of property, plant and equipment		**(117,333)**	(187,878)
Purchases of items of prepaid land lease payments	19	**(52,663)**	(4,376)
Purchases of items of investment properties		**—**	(1,186)
Proceeds from disposal of items of property, plant and equipment		**456**	73,972
Proceeds from disposal of items of prepaid land lease payments		**—**	67,000
Acquisition of a subsidiary	33	**(31,899)**	7,566
Proceeds from government grants	31	**2,957**	—
Capital injection to a jointly-controlled entity		**—**	(60,000)
Disposal of a subsidiary		**8,400**	(15)
Dividends received from a jointly-controlled entity		**6,900**	4,000
Dividends received from an associate		**336**	—
Advance to the ultimate controlling shareholder		**(30,644)**	(76,790)
Advance to related parties		**(21,959)**	(446,873)
Recovery of advance to the ultimate controlling shareholder		**1,142**	202
Recovery of advance to related parties		**47,821**	627,814
Decrease in loans and receivables		**—**	10,000
Decrease/(increase) in non-pledged time deposits with original maturity of three months or more when acquired		**20,000**	(25,000)
(Increase)/decrease in pledged deposits		**(42,825)**	2,476
Net cash flows (used in)/from investing activities		**(202,776)**	8,132
Cash flows from financing activities:			
New bank loans		**832,168**	667,147
Repayment of bank loans		**(651,129)**	(778,000)
Deemed distribution to an equity holder		**—**	(28,000)
Deemed capital contribution from then equity holders		**—**	12,800
Interest paid		**(47,785)**	(44,971)
Dividends paid to then equity holders	36(b)	**(16,214)**	—
Dividends paid to non-controlling shareholders		**(3,675)**	(4,768)
Proceeds from placing and public offering	34	**182,336**	—
Share issue expenses	34	**(10,864)**	—
Advance from the ultimate controlling shareholder		**1,081**	55,689
Advance from related parties		**67,688**	168,865
Repayment of advance from the ultimate controlling shareholder		**—**	(27,546)
Repayment of advance from related parties		**(112,880)**	(113,417)
Net cash flows from/(used in) financing activities		**240,726**	(92,201)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Net increase in cash and cash equivalents		**7,351**	90,829
Cash and cash equivalents at beginning of year		**115,909**	25,080
Cash and cash equivalents at end of year		**123,260**	115,909
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the consolidated statement of cash flows		**123,260**	115,909
Cash and bank balances	27	**123,260**	115,909
Non-pledged time deposits with original maturity of three months or more when acquired	27	**10,000**	30,000
Cash and cash equivalents as stated in the consolidated statement of financial position		**133,260**	145,909

Details of major non-cash transactions are included in Note 42.

STATEMENT OF FINANCIAL POSITION

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**130**	—
Investments in subsidiaries	20	**44,501**	86
Total non-current assets		**44,631**	86
CURRENT ASSETS			
Prepayments and other receivables	25	**87**	—
Due from a shareholder	39(d)	**56**	—
Due from the ultimate controlling shareholder	39(d)	**30,373**	—
Due from subsidiaries	20/39(d)	**130,521**	—
Cash and cash equivalents	27	**1,525**	—
Total current assets		**162,562**	—
CURRENT LIABILITIES			
Other payables, advances from customers and accruals	29	**586**	—
Due to the ultimate controlling shareholder	39(d)	**210**	—
Due to subsidiaries	20/39(d)	**63,668**	25
Total current liabilities		**64,464**	25
Net current assets		**98,098**	25
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS		**142,729**	61
EQUITY			
Issued capital	34	**65,120**	—
Reserves	36	**71,123**	(16,153)
Proposed final dividend	15	**6,486**	16,214
TOTAL EQUITY		**142,729**	61

Zhou Minfeng
Director

Chang Jingzhou
Director

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, P.O. 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 of the Company, 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. The financial statements have been prepared on a historical cost convention, except for certain buildings classified as property, plant and equipment which have been measured at fair value. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, 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 and Shanghai Huaxin Automobile Latex and Plastic Co., Ltd. ("Shanghai Huaxin") acquired in 2011 (Note 33), the companies comprising the Group as at 31 December 2011 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 year ended 31 December 2011 have been prepared as if the Company had always been the holding company of the subsidiaries comprising the Group as at 31 December 2011 by applying the pooling of interest accounting as if the Reorganisation had been completed at 1 January 2011 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. 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 it 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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.

Going concern basis

Notwithstanding that the Group had consolidated net current liabilities of RMB266,350,000 at 31 December 2012, the financial statements have been prepared by the directors of the Company 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 2012, the Group had unutilised credit facilities from banks of approximately RMB163,000,000;

(ii) certain banks of the Group subsequently extended the maturity of credit facilities of RMB330,000,000 to 16 January 2014 and RMB275,000,000 to 31 December 2014, respectively; and

(iii) the directors of the Company 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.

In the opinion of the directors of the Company, in light of the measures taken to date together with the expected results of other measures in progress, the Group is able to fulfil its financial obligations upon fall due. Accordingly, it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity positions at 31 December 2012.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's 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*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*

The adoption of these revised IFRSs has had no significant financial effect on these financial statements.

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 — Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 — *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) — *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[1]
IAS 19 (Amendments)	Amendments to IAS19 *Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in June 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 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 profit or loss 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint ventures *(continued)*

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.

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. Adjustments are made to bring into line any dissimilar accounting policies that may exist. 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in 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 to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. Any subsequent revaluation surplus is credited to the profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

	Estimated useful lives
Freehold land	Not depreciated
Plant and buildings	20-30 years
Machinery	5-15 years
Motor vehicles	4-6 years
Furniture and fixtures	3-8 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 including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 purposes; or for sale in the ordinary course of business.

Investment properties are measured at cost less accumulated depreciation and any impairment losses. Depreciation is provided over their estimated useful lives on the straight-line basis, after taking into account their estimated residual values. The estimated useful life of the investment properties is 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 profit or loss in the period of derecognition. Transfers are made to or from investment property only when there is a change in use.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 controlling 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 other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

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 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 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 and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

Subsequent measurement

Loans and borrowings

After initial recognition, loans 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position 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.

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.

Provisions

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, 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.

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 jointly-controlled entities, 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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to 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 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) rental income, on a time proportion basis over the lease terms;

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

(d) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

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 payments, 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 35 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 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.

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 payments, 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.

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".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Dividends

Final dividends proposed by the directors of the Company 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 prevailing 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. Differences arising on settlement or translation of monetary items are recognised in 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. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, jointly-controlled entities and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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 their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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.

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 32 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.

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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS *(continued)*

Estimates and assumptions *(continued)*

Recognition of share-based compensation costs

As further disclosed in Note 35, the Company has granted share options to its employees. The directors of the Company 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 of the Company 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 judgement 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 tanks 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:

	2012 **RMB'000**	2011 RMB'000
Mainland China	**1,085,295**	1,100,145
Overseas	**70,598**	68,741
Total	**1,155,893**	1,168,886

(b) Non-current assets

	2012 **RMB'000**	2011 RMB'000
Mainland China	**634,199**	528,649
Overseas	**54,196**	—
Total	**688,395**	528,649

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

5. SEGMENT INFORMATION *(continued)*

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	2012 RMB'000	2011 RMB'000
Customer A	**417,724**	501,973
Customer B	**163,924**	117,368
Customer C	**119,456**	95,006

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:

	2012 RMB'000	2011 RMB'000
Revenue:		
Sales of goods	**1,074,098**	1,151,753
Sales of materials	**81,795**	17,133
	1,155,893	1,168,886
Other income and gains:		
Government grants	**4,220**	1,164
Rental income	**5,311**	2,484
Gain on sales of scrap materials	**1,177**	2,556
Gain on disposal of items of property, plant and equipment	**74**	11,308
Gain on disposal of an internally generated intangible asset	—	9,500
Gain on disposal of items of prepaid land lease payments	—	39,202
Gain on disposal of investments in associates	—	714
Management fee income (Note (a))	**6,000**	2,500
Others	**2,062**	1,264
Total	**18,844**	70,692

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

7. GAIN ON BARGAIN PURCHASE

	2012 **RMB'000**	2011 RMB'000
Gain on bargain purchase (Note 33)	**14,756**	9,766

8. FINANCE INCOME

	2012 **RMB'000**	2011 RMB'000
Interest income from a related party through entrusted loans	**—**	10,770
Interest income on loans and receivables	**—**	2,043
Interest income on bank deposits	**6,535**	3,585
	6,535	16,398

9. FINANCE COSTS

	2012 **RMB'000**	2011 RMB'000
Interest expense on bank loans and borrowings	**47,785**	44,971

10. PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Cost of inventories recognised as expenses	**914,320**	875,784
Depreciation of property, plant and equipment	**36,913**	34,419
Depreciation of investment properties	**2,443**	1,214
Amortisation of land lease payments	**2,174**	2,211
Research and development costs	**38,933**	22,590
Lease payments under operating leases in respect of properties	**7,899**	9,977
Auditors' remuneration	**2,759**	4,394
Employee benefit expense (excluding directors' and chief executive's remuneration (Note 11)):		
Wages and salaries	**120,310**	85,173
Pension scheme costs	**6,482**	5,961
Equity-settled share option expense	**3,710**	127
	130,502	91,261
Gross rental income	**(8,365)**	(4,286)
Less: Direct expenses that generated rental income	**3,054**	1,802
Rental income, net	**(5,311)**	(2,484)
Net foreign exchange losses	**2,422**	367
Provision for impairment of receivables	**98**	1,068
Provision for/(reversal of) inventories written down	**13,833**	(29)
Gain on bargain purchase	**(14,756)**	(9,766)
Gain on disposal of items of investments in associates	**—**	(714)
Gain on disposal of items of prepaid land lease payments	**—**	(39,202)
Gain on disposal of an internally generated intangible asset	**—**	(9,500)
Gain on disposal of items of property, plant and equipment	**(74)**	(11,308)
Government grants	**(4,220)**	(1,164)
Management fee income	**(6,000)**	(2,500)
Interest income	**(6,535)**	(16,398)

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2012 RMB'000	2011 RMB'000
Fees	**970**	51
Other emoluments:		
Salaries, allowances and benefits in kind	**644**	561
Equity-settled share option expense	**2,038**	42
Pension scheme contributions	**14**	13
	2,696	616
	3,666	667

During the year ended 31 December 2011, certain directors of the Company 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 35 to the financial statements. The fair value of such options, which has been recognised in 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' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

	2012 RMB'000	2011 RMB'000
Mr. Su Xijia	**194**	—
Mr. Tian Yushi	**194**	—
Mr. Yu Shuli	**194**	—
	582	—

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

11. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive

	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
2012					
Executive director and chief executive:					
Mr. Zhou Minfeng	—	375	518	11	904
Executive director:					
Mr. Chang Jingzhou	—	269	207	3	479
	—	644	725	14	1,383
Non-executive directors:					
Ms. Lai Cairong	194	—	1,313	—	1,507
Mr. Wang Yuming	194	—	—	—	194
Ms. Kuang Min	—	—	—	—	—
	388	—	1,313	—	1,701

	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 director and chief executive:					
Mr. Zhou Minfeng	24	327	11	11	373
Executive director:					
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

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

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors of the Company and the chief executive (2011: one director and the chief executive), details of whose remuneration are set out in Note 11 above. Details of the remuneration for the year of the remaining two (2011: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	**1,041**	2,423
Equity-settled share option expense	**188**	9
Pension scheme contributions	**5**	12
	1,234	2,444

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

	2012 Number of employees	2011 Number of employees
Nil to RMB1,000,000	**2**	3
RMB1,000,001 to RMB1,500,000	**—**	1

During the year ended 31 December 2011, share options were granted to four (2012: one) non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in Note 35 to the financial statements. The fair value of such options, which has been recognised in 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 and non-chief executive highest paid employees' remuneration disclosures.

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 2012 (2011: 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 from 2008 to 2012 and Shanghai Huaxin is subject to a unified rate of 25% from 1 January 2012 (2011: 24%). All other subsidiaries operating in Mainland China were subject to tax rate of 25% during the year (2011: 25%).

Pursuant to the local tax rules in Germany, HZ FBZ Formenbau Zuttlingen GmbH ("HZ FBZ") was subject to a tax rate of 28.075% during the year ended 31 December 2012.

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.

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

	2012 **RMB'000**	2011 RMB'000
Current income tax		
Income tax for the year	**10,318**	46,094
Underprovision in prior years	**—**	13
Deferred income tax (Note 32)	**(1,454)**	(7,855)
Total tax charge for the year	**8,864**	38,252

13. INCOME TAX *(continued)*

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:

	2012 RMB'000	2011 RMB'000
Profit before tax	**14,739**	151,177
Tax at the statutory tax rate	**3,685**	37,794
Lower tax rate for specific province or local tax authority	**3,816**	(1,105)
Tax losses not recognised	**5,066**	391
Profits and losses attributable to jointly-controlled entities and associates	**(3,485)**	276
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**3,284**	(6,264)
Non-taxable income	**(4,423)**	(2,558)
Underprovision in prior years	**—**	13
Expenses not deductible for tax	**921**	3,648
Tax losses utilised	**—**	(4,049)
Sub-total	**8,864**	28,146
LAT provision released from deferred tax assets	**—**	13,474
Tax effect on LAT	**—**	(3,368)
Tax charge for the year	**8,864**	38,252

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of RMB18,338,000 (2011: RMB66,000) which has been dealt with in the financial statements of the Company (Note 36(b)).

15. DIVIDENDS

	2012 RMB'000	2011 RMB'000
Special dividend declared	**—**	206,000
Proposed final dividend-HK$0.01 (2011: HK$0.025) per ordinary share	**6,486**	16,214
	6,486	222,214

The proposed final dividend for the year 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 795,191,257 in issue during the year ended 31 December 2012 (2011: 640,000,000, as though the capitalisation issue of shares of 640,000,000 shares prior to the Global Offering had been issued on 1 January 2011).

The share option scheme (see Note 35) does not give rise to any dilutive effect on the Company's earnings per share and there were no other dilutive potential ordinary shares during the year ended 31 December 2012. No adjustment has been made to the basic earnings per share amounts presented for the year.

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

	2012 **RMB'000**	2011 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**1,969**	110,168

	Number of shares **2012**	 2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**795,191,257**	640,000,000
Effect of dilution — weighted average number of ordinary shares:		
Share options	**—**	—
	795,191,257	640,000,000

17. PROPERTY, PLANT AND EQUIPMENT

Group

	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
31 December 2012							
At 31 December 2011 and 1 January 2012:							
Cost	111,425	203,153	10,044	13,522	36,024	26,239	400,407
Accumulated depreciation and impairment	(19,067)	(95,753)	(2,491)	(10,152)	(16,625)	—	(144,088)
Net carrying amount	92,358	107,400	7,553	3,370	19,399	26,239	256,319
At 1 January 2012, net of accumulated depreciation and impairment	92,358	107,400	7,553	3,370	19,399	26,239	256,319
Additions	4,262	45,759	1,037	3,184	5,877	101,984	162,103
Acquisition of a subsidiary (Note 33)	26,797	24,478	341	52	—	—	51,668
Transfers	99,181	1,610	—	—	—	(100,791)	—
Disposals	—	(342)	(40)	—	—	—	(382)
Impairment	(1,598)	—	—	—	—	—	(1,598)
Depreciation provided during the year	(7,661)	(21,475)	(1,833)	(1,298)	(4,646)	—	(36,913)
Exchange realignment	(244)	(235)	(3)	—	—	—	(482)
At 31 December 2012, net of accumulated depreciation and impairment	213,095	157,195	7,055	5,308	20,630	27,432	430,715
At 31 December 2012:							
Cost and valuation	241,418	274,310	10,940	16,758	41,901	27,432	612,759
Accumulated depreciation and impairment	(28,323)	(117,115)	(3,885)	(11,450)	(21,271)	—	(182,044)
Net carrying amount	213,095	157,195	7,055	5,308	20,630	27,432	430,715
Analysis of cost or valuation:							
At cost	238,640	274,310	10,940	16,758	41,901	27,432	609,981
At 31 December 2012 valuation	2,778	—	—	—	—	—	2,778
	241,418	274,310	10,940	16,758	41,901	27,432	612,759

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group *(continued)*

	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
31 December 2011							
At 1 January 2011:							
Cost	130,708	262,398	7,898	12,288	50,336	14,113	477,741
Accumulated depreciation and impairment	(26,579)	(132,648)	(3,289)	(9,788)	(46,266)	—	(218,570)
Net carrying amount	104,129	129,750	4,609	2,500	4,070	14,113	259,171
At 1 January 2011, net of accumulated depreciation and impairment	104,129	129,750	4,609	2,500	4,070	14,113	259,171
Additions	481	37,407	4,297	1,591	23,758	52,423	119,957
Disposals	(14,419)	(51,176)	(636)	(117)	—	—	(66,348)
Transfer to investment properties (Note 18)	(40,991)	—	—	—	—	—	(40,991)
Acquisition of a subsidiary (Note 33)	12,608	5,599	560	182	—	—	18,949
Depreciation provided during the year	(5,928)	(14,180)	(1,277)	(786)	(12,248)	—	(34,419)
Transfers	36,478	—	—	—	3,819	(40,297)	—
At 31 December 2011, net of accumulated depreciation and impairment	92,358	107,400	7,553	3,370	19,399	26,239	256,319
At 31 December 2011:							
Cost	111,425	203,153	10,044	13,522	36,024	26,239	400,407
Accumulated depreciation and impairment	(19,067)	(95,753)	(2,491)	(10,152)	(16,625)	—	(144,088)
Net carrying amount	92,358	107,400	7,553	3,370	19,399	26,239	256,319
Analysis of cost:							
At cost	111,425	203,153	10,044	13,522	36,024	26,239	400,407

Included in the property, plant and equipment as at 31 December 2012 were certain buildings with a net carrying value of RMB88,339,000 (2011: RMB39,643,000), of which the property certificates have not been obtained. The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors of the Company 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 2012.

Certain of the Group's buildings with a net carrying value of RMB16,517,000 as at 31 December 2012 (2011: RMB20,889,000) were pledged to secure bank loans granted to the Group (Note 30).

Certain of the Group's buildings with a net carrying value of RMB25,991,000 as at 31 December 2012 (2011: nil) were pledged to secure aval commitments of RMB3,795,000, a form of bank guarantees obtained by the Group in favour of certain customers for their advance payments (Note 29).

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Furniture and fixtures RMB'000	Total RMB'000
At 1 January 2011 and 1 January 2012, net of accumulated depreciation and impairment	—	—
Additions	167	167
Depreciation provided during the year	(37)	(37)
At 31 December 2012, net of accumulated depreciation and impairment	130	130
At 31 December 2012:		
Cost	167	167
Accumulated depreciation and impairment	(37)	(37)
Net carrying amount	130	130
Analysis of cost:		
At cost	167	167

18. INVESTMENT PROPERTIES

	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January	**45,197**	4,234
Additions	**—**	1,186
Transfer from owner-occupied property (Note 17)	**—**	40,991
Depreciation	**(2,443)**	(1,214)
Carrying amount at 31 December	**42,754**	45,197

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 properties was RMB47,399,000 as at 31 December 2012 (2011: RMB49,040,000), 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 39(b).

Included in the investment properties as at 31 December 2012 were certain buildings with a net carrying value of RMB13,644,000 (2011: RMB14,521,000) of which the property certificates have not been obtained. The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors of the Company 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 2012.

The Group's investment property with a net carrying value of RMB3,630,000 as at 31 December 2012 (2011: RMB3,879,000) was pledged to secure bank loans of the Group (Note 30).

19. PREPAID LAND LEASE PAYMENTS

	2012 RMB'000	2011 RMB'000
At beginning of year	**94,687**	94,800
Additions	**52,663**	4,376
Acquisition of subsidiaries (Note 33)	**—**	10,640
Disposals	**—**	(12,918)
Amortisation	**(2,174)**	(2,211)
At end of year	**145,176**	94,687
Current portion included in prepayments and other receivables (Note 25)	**(2,928)**	(2,069)
At end of year	**142,248**	92,618

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 2012 were certain lands with a net book value of RMB55,022,000 (2011: RMB16,269,600) 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 RMB32,256,000 as at 31 December 2012 (2011: RMB13,118,000) were pledged to secure bank loans granted to the Group (Note 30).

20. INVESTMENTS IN SUBSIDIARIES

Company

	2012 RMB'000	2011 RMB'000
Unlisted equity investment, at cost	**40,709**	—
Loans to subsidiaries	**130,521**	—
Capital contribution in respect of employee share-based compensation	**3,792**	86
Less: Impairment of investment	**—**	—
	175,022	86

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB130,521,000 (2011: Nil) and RMB63,668,000 (2011: RMB25,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

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	Percentage of equity interest attributable to the Company 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 automotive products
Ningbo Xinxing Automobile Plastic Parts Manufacturing Co., Ltd. ("Ningbo Xinxing")	PRC 25 December 1984	—	100%	RMB3,400,000	Manufacture and sale of plastic automotive products
Changchun Huateng Automobile Parts Co., Ltd. ("Changchun Huateng")	PRC 22 July 1997	—	100%	RMB1,000,000	Manufacture and sale of plastic automotive products
Changchun Huaxiang Automobile Plastic Parts Manufacturing Co., Ltd. ("Changchun Huaxiang")	PRC 9 June 2000	—	100%	RMB75,000,000	Manufacture and sale of plastic automotive products
Ningbo Huazhong Moulding Manufacturing Co., Ltd. ("Ningbo Huazhong Moulding")	PRC 25 January 2002	—	100%	RMB10,000,000	Design, manufacture, and processing of moulds
Guangzhou Huazhong Automobile Decorative Parts Co., Ltd. ("Guangzhou Huazhong")	PRC 24 September 2004	—	100%	RMB3,000,000	Manufacture and sale of plastic automotive 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
Chongqing Huazhong^	PRC 30 August 2007	—	100%	RMB63,000,000	Manufacture and sale of plastic automotive products
Chengdu Huazhong Automobile Parts Co., Ltd. ("Chengdu Huazhong")	PRC 22 October 2009	—	100%	RMB20,000,000	Manufacture and sale of plastic automotive products
Shanghai Xiangmao Automobile Parts Co., Ltd. ("Shanghai Xiangmao")	PRC 30 November 2009	—	100%	RMB500,000	Manufacture and sale of plastic automotive products
Ningbo Huafeng Plastic and Latex Products Co., Ltd. ("Ningbo Huafeng")	PRC 17 March 1999	—	100%	RMB1,500,000	Manufacture and sale of plastic automotive products
Wuhu Huazhong Automotive Parts Co., Ltd. ("Wuhu Huazhong")	PRC 1 June 2010	—	100%	RMB10,000,000	Manufacture and sale of plastic automotive products
Yantai Huaxiang Automotive Parts Co., Ltd. ("Yantai Huaxiang")	PRC 16 April 2010	—	100%	RMB10,000,000	Manufacture and sale of plastic automotive products
Shanghai Huaxin Automobile Latex and Plastic Co., Ltd. ("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 automotive 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
Foshan Huazhong Automotive Parts Co., Ltd. ("Foshan Huazhong")*	PRC 13 March 2012	—	100%	RMB20,000,000	Manufacture and sale of plastic parts and automotive parts
HZ FBZ#^	Germany 12 April 2002	100%	—	EUR1,000,000	Manufacture and sale of moulds
Ningbo Huazhong Automotive Parts Co., Ltd. ("Hangzhou Bay Huazhong")&	PRC 2 November 2012	50%	50%	Nil/US$25,000,000	Manufacture and sale of plastic parts and automotive parts

* the entity was established in 2012
\# the entity was acquired in 2012
^ these entities have share capital increased in 2012
& the entity was established but no capital was paid up in 2012

Other than HZ FBZ, 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. INVESTMENT IN AN ASSOCIATE

	2012 RMB'000	2011 RMB'000
Share of net assets	**2,880**	2,774

Particulars of the associate are as follows:

Name	Place and date of registration	Percentage of ownership interest attributable to the Group	Principal activities
Shanghai Baodegu Plastic Science & Technology Co., Ltd. ("Shanghai Baodegu") (Note (i))	PRC 14 June 1995	23%	Manufacture and sale of plastic auto parts

(i) Since 10 August 1999, Shanghai Huaxin has 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 the acquisition of Shanghai Huaxin are included in Note 33.

21. INVESTMENT IN AN ASSOCIATE *(continued)*

The following table illustrates the summarised financial information of the Group's associate extracted from its unaudited financial statements:

	2012 RMB'000	2011 RMB'000
Assets	**9,416**	8,839
Liabilities	**(3,016)**	(2,671)
Revenue	**18,882**	10,453
Profit	**980**	830

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

22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES

	2012 RMB'000	2011 RMB'000
Share of net assets	**65,333**	56,505

Particulars of the jointly-controlled entities are as follows:

Name	Place and date of registration	Percentage of Ownership interest	Percentage of Voting power	Percentage of 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, design 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-sales services, and technical consultations

(i) On 17 March 2004, Ningbo Hualete was incorporated in Zhejiang Province, the PRC, 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 Co. Ltd. ("Ningbo Huayou Properties"), a related party. The Group currently holds a 50% equity interest in Ningbo Hualete which remains to be jointly controlled by the Group.

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

22. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES *(continued)*

	2012 RMB'000	2011 RMB'000
Share of the jointly-controlled entities' results:		
Revenue	**435,580**	120,410
Other income	**91**	1,007
	435,671	121,417
Total expenses	**(420,715)**	(121,508)
Tax	**1,011**	(1,438)
Profit/(loss) after tax	**15,967**	(1,529)

The financial statements of Changchun Huaxiang Faurecia were audited by Ernst & Young Hua Ming.

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

23. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	**42,374**	33,679
Work in progress	**21,874**	3,356
Finished goods	**105,859**	70,790
	170,107	107,825

24. TRADE AND NOTES RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	**325,343**	262,807
Notes receivable	**10,120**	33,930
	335,463	296,737
Impairment of trade receivables	**(15,156)**	(15,058)
	320,307	281,679

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 RMB24,526,000 as at 31 December 2012 (2011: RMB10,327,000) were pledged to secure bank loans granted to the Group (Note 30).

24. TRADE AND NOTES RECEIVABLES *(continued)*

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

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

	2012 RMB'000	2011 RMB'000
Within 3 months	276,484	222,783
3 to 6 months	22,779	19,222
6 months to 1 year	5,522	5,744
Over 1 year	5,402	—
	310,187	247,749

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

	2012 RMB'000	2011 RMB'000
At beginning of year	15,058	13,990
Impairment for the year	98	1,068
At end of year	15,156	15,058

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

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	278,854	222,990
Less than 1 month past due	5,209	14,652
1 to 2 months past due	9,305	2,686
2 to 3 months past due	6,175	1,808
Over 3 months and within 1 year past due	10,011	5,613
Over 1 year past due	633	—
	310,187	247,749

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 of the Company 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

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**64,029**	71,101	**—**	—
Other receivables	**168,935**	81,224	**87**	—
Current portion of prepaid land lease payments (Note 19)	**2,928**	2,069	**—**	—
	235,892	154,394	**87**	—

Other receivables are advances made to unrelated parties, which are unsecured, interest-free and have no fixed terms of repayment. As at the date of this report, the entire balances have been settled.

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

Name	**31 December 2012** RMB'000 (Note 39(d))	**Maximum amount outstanding during the year** RMB'000	**1 January 2012** RMB'000	**Security held**
Zhou Minfeng ("Mr. Zhou")	30,163	30,163	6,284	None
Ningbo Huayou Properties (controlled by Mr. Zhou)	8,050	35,209	35,209	None
Changchun Huayou Properties Co., Ltd. ("Changchun Huayou") (controlled by Mr. Zhou)	587	587	100	None
Guangzhou Chengli Industrial Co., Ltd. (controlled by Mr. Zhou)	2,104	2,104	2,083	None
Huayou Holdings Company Ltd. (controlled by Mr. Zhou)	81	81	—	None
	40,985	68,144	43,676	

Except for the entrusted loans granted to Ningbo Huayou Properties, the other loans granted to directors of the Company are unsecured, interest-free and have no fixed terms of repayment.

27. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**123,260**	115,909	**1,525**	—
Time deposits	**207,951**	185,126	**—**	—
	331,211	301,035	**1,525**	—
Less: Pledged deposits	**(197,951)**	(155,126)	**—**	—
Cash and cash equivalents in the consolidated statement of financial position	**133,260**	145,909	**1,525**	—
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(10,000)**	(30,000)	**—**	—
Cash and cash equivalents in the consolidated statement of cash flows	**123,260**	115,909	**1,525**	—

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 pledged deposits are deposited with creditworthy banks with no recent history of default.

Pledged deposits with a carrying value of RMB105,251,000 as at 31 December 2012 (2011: RMB151,876,000) were pledged to secure the issuance of notes payable (Note 28).

Pledged deposits with a carrying value of RMB92,700,000 as at 31 December 2012 (2011: RMB3,250,000) were pledged to secure the bank loans granted to the Group (Note 30).

28. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables of the Group as at 31 December 2012, based on the invoice date, is as follows:

	2012 RMB'000	2011 RMB'000
Within 3 months	**414,608**	470,137
3 to 12 months	**157,671**	44,082
1 to 2 years	**705**	91
2 to 3 years	**68**	746
Over 3 years	**841**	189
	573,893	515,245

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 of the Group with a carrying value of RMB105,251,000 as at 31 December 2012 (2011: RMB151,876,000) (Note 27).

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

29. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Other payables	**91,444**	86,832	**586**	—
Advances from customers	**11,742**	7,440	**—**	—
Accruals	**3,956**	12,086	**—**	—
Government grants — current portion (Note 31)	**329**	—	**—**	—
	107,471	106,358	**586**	—

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.

Certain of the Group's advances from customers of RMB3,795,000 (2011: nil) were secured by buildings with a net carrying value of RMB25,991,000 as aval commitments, a form of bank guarantees obtained by the Group in favour of certain customers for their advance payments, as at 31 December 2012 (Note 17).

30. INTEREST-BEARING BANK BORROWINGS

	2012			2011		
	Effective interest rate %	**Maturity**	**RMB'000**	Effective interest rate %	Maturity	RMB'000
Current						
Bank loans — secured	**2.47~6.6**	**2013**	**287,186**	3.1~7.544	2012	399,824
Bank loans — unsecured	**5.6~6.89**	**2013**	**334,000**	5.0~6.8014	2012	20,323
Discounted bank accepted notes	**—**	**—**	**—**	5.6746	2012	20,000
			621,186			440,147

	2012 RMB'000	2011 RMB'000
Analysed into:		
Bank loans and discounted bank accepted notes repayable:		
Within one year	**621,186**	440,147

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

As at 31 December 2012, the Group's bank loans of RMB287,186,000 (2011: RMB399,824,000) were secured by the pledges of the Group's assets with carrying values as follows:

	Notes	**2012 RMB'000**	2011 RMB'000
Property, plant and equipment	17	**16,517**	20,889
Investment properties	18	**3,630**	3,879
Prepaid land lease payments	19	**32,256**	13,118
Trade receivables	24	**24,526**	10,327
Pledged deposits	27	**92,700**	3,250
		169,629	51,463

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

31. GOVERNMENT GRANTS

	2012 RMB'000	2011 RMB'000
Carrying amount at beginning of the year	—	—
Received during the year	2,958	—
Released to profit or loss	(329)	—
Carrying amount at end of the year	2,629	—
Current portion, classified under other payables, advances from customers and accruals (Note 29)	329	—
Non-current	2,300	—
	2,629	—

Government grants have been received for the purchase and construction of certain items of property, plant and equipment.

32. DEFERRED TAX

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

	2012 RMB'000	2011 RMB'000
Deferred tax assets arising from:		
— Provision for receivables	3,790	3,765
— Write-down of inventories	5,592	2,708
— Accruals	6,182	6,015
— Unrealised profits	5,790	5,754
— Tax losses	384	—
— Impairment of property, plant and equipment	400	—
	22,138	18,242
Deferred tax liabilities arising from:		
— Valuation surplus	8,145	3,227
— Withholding taxes	14,071	10,787
	22,216	14,014

32. 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	Accruals RMB'000	Unrealized profits RMB'000	Tax losses RMB'000	Impairment of property, plant and equipment RMB'000	Provision for LAT RMB'000	Total RMB'000
As at 31 December 2010 and 1 January 2011	3,439	1,140	1,126	—	—	—	13,474	19,179
Acquisition of subsidiaries (Note 33)	—	36	163	—	—	—	—	199
Credited/(charged) to profit or loss (Note 13)	326	1,532	4,726	5,754	—	—	(13,474)	(1,136)
As at 31 December 2011 and 1 January 2012	3,765	2,708	6,015	5,754	—	—	—	18,242
Credited to profit or loss (Note 13)	25	2,884	167	36	384	400	—	3,896
As at 31 December 2012	3,790	5,592	6,182	5,790	384	400	—	22,138

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 2010 and 1 January 2011	3,249	16,643	19,892
Acquisition of subsidiaries (Note 33)	2,705	408	3,113
Credited to profit or loss (Note 13)	(2,727)	(6,264)	(8,991)
As at 31 December 2011 and 1 January 2012	3,227	10,787	14,014
Acquisition of subsidiaries (Note 33)	5,760	—	5,760
Charged/(credited) to profit or loss (Note 13)	(842)	3,284	2,442
As at 31 December 2012	8,145	14,071	22,216

32. DEFERRED TAX *(continued)*

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%.

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

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:

	2012 RMB'000	2011 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**21,654**	9,939
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(21,732)**	(5,711)

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

	2012 RMB'000	2011 RMB'000
Unused tax losses	**20,011**	1,649
Deductible temporary differences	**250**	—
	20,261	1,649

Among the above tax losses is approximately RMB15,457,000 arising from HZ FBZ, which is entitled to a deduction of future taxable profits with no expiry period. The others are subject to an expiry period of five years for offsetting 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.

33. BUSINESS COMBINATIONS

Acquisition of FBZ Formenbau Zuttlingen GmbH ("FBZ Formenbau")

Prior to 27 March 2012, HY Internationale Handelsgesellschaft mbH ("HY International") was owned by Mr. Zhou through an entrustment agreement to Ms. Chen Xin. On 27 March 2012, the Group acquired the entire equity interest in HY International from Mr. Zhou at a consideration of EUR25,000 (Note 39(c)(ii)) and HY International became a wholly-owned subsidiary of the Group thereafter. The acquisition of HY International was an equity transaction under common control, thus the pooling of interest method was applied.

On 1 April 2012, HY International purchased certain building, land and machinery from FBZ Formenbau Zuttlingen GmbH ("FBZ Formenbau"), an unrelated German corporation under bankruptcy, for a consideration of EUR3,800,000 (equivalent to RMB31,899,000). After the acquisition, HY International was renamed to HZ FBZ.

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

	2012 RMB'000
Property, plant and equipment	51,668
Inventories	747
Deferred tax liabilities	(5,760)
Total identifiable net assets at fair value	46,655
Less: Gain on bargain purchase recognised in profit or loss	(14,756)
	31,899
Satisfied by:	
Cash	31,899

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	(31,899)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(31,899)

Since the acquisition, HZ FBZ has contributed RMB13,869,000 to the revenue of the Group and generated losses of RMB2,118,000 to offset the profit of the Group for the year ended 31 December 2012.

33. BUSINESS COMBINATIONS *(continued)*

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. Huaxiang 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.

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

	2011 RMB'000
Property, plant and equipment	18,949
Prepaid land lease payments	10,640
Investment in an associate	2,850
Deferred tax assets	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	(2,705)
Non-controlling interests	(25,628)
Total identifiable net assets at fair value	26,674
Less: Gain on bargain purchase recognised in profit or loss	(9,766)
Withholding tax at 10% on the distributable profits arising from the business combination	(408)
	16,500
Offset by:	
An amount due from a related party	16,500

An analysis of the net inflow 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

Shanghai Huaxin has contributed RMB102,292,000 (2011: RMB91,855,000) to the revenue and RMB8,332,000 (2011: RMB6,357,000) to the profit of the Group for the year ended 31 December 2012.

34. ISSUED CAPITAL

Group

The Reorganisation was completed on 29 July 2011. Accordingly, the share capital reflected in the consolidated statement of changes in equity as at 1 January 2011 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 issued capital reflected in the consolidated statement of financial position as at 31 December 2011 and 31 December 2012 represented the Company's issued share capital.

Company

Shares

	2012 RMB'000	2011 RMB'000
Authorised: 10,000,000,000 (31 December 2011: 10,000,000,000) ordinary shares of HK$0.10 each	**814,800**	814,800

Issued and fully paid:

	Number of shares in issue	Share capital RMB'000
At 1 January 2011, 31 December 2011 and 1 January 2012	1	—
Capitalisation issue of shares	639,999,999	52,096
New issue of shares from placing and public offering	160,000,000	13,024
At 31 December 2012	800,000,000	65,120

The Company was incorporated on 3 December 2010 with 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.

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.

On 12 January 2012, 639,999,999 ordinary shares of HK$0.10 each were issued to the then shareholder of the Company by way of capitalisation of HK$64,000,000 (equivalent to RMB52,096,000) from the share premium account upon the Listing of the Company's shares on the Stock Exchange pursuant to a resolution of the directors of the Company on 15 December 2011.

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 of the shares issued were credited to the Company's issued capital. The remaining proceeds of HK$208,000,000 (equivalent to RMB169,312,000), before share issue expenses, were credited to the Company's share premium account. The shares of the Company were listed on the Stock Exchange on the same date.

34. ISSUED CAPITAL *(continued)*

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2011, 31 December 2011 and 1 January 2012	1	—	—	—
Capitalisation issue of shares	639,999,999	52,096	(52,096)	—
New issue of shares from placing and public offering	160,000,000	13,024	169,312	182,336
	800,000,000	65,120	117,216	182,336
Share issue expenses	—	—	(10,864)	(10,864)
Proposed final dividend	—	—	(6,486)	(6,486)
At 31 December 2012	800,000,000	65,120	99,866	164,986

35. SHARE OPTION SCHEME

Pre-IPO Share Option Scheme

The Company operates a Pre-IPO share option scheme (the "Pre-IPO Share Option 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 the 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. The Pre-IPO Share Option Scheme became effective on 15 December 2011.

All the options under the Pre-IPO Share Option 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 Pre-IPO Share Option Scheme during the year:

	2012		2011	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.12**	**18,000**	—	—
Granted during the year	—	—	1.12	18,000
Forfeited during the year	**1.12**	**300**	—	—
At 31 December	**1.12**	**17,700**	1.12	18,000

35. SHARE OPTION SCHEME *(continued)*

Pre-IPO Share Option Scheme *(continued)*

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

2012 Number of options '000	2011 Number of options '000	Exercise price HK$ per share	Exercise period
6,195	6,300	1.12	12 January 2013 to 11 January 2017
6,195	6,300	1.12	12 January 2014 to 11 January 2017
5,310	5,400	1.12	12 January 2015 to 11 January 2017 to 11 January 2017
17,700	18,000		

The fair value of the share options granted in 2011 was RMB10,011,000 (RMB0.56 each), of which the Group recognised a share option expense of RMB5,748,000 during the year ended 31 December 2012 (2011: RMB127,000).

The fair value of equity-settled share options granted in 2011 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:

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 17,700,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 17,700,000 additional ordinary shares of the Company and additional share capital of HK$1,770,000, equivalent to RMB1,435,000, and share premium of HK$18,054,000, equivalent to RMB14,638,000 (before issue expenses).

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.

35. SHARE OPTION SCHEME *(continued)*

Share Option Scheme *(continued)*

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.

There was no grant, exercise, lapse, or cancellation of share options under the Share Option Scheme during the year. There was no outstanding share option under the Share Option Scheme as at the end of the reporting period (2011: Nil).

36. 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 of the financial statements.

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, as determined under the PRC accounting rules and regulations, 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 registered in Mainland China as foreign-invested companies, 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 non-foreign invested subsidiaries in Mainland China is required to transfer 10% of its profit after taxation, as determined under the PRC accounting rules and 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.

36. RESERVES *(continued)*

(b) Company

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses 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)
Equity-settled share option arrangements	—	5,748	—	5,748
Capitalisation issue of shares	(52,096)	—	—	(52,096)
New issue of shares from placing and public offering	169,312	—	—	169,312
Share issue expenses	(10,864)	—	—	(10,864)
Loss for the year	—	—	(18,338)	(18,338)
Proposed final 2012 dividend	(6,486)	—	—	(6,486)
At 31 December 2012	99,866	5,875	(34,618)	71,123

37. 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:

	2012 RMB'000	2011 RMB'000
Within one year	**6,395**	2,666
After one year but not more than five years	**2,249**	3,305
	8,644	5,971

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:

	2012 RMB'000	2011 RMB'000
Within one year	**8,365**	7,521
In the second to fifth years inclusive	**16,794**	23,295
	25,159	30,816

38. COMMITMENTS

In addition to the operating lease commitments detailed in Note 37 above, the Group had the following capital commitments as at the end of each reporting period:

	2012 RMB'000	2011 RMB'000
Contracted, but not provided for in respect of the acquisition of:		
Property, plant and equipment	**618,442**	19,895
Prepaid land lease payments	**23,370**	—
	641,812	19,895

39. 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
Mr. Zhou Xiaofeng	Brother 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 Mr. Zhou Xiaofeng
Ningbo Huayou Properties	Controlled by Mr. Zhou
Huayou Holdings Company Ltd. ("Huayou Holdings").	A shareholder of the Company
寧波華翔汽車飾件有限公司 ("Huaxiang Trim")	Controlled by Ningbo Huaxiang Electronics
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

39. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(a) Name and relationship *(continued)*

Name of related party	Relationship with the Group
Chengdu Huaxiang Auto Parts Co., Ltd. ("Chengdu 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")	Controlled by Ningbo Huayou Properties
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
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 of the Group prior to disposal on 31 March 2011 and controlled by Mr. Zhou
Ningbo City Huaxiang Technology Co., Ltd. ("Huaxiang Technology")	An associate of 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 Automotive Co., Ltd. ("Ningbo Huayue")	Controlled by Ningbo Huazhong Moulding and became a subsidiary in 2010 and being disposed of to Ms. Lai Danfen in 2011
Changchun Huaxiang Faurecia	Jointly controlled by the Group
Shanghai Baodegu	An associate of the Group

39. 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	2012 RMB'000	2011 RMB'000
Sales of goods to related parties	(i)		
Shanghai Baodegu		**7,790**	—
Changchun Huaxiang Faurecia		**—**	4,491
Ningbo Huaxiang Electronics		**—**	767
		7,790	5,258
Purchase of goods from related parties	(ii)		
Changchun Huaxiang Faurecia		**109,910**	43,075
Nanchang Jiangling		**3,874**	5,290
Huaxiang Trim		**3,353**	3,387
Ningbo Makete		**1,999**	5,159
Chengdu Huaxiang		**1,126**	—
Huaxiang Resort		**277**	867
Huaxiang Sales Co		**18**	35
		120,557	57,813
Sales of raw materials to a related party	(i)		
Changchun Huaxiang Faurecia		**64,952**	16,544
Purchase of raw materials from related parties	(ii)		
Ningbo Hualete		**62,851**	68,042
Shanghai Baodegu		**5,211**	5,049
		68,062	73,091
Gross rental income from related parties	(iii)		
Changchun Huaxiang Faurecia		**7,346**	2,709
Ningbo Hualete		**1,019**	1,019
		8,365	3,728
Management fee income from a related party	(iv)		
Changchun Huaxiang Faurecia		**6,000**	2,500

39. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(b) Related party transactions *(continued)*

	Notes	2012 RMB'000	2011 RMB'000
Advance to the ultimate controlling shareholder	(v)/(vi)		
Mr. Zhou		**30,644**	76,790
Advances to related parties	(v)		
Ningbo Huayou Properties		**18,900**	284,644
Huaxiang Technology		**2,371**	—
Changchun Huayou		**587**	127,697
Guangzhou Chengli		**20**	—
Huayou Holdings		**81**	—
Ningbo Huayue		**—**	32,040
Xiangrun Petrochemical		**—**	1,898
Huaxiang Group		**—**	594
		21,959	446,873
Advance from the ultimate controlling shareholder	(v)		
Mr. Zhou		**1,081**	55,689
Advances from related parties	(v)		
Ningbo Huayou Properties		**34,421**	3,506
Ningbo Hualete		**32,900**	93,790
Ningbo Huayue		**269**	—
Huaxiang Technology		**98**	—
Xiangyue Industry		**—**	50,000
Changchun Huayou		**—**	18,701
Huaxiang Group		**—**	1,991
Huaying Moulding		**—**	280
Huaxiang Resort		**—**	597
		67,688	168,865

39. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(b) Related party transactions *(continued)*

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

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

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

Note (v): Advances from/to the ultimate controlling shareholder and related parties are interest-free and repayable on demand.

Note (vi): Included in the advance to the ultimate controlling shareholder, the Group made a payment of EUR3,652,000 (equivalent to RMB30,373,000) on behalf of Mr. Zhou to Investnet Finance Limited, an unrelated party, during the year ended 31 December 2012. The amount remained outstanding and was recorded as an amount due from the ultimate controlling shareholder at 31 December 2012.

(c) Other transactions with related parties

(i) During the year ended 31 December 2012, the Group provided guarantees to Ningbo Hualete for its bank facilities amounting to RMB4,530,000 as at 31 December 2012 (2011: RMB7,020,000).

(ii) During the year ended 31 December 2012, the Group acquired the 100% equity interest in HY International from Mr. Zhou at a consideration of EUR25,000 (Note 33).

(iii) During the year ended 31 December 2012, the Group made a payment of RMB3,800,000 for share issue expenses on behalf of Mr. Zhou.

(iv) During the year ended 31 December 2012, the Group leased certain of its offices from Guangzhou Chengli at nil consideration (2011: Nil).

39. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

(d) Outstanding balances with related parties

GROUP

	2012 RMB'000	2011 RMB'000
Amount due from the ultimate controlling shareholder		
Mr. Zhou	30,163	6,284
Amounts due from related parties		
Changchun Huaxiang Faurecia	44,698	43,258
Ningbo Huayou Properties	8,050	35,209
Guangzhou Chengli	2,104	2,083
Changchun Huayou	587	100
Ningbo Huaxiang Electronics	211	424
Huayou Holdings	81	—
Huaxiang Technology	65	105
Jingshang Huaxiang	8	—
Ningbo Huayue	—	23,008
Ms. Lai Danfen	—	8,400
	55,804	112,587
Amount due to the ultimate controlling shareholder		
Mr. Zhou	687	—
Amounts due to related parties		
Changchun Huaxiang Faurecia	43,116	36,190
Ningbo Hualete	19,034	24,046
Ningbo Huayou Properties	5,693	60,506
Shanghai Baodegu	3,001	2,022
Huaxiang Trim	1,330	4,631
Nanchang Jiangling	1,308	1,252
Chengdu Huaxiang	1,057	—
Huaying Moulding	720	4,995
Ningbo Makete	439	1,082
Ningbo Huayue	179	—
Huaxiang Resort	163	12
Huaxiang Technology	98	—
Huaxiang Sales Co	—	6
	76,138	134,742

The amounts due from/to the ultimate controlling shareholder and related parties are unsecured, interest-free and repayable on demand.

39. RELATED PARTY TRANSACTIONS AND BALANCES *(continued)*

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

COMPANY

	2012 RMB'000	2011 RMB'000
Amount due from a shareholder		
Huayou Holdings	**56**	—
Amount due from the ultimate controlling shareholder		
Mr. Zhou	**30,373**	—
Amounts due from subsidiaries		
Ningbo Huazhong Plastic	**85,500**	—
Huayou Investment	**45,016**	—
Huazhong Investment	**5**	—
	130,521	—
Amount due to the ultimate controlling shareholder		
Mr. Zhou	**210**	—
Amounts due to subsidiaries		
HZ FBZ	**63,643**	—
Ningbo Huazhong Plastic	**25**	25
	63,668	25

The amounts due from/to the ultimate controlling shareholder, a shareholder and subsidiaries are unsecured, interest-free and repayable on demand.

(e) Compensation of key management personnel of the Group

	2012 RMB'000	2011 RMB'000
Short term employee benefits	**3,017**	3,412
Post-employment benefits	**26**	28
Equity-settled share option expense	**2,633**	57
Total compensation paid to key management personnel	**5,676**	3,497

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

40. 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 2012	Loans and receivables RMB'000
Trade and notes receivables	320,307
Financial assets included in prepayments and other receivables (Note 25)	168,935
Due from the ultimate controlling shareholder	30,163
Due from related parties	55,804
Pledged deposits	197,951
Cash and cash equivalents	133,260
	906,420

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 controlling shareholder	6,284
Due from related parties	112,587
Pledged deposits	155,126
Cash and cash equivalents	145,909
	782,809

Financial liabilities

As at 31 December 2012	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables, advances from customers and accruals (Note 29)	91,444
Trade and notes payables	573,893
Interest-bearing bank borrowings	621,186
Due to the ultimate controlling shareholder	687
Due to related parties	76,138
	1,363,348

As at 31 December 2011	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables, advances from customers and accruals (Note 29)	86,832
Trade and notes payables	515,245
Interest-bearing bank borrowings	440,147
Due to related parties	134,742
	1,176,966

40. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

(b) Company

Financial assets

As at 31 December 2012	Loans and receivables RMB'000
Financial assets included in prepayments and other receivables (Note 25)	87
Due from subsidiaries	130,521
Due from a shareholder	56
Due from the ultimate controlling shareholder	30,373
Cash and cash equivalents	1,525
	162,562

Financial liabilities

As at 31 December 2012	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables, advances from customers and accruals (Note 29)	586
Due to the ultimate controlling shareholder	210
Due to subsidiaries	63,668
	64,464

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise interest-bearing bank borrowings, trade and notes payables, other payables, amounts due to the ultimate controlling shareholder and 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, cash and cash equivalents, pledged deposits, amounts due from the ultimate controlling shareholder and 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 30.

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 2012		
RMB	**100**	**(790)**
RMB	**(100)**	**790**
Year ended 31 December 2011		
RMB	100	(4,100)
RMB	(100)	4,100

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.

41. 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 controlling 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 51% (2011: 59%) of the total trade and notes receivables as at 31 December 2012.

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

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 2012					
Interest-bearing bank borrowings	**—**	**170,725**	**468,640**	**—**	**639,365**
Trade and notes payables	**12,908**	**446,683**	**114,302**	**—**	**573,893**
Other payables (Note 29)	**91,444**	**—**	**—**	**—**	**91,444**
Amount due to the ultimate controlling shareholder	**687**	**—**	**—**	**—**	**687**
Amounts due to related parties	**13,988**	**62,150**	**—**	**—**	**76,138**
	119,027	**679,558**	**582,942**	**—**	**1,381,527**

	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 29)	86,832	—	—	—	86,832
Amounts due to related parties	134,742	—	—	—	134,742
	226,532	416,984	551,072	—	1,194,588

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Capital management

The primary objectives of the Group's capital management are 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 and accruals, amounts due to the ultimate controlling shareholder and related parties less cash and cash equivalents. Capital represents equity attributable to owners of the parent.

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

	2012 RMB'000	2011 RMB'000
Trade and notes payables	**573,893**	515,245
Other payables and accruals	**95,400**	106,358
Interest-bearing bank borrowings	**621,186**	440,147
Amount due to the ultimate controlling shareholder	**687**	—
Amounts due to related parties	**76,138**	134,742
Less: Cash and cash equivalents	**(133,260)**	(145,909)
Net debt	**1,234,044**	1,050,583
Equity attributable to owners of the parent	**395,462**	232,222
Capital and net debt	**1,629,506**	1,282,805
Gearing ratio	**76%**	82%

42. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 December 2012, the Group offset its amounts due from Ningbo Huayou Properties, Mr. Zhou, Huaxiang Technology, Ningbo Huayue against amounts due to Ningbo Huayou Properties and Mr. Zhou of RMB29,500,000, in aggregate, in accordance with the agreements among these parties.

43. CONTINGENT LIABILITIES

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

	2012 RMB'000	2011 RMB'000
Related parties (Note 39(c)(i))	**4,530**	7,020

44. EVENTS AFTER THE REPORTING PERIOD

On 27 March 2013, the board of directors of the Company approved the Group to enter into a sale and purchase agreement with Ningbo Huayou Properties, a related party, to acquire office premises for a total consideration of RMB41,000,000 for business and management use. The transaction is expected to be completed in June 2014.

On 27 March 2013, the board of directors of the Company proposed a final dividend of HK$0.01 per ordinary share totalling HK$8,000,000, approximately RMB6,486,000, for the year ended 31 December 2012, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (Note 15).

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2013.

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 and restated/reclassified as appropriate, is set out below.

	Year ended 31 December			
	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS				
REVENUE	**1,155,893**	1,168,886	1,006,908	826,216
Cost of sales	**(914,320)**	(875,784)	(748,663)	(651,324)
Gross profit	**241,573**	293,102	258,245	174,892
Other income and gains	**18,844**	70,692	9,993	7,382
Gain on bargain purchase	**14,756**	9,766	21,560	—
Selling and distribution costs	**(94,208)**	(83,529)	(75,622)	(67,423)
Administrative expenses	**(133,610)**	(105,721)	(51,133)	(41,018)
Other expenses	**(7,774)**	(3,456)	(5,346)	(4,521)
Finance income	**6,535**	16,398	9,585	7,766
Finance costs	**(47,785)**	(44,971)	(34,266)	(29,234)
Share of profits and losses of:				
Jointly-controlled entities	**15,967**	(1,529)	9,054	3,443
Associates	**441**	425	(422)	—
PROFIT BEFORE TAX	**14,739**	151,177	141,648	51,287
Income tax expense	**(8,864)**	(38,252)	(35,275)	(15,558)
PROFIT FOR THE YEAR	**5,875**	112,925	106,373	35,729
Attributable to:				
Owners of the parent	**1,969**	110,168	105,839	35,371
Non-controlling interests	**3,906**	2,757	534	358
	5,875	112,925	106,373	35,729

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December			
	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,853,533**	1,502,392	1,544,540	1,295,031
TOTAL LIABILITIES	**(1,433,866)**	(1,246,196)	(1,264,703)	(1,106,428)
NON-CONTROLLING INTERESTS	**(24,205)**	(23,974)	(4,029)	(1,920)
	395,462	232,222	275,808	186,683

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Non-executive Directors
Ms. Lai Cairong
Mr. Wang Yuming
Ms. Kuang Min

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

JOINT COMPANY SECRETARIES

Mr. Lian Wei Chung
Ms. Ho Wing Yan *(HKICS)*

AUTHORISED REPRESENTATIVE

Mr. Zhou Minfeng
Mr. Lian Wei Chung

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Cayman Islands

HEADQUARTERS IN CHINA

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Xizhou Town
Xiangshan County
Zhejiang Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1704, 17/F., Tai Yau Building
181 Johnston Road
Wanchai
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
Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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