Huazhong Holdings Company Limited
華眾控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock code: 6830

Annual Report **2013**

CONTENTS

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 mass production 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 2013, the Group, together with its joint ventures, had manufacturing facilities in Ningbo, Changchun, Shanghai, Chongqing, Yantai, Foshan, Wuhu, Guangzhou and Chengdu. In addition, in 2012, 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 2014, the Group plans to expand business and coverage by expanding and upgrading existing production facility in Chongqing.

On behalf of the board (the "Board") of directors (the "Director(s)") of the Company and all of our staff, I hereby present to the shareholders of the Company (the "Shareholder(s)") the annual results of the Group for the year ended 31 December 2013 (the "Year").

In 2013, the passenger vehicle market in the PRC recorded an overall growth. However, the market share of domestic brands decreased as compared with last year and, and the gap between production and sales is widening-a situation that warrants a warning.

According to the statistics of China Association of Automobile Manufacturers, the numbers of passenger vehicles manufactured and sold in 2013 were 18,085,200 and 17,928,900 respectively, representing increases of 16.5% and 15.7% respectively in absolute numbers over the previous year. The annual number of passenger vehicles manufactured and sold hit an all-time high. In 2013, the total number of Chinese branded passenger vehicles sold was 7,222,000, representing an increase of 11.4% as compared with that of the previous year, and accounting for 40.3% of the total number of passenger vehicles sold with a decrease of 1.6%, marking a continuous downward trend in market share. Among the foreign brands, the sales for German, Japanese, American, Korean and French branded passenger vehicles accounted for 18.8%, 16.4%, 12.4%, 8.8% and 3.1% of the total sales of passenger vehicles respectively. In terms of market share, except for a slight decrease in the sales of Japanese branded passenger vehicles, all others recorded different levels of growth, with the most obvious increase found in in the sales of American branded passenger vehicles.

In 2013, we saw an extremely complicated economic situation affected by various domestic as well as international factors, such as the quantitative easing policies introduced by a number of countries and the pressure of Renminbi appreciation. According to the statistics of China Association of Automobile Manufacturers, the number of whole-cars exported was 948,100, representing a year-on-year decrease of 6.6%, while the total value of whole-cars exported was US$12.908 billion, representing a year-on-year decrease of 5.8%; whereas the number of whole-cars imported was 1,195,400, representing a year-on-year increase of 5.6%, while the total value of whole-cars imported was US$48.974 billion, representing a year-on-year increase of 3%. The overall market trend was declining with various production costs (including raw materials and labor wages) continued to rise, aggravating the competition among the Chinese auto-parts suppliers.

Despite the harsh external environment faced by the industry, 2013 was a year in which Huazhong has recorded a strong growth. Huazhong adhered to the strategy of striving for progress while maintaining stability, expedited the transformation and upgrading of industrial structure, and overcame obstacles through effective measures. With the unremitting efforts of all the staff and the new production plants which were completed and put into operation by the Group, productivity was effectively enhanced. In addition to various measures to increase market share and uplift profitability, the Group vigorously implemented stringent costs control, fortified the overall business competitiveness, strengthened research and development capabilities and kept track of the latest trend of technology. At the same time, actions were also taken to identify favorable acquisition opportunities, so as to increase market share, enhance business expansion capabilities and diversify revenue streams, with an aim to increase profits. During the year, the Group successfully achieved a total sales amount of RMB1.471 billion and a total profit of RMB52.1 million as compared to a total sales amount of RMB1.156 billion and a total profit of RMB5.9 million for the previous year.

According to data from China Economic Monitoring & Analysis Center, the overall automobile industry is in good condition and will maintain a steady growth in 2014. China Association of Automobile Manufacturers predicted that the 2014 sales volume of vehicles in China would be between 23.74 million and 24.18 million, with a growth rate between 8% and 10%, which would be a new record again for the China vehicle market. There is no doubt that a positive outlook in the vehicle market is gratifying. From another perspective, however, the mergers and restructuring of the automobile industry encouraged by the government may be deferred owing to a sales market situation which is out of the original expectation. The demand for SUV as well as its sales volume have always maintained a rapid growth, due to the factors including end-users' preference, consumption upgrade and the stimulation induced by a proliferation of product varieties in the SUV market. With the trend toward light-weight construction and the advancement of technologies in energy-efficient engines, the growth of the SUV market in China has been spectacular in the past two years. In 2014, the SUV market will remain hot as there are more and more compact SUVs targeting at the young buyers come into the market and an increasing number of buyers preparing to upgrade.

Looking forward to 2014, we estimate that the number of vehicles manufactured and sold will maintain a growth rate of around 10% and very likely exceed 24 million. While we are optimistic about the prospect of the market growth, we cannot underestimate the risk of the widening gap between production and sales in the domestic passenger vehicles market. In addition, the increase of imported whole-cars and the decrease of market share of the domestic passenger vehicles , all will contribute to the added challenges the Company is going to face in its operation. As such, the Company will strive to establish a professional image in the passenger vehicle auto-parts market, and actively develop opportunities to become suppliers in the overseas auto-parts industry.

Huazhong Holdings will carry on with the long-term development strategy of "expanding existing production facilities and capacity, focusing on research and development and product engineering, and implementing strategic investments". In 2014, the Group will increase its product margin through a number of measures such as continuous expansion of production capacity, enhancement of production efficiency as well as product quality. Meanwhile, the Group will review the efficiencies of all the production plants put into production during 2013. Through process review and process optimization, the Group will confirm the organization's management effectiveness as well as the control and monitoring on production and procurement costs. We will actively seek for input from the market on product qualities and product needs so as to feedback for research and development actions, or for decisions on acquisitions and mergers, inside or outside of the country. Also through establishment of joint ventures, the Group will continue to cooperate with international auto-body and auto-parts suppliers and manufacturers so as to develop a broader range of new customers. The above are the Group's business objectives in 2014.

Facing the overall economic environment and industrial conditions, we insist to uphold the Group's spirit of openness and cooperation. Through effective and scientific management, optimized product structure and business allocation, we will strengthen the Group's operating capacity and efficiency, and build a management team that is capable to deal with all types of competitive situations. I am fully confident 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 step into a new era, firmly and surely, by enhancing Huazhong Holding's competitiveness in the industry with an aim to become the leading player, and will strive to bring fruitful and real return to our Shareholders.

Finally, on behalf of Huazhong Holdings, I would like to express my heart-felt gratitude to all of our customers and business partners for their support, to the Group's management team and the staff for their unremitting hard work. I also take this opportunity to extend my sincere thanks to the investors and Shareholders for their support and trust in the Group. We will continue with our hard work in fulfilling our responsibilities and creating more value for the Group as well as the Shareholders!

Zhou Minfeng
Chairman

30 March 2014

MARKET REVIEW

In 2013, the automobile industry in the PRC again recorded an encouraging performance. The sales volume reached an all-time high of over 20 million vehicle sales. Despite the rapid growth in the sales of passenger cars, the market share of domestic brands in the passenger cars market continued to decline. Exports of automobile fell while the production and sales of new energy vehicles maintained a growing trend. There was also an increase in the market concentration rate for domestic automobiles. (In 2013, the total vehicle sales - in terms of sales volume - of the top 10 enterprises amounted to 19,430,600, representing an increase of 15.8% over the previous year and accounted for 88.4% of the total number of vehicle sales, 1.4% above that of the previous year). As national policies continued to increase domestic demands and consumption for local automobiles, the corresponding business environment and conditions for the development of the automobile industry were effective in a positive light.

Plastics, being the most important automotive lightweight material, is not only able to 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

In 2013, the Group was faced with continuously increasing production costs. As such, the Group rigorously enforced the implementation of cost controls, improved staff quality and strengthened administrative efficiency internally. Externally, the Group strived to fortify the long-term cooperation with customers, develop new market opportunities, maintain sound business operation capability, consolidate the Group's resources and improve market competitiveness. These actions successfully helped the Group in achieving the annual targets, and laid the foundation for its sustainable operation in the future.

For the Year, the Group's revenue was approximately RMB1.471 billion, representing a healthy increase of approximately 27.2% as compared to approximately RMB1.156 billion in 2012. Profit attributable to the owners of the parent for the Year was approximately RMB47.6 million, representing a significant increase of approximately 2,280.0% as compared to approximately RMB2.0 million in 2012.

The new manufacturing facility in Foshan was completed and commenced production during the Year. The new manufacturing facility in Chongqing is under construction and is expected to be completed and commences production in the year 2014.

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 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 engaging new customers.

- The Group is equipped with strong production capabilities and refined 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 implements sophisticated quality monitoring procedures to select and examine raw materials, semi-finished and finished products to ensure a high standard of quality.

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) sale of raw materials.

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

	2013		2012	
		Gross profit		Gross profit
	Revenue	**Margin**	Revenue	Margin
	RMB'000	**%**	RMB'000	%
Automotive interior and exterior structural and decorative parts	**1,054,671**	**26.8**	766,597	23.6
Moulds and tooling	**75,133**	**12.3**	42,654	6.4
Casings and liquid tanks of air conditioners and heaters	**189,946**	**17.9**	200,662	19.0
Non-automobile products	**56,902**	**32.8**	64,185	25.9
Sale of raw materials	**94,241**	**3.5**	81,795	4.0
Total	**1,470,893**	**23.6**	1,155,893	20.9

For the Year, the total revenue generated from automotive interior and exterior accessories was RMB1,054,671,000 (2012: RMB766,597,000), accounting for 71.7% of the Group's total revenue for the Year (2012: 66.3%). The increase was primarily because of commenced production of new manufacturing facility, booming automotive sales market and new car models launched. Gross profit margin increased from 23.6% for the year 2012 to 26.8% for the Year. Such increase was caused by better capacity utilization and vigorous implementation of stringent cost control.

For the Year, revenue from moulds and tooling was RMB75,133,000 (2012: RMB42,654,000), accounting for 5.1% of the Group's total revenue for the Year (2012: 3.7%). Gross profit margin increased from 6.4% in 2012 to 12.3% in the Year, mainly because of favorable product mix shift.

For the Year, revenue from casings and liquid tanks of air conditioners and heaters was RMB189,946,000 (2012: RMB200,662,000), accounting for 12.9% of the Group's total revenue for the Year (2012: 17.4%). Gross profit margin decreased from 19.0% in 2012 to 17.9% in the Year mainly due to annual price markdown offered to the clients on a routine basis.

For the Year, revenue from non-automobile products was RMB56,902,000 (2012: RMB64,185,000), accounting for 3.9% of the Group's total revenue for the Year (2012: 5.6%). Gross profit margin increased from 25.9% in 2012 to 32.8% in the Year, mainly attributable to continuous improvement on technology and product.

For the Year, revenue from sale of raw materials was RMB94,241,000 (2012: RMB81,795,000), accounting for 6.4% of the Group's total revenue for the Year (2012: 7.0%). Gross profit margin decreased slightly from 4.0% in 2012 to 3.5% in the Year.

Other Income and Gains

Other income and gains of the Group for the Year amounted to RMB16,840,000, representing a decrease of approximately 10.6% as compared to 2012. Such decrease was mainly attributable to less government grants in the Year.

Gain on Bargain Purchase

In 2012, the Group acquired the assets and businesses of a bankrupt German company, which recorded RMB14,756,000 of gain on bargain purchase; while in the Year, the Group did not record any gain on bargain purchase.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the Year amounted to approximately RMB99,087,000, representing an increase of approximately 5.2% as compared to 2012. The increase was caused by the increase of logistics expenses. The proportion of selling and distribution expenses in sales revenue decreased by approximately 1.5% from approximately 8.2% in 2012 to approximately 6.7% in the Year.

Administrative Expenses

The Group's administrative expenses for the Year amounted to approximately RMB142,562,000, representing an increase of approximately 6.7% as compared to RMB133,610,000 in 2012. The increase was mainly attributable to the depreciation and amortization on the newly acquired assets and land use right and salary.

Share of Profits and Losses of Joint Ventures

During the Year, the Group recorded RMB7,434,000 of the share of profits of joint ventures as compared to the share of profits of RMB15,967,000 for 2012. This was primarily because Changchun Huaxiang Faurecia Automotive Plastic Components Co., Ltd. recorded net loss in the Year.

Finance Income

The Group's finance income increased by approximately 7.7% from approximately RMB6,535,000 in 2012 to approximately RMB7,037,000 in the Year. The increase in finance income was mainly attributable to the increase of time deposit balance.

Finance Costs

The Group's finance costs increased from approximately RMB47,785,000 in 2012 to approximately RMB48,238,000 in the Year, representing an increase of approximately 0.9%.

Taxes

The Group's tax expenses increased by approximately 247.0% from approximately RMB8,864,000 in 2012 to approximately RMB30,758,000 in the Year. The increase was attributable to the increase in the Group's profit before tax as compared to 2012 and the effect on opening deferred tax as a result of preferential tax rate of a subsidiary.

Liquidity and Financial Resources

For the Year, the net cash generated from operating activities was approximately RMB210,565,000 (2012: net cash used in operating activities RMB30,599,000). The cash generated from operating activities was mainly due to the increase of profits during the Year. The increase of trade and notes receivables was of a 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 RMB83,305,000 (2012: net cash used in investing activities was approximately RMB202,776,000). The net cash used in financing activities was approximately RMB80,761,000 (2012: net cash generated from financing activities RMB240,726,000). The net cash used in investing activities was mainly due to purchase of property, plant and equipment. The net cash used in financing activities mainly came from repayment of advance from related parties and interest paid.

As a result of the above-mentioned comprehensive factors, the net cash inflow of the Group was RMB46,499,000 (2012: net cash inflow RMB7,351,000).

As at 31 December 2013, the cash and cash equivalents of the Group (including cash and bank deposits) was approximately RMB240,659,000 (31 December 2012: RMB133,260,000).

As at 31 December 2013, the interest-bearing bank borrowings of the Group was approximately RMB636,759,000 (31 December 2012: approximately RMB621,186,000) of which approximately RMB27,759,000 (equivalent to EUR 3,297,000) was borrowed in EURO and approximately RMB560,759,000 were due within one year. Effective interest rate ranges from 2.35% to 6.89%. Amongst the bank borrowings, RMB37,000,000 were borrowed at floating interest rate, representing 5.8% of total borrowings (94.2% of total borrowings at fixed interest rate).

The Board expects 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 2013, the Group had capital commitments amounting to RMB559,177,000 (31 December 2012: RMB641,812,000) mainly including commitment for purchasing property, plant, and equipment.

Foreign Exchange Exposure

The sales and purchases of the Group were mainly denominated in RMB and Euro. The cash and cash equivalents of the Group were mainly denominated in RMB, Hong Kong dollars and Euro. The borrowings are denominated in RMB 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 RMB8,154,000 for bank facilities of a joint venture of the Group as at 31 December 2013. As at 31 December 2012, the total amount of guarantees issued by the Group for the bank loans of a joint venture was RMB4,530,000.

Pledge of Assets

As at 31 December 2013, the Group's assets of approximately RMB78,516,000 (2012: approximately RMB169,629,000) were pledged to secure some of the Group's interest-bearing bank borrowings. The book value of the pledged assets is set out below:

	2013 RMB'000	2012 RMB'000
Property, plant and equipment	**14,908**	16,517
Investment properties	**3,380**	3,630
Prepaid land lease payments	**31,649**	32,256
Trade receivables	**20,000**	24,526
Pledged deposits	**8,579**	92,700
Total	**78,516**	169,629

As at 31 December 2013, pledged deposits with book value of approximately RMB119,975,000 (2012: approximately RMB105,251,000) were used as security to provide guarantee for the issue of notes payable.

Gearing Ratio

As at 31 December 2013, the Group's gearing ratio was approximately 69.5%, which was close to the gearing ratio of approximately 75.7% as at 31 December 2012. 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 2,544 employees as at 31 December 2013. Total staff costs of the Group (excluding directors' and chief executive's remuneration) for the Year was approximately RMB157,703,000 (2012: approximately RMB130,502,000). The increase was attributable to the increase in the number of employees of the Group in the Year as a result of commenced production of manufacturing facilities. The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of our employees.

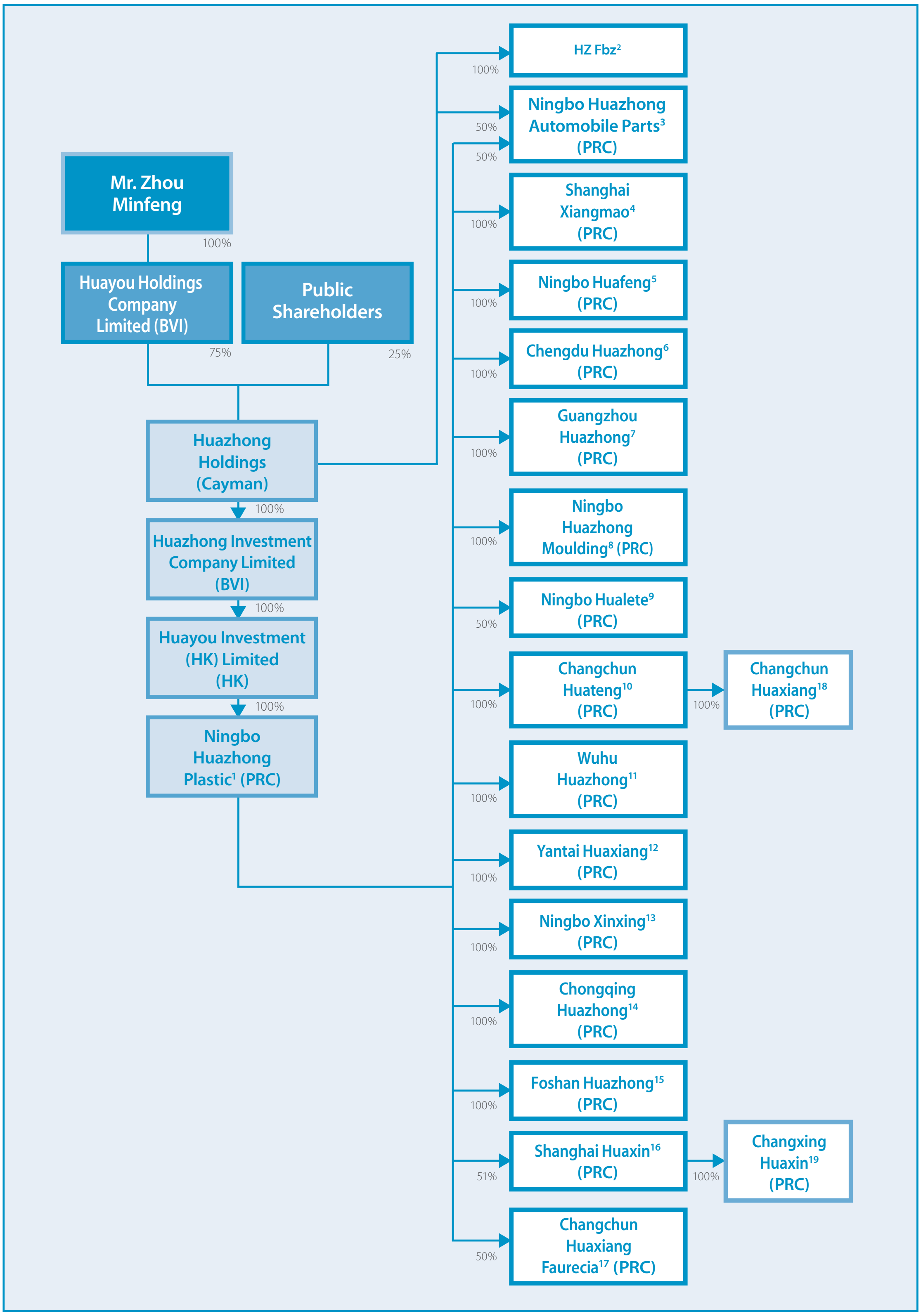
OUTLOOK

The overall business environment and market conditions indicate that the global market is recovering in 2014, which will accelerate the buying sentiments in the PRC and the United States ("U.S."), the two major automobile markets in the world. Additional to the economies of Europe and the U.S. being back on growth track, the PRC recorded vehicle sales of 21.98 million in the Year and maintained its position as the largest automobile market in the world for the fifth consecutive year. The general expectation for the industry in 2014 is that automobile sales in the PRC will continue to grow with the sales of passenger cars maintaining a double-digit growth of over 10%, benefiting the automobile related industries.

As the global economy continues to recover, more people are willing to travel. With the heavy snowstorms in Europe and the U.S. in early 2014, the number of automobiles in need of repair, maintenance and replacement increased. On the other hand, the PRC automobile market is facing a shift in consumers' demands for products that are energy saving, compact and of diverse features. The increase in automobile consumption costs, the pressure of RMB appreciation, the intensification of international trade conflits, the decline of auto parts exports and growth of auto parts imports are having negative impacts on the industry. Meanwhile, some cities in the PRC have tightened the policy on the issue of licenses for new vehicles. To address the problems of traffic congestion and pollution, Tianjin has just decided to reduce the issue of licenses for new vehicles. The implication is that other major cities will soon follow. In December 2013, the Ministry of Industry and Information Technology summarized the latest information of 2013 and made the following forecast: although there will be significant growth of compact vehicle sales early in the year, the total number of vehicles in the PRC will decrease as a result of the above policy. With a combination of positives and negatives, the Group will be facing challenges in operation and development in 2014.

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 the PRC 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 the PRC, there are immense growth potentials for the automobile market in the PRC, 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.


Mr. Zhou Minfeng
100%
Huayou Holdings Company Limited (BVI)
75%
Public Shareholders
25%
Huazhong Holdings (Cayman)
100%
Huazhong Investment Company Limited (BVI)
100%
Huayou Investment (HK) Limited (HK)
100%
Ningbo Huazhong Plastic[1] (PRC)
100%
HZ Fbz[2]
50%
50%
Ningbo Huazhong Automobile Parts[3] (PRC)
100%
Shanghai Xiangmao[4] (PRC)
100%
Ningbo Huafeng[5] (PRC)
100%
Chengdu Huazhong[6] (PRC)
100%
Guangzhou Huazhong[7] (PRC)
100%
Ningbo Huazhong Moulding[8] (PRC)
50%
Ningbo Hualete[9] (PRC)
100%
Changchun Huateng[10] (PRC)
100%
Changchun Huaxiang[18] (PRC)
100%
Wuhu Huazhong[11] (PRC)
100%
Yantai Huaxiang[12] (PRC)
100%
Ningbo Xinxing[13] (PRC)
100%
Chongqing Huazhong[14] (PRC)
100%
Foshan Huazhong[15] (PRC)
51%
Shanghai Huaxin[16] (PRC)
100%
Changxing Huaxin[19] (PRC)
50%
Changchun Huaxiang Faurecia[17] (PRC)

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 PRACTICES

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

The Company has adopted the code provisions prescribed in the Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") as the code of the Company.

The Board is of the view that the Company has complied with all applicable provisions set out in the CG Code throughout the Year, 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 section headed "Chairman and Chief Executive" 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 Year.

THE BOARD

As at 31 December 2013, the Board consisted of eight 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)*	2/4	1/1
Mr. Chang Jingzhou	4/4	0/1
Non-Executive Directors		
Ms. Lai Cairong	1/4	0/1
Mr. Wang Yuming	2/4	0/1
Ms. Kuang Min	0/0	0/1
Independent Non-Executive Directors		
Mr. Su Xijia (resigned on 31 July 2013)	2/4	0/1
Mr. Yu Shuli	2/4	0/1
Mr. Tian Yushi	2/4	0/1
Mr. Xu Jiali (appointed on 31 July 2013)	2/4	0/0

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 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 Mr. Xu Jiali who was appointed as an independent non-executive Director on 31 July 2013.

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 authority is ensured by the operation of the Board and the senior management, which comprises of 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 that Ms. Kuang Min, who was appointed on 26 July 2012 and was re-elected on 16 May 2013, will hold office until the conclusion of the next annual general meeting of the Company and will not offer herself for re-election at the forthcoming annual general meeting.

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 12 January 2012 (the "Listing Date") except that Mr. Xu Jiali who was appointed on 31 July 2013 will hold office only until the conclusion of the next annual general meeting of the Company after his appointment, being eligible for re-election.

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. Yu Shuli 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

Biographies of Mr. Lian Wei Chung and Ms. Ho Wing Yan, 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 Rules 3.21 and 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. Yu Shuli, Mr. Tian Yushi and Mr. Xu Jiali, all of whom are independent non-executive Directors. Mr. Yu Shuli, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee. Mr. Su Xijia was the chairman of the Audit Committee who resigned on 31 July 2013. Mr. Yu Shuli was redesignated to the chairman of the Audit Committee on 31 July 2013.

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

— reviewed the Group's audited annual results for the year ended 31 December 2012 and 31 December 2013 and the unaudited interim results for the six months ended 30 June 2013, 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, three 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. Yu Shuli (redesignated to chairman on 31 July 2013)	3/3
Mr. Tian Yushi	2/3
Mr. Xu Jiali (appointed on 31 July 2013)	2/2
Mr. Su Xijia *(Chairman)* (resigned on 31 July 2013)	1/1

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 2013 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 2013 fell within the following band is as follows:

	Number of senior management
Nil to RMB1,000,000	4

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 2013; and;

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

The Nomination Committee adopted the board diversity policy on 30 August 2013. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

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 2013, 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 35 of this report.

AUDITORS' REMUNERATION

The Company has appointed Ernst & Young as the external auditors of the Company. During the year ended 31 December 2013, the Group was required to pay an aggregate of approximately RMB2.94 million (2012: RMB2.80 million) to the external auditors for their audit services relating to financial information.

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 47, 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 20 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 53, was appointed as an executive Director on 7 December 2011. Mr. Chang has over 13 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 69, 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, chairman 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 57, 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 44, 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.

Independent non-executive Directors

Mr. Yu Shuli (**於樹立**), aged 65, was appointed as an independent non-executive Director on 7 December 2011. Mr. Yu is also the chairman of the audit committee and 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 68, was appointed as an independent non-executive Director on 7 December 2011. Mr. Tian is also a member of the audit committee, 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.

Mr. Xu Jiali (徐家力), aged 53, was appointed as an independent non-executive Director on 31 July 2013. Mr. Xu is also a member of the audit committee of the Company. He has been the Head of the Institute of Law of Beijing Academy of Social Sciences (北京市社會科學院法學研究所) since April 2013, the Associate Dean of the Lawyer College of Renmin University of China (中國人民大學律師學院) since 2012 and a director and tutor of PhD students of the Center for Intellectual Property Rights Studies of China University of Political Science and Law (中國政法大學知識產權研究中心) since 2007. Mr. Xu obtained a bachelor's degree in laws from Peking University (北京大學) in 1983 and further obtained his master's degree and doctoral degree in laws from China University of Political Science and Law (中國政法大學) in 1986 and 2000 respectively. He is a practicing lawyer in the People's Republic of China and is a founding partner of Longan Law Firm (隆安律師事務所). Mr. Xu was the Dean of the Law School of Guizhou Normal University (貴州師範大學法學院) from 2004 to 2007. He served as a director and the executive vice-president of the Beijing Lawyers Association (北京律師協會) from 1995 to 2005 and a prosecutor of the Supreme People's Procuratorate of the People's Republic of China (中華人民共和國最高人民檢察院) from 1986 to 1992.

SENIOR MANAGEMENT

Mrs. Joey Ou (區雪瓊), aged 42, is the general manager of Ningbo Huazhong Plastic Co. Ltd. and is mainly in charge of its operation. Mrs. Ou has joined Ningbo Huazhong Plastic Co. Ltd. from January 2009 to June 2010 as deputy vice general manager. Since September 2013, she has joined Ningbo Huazhong Plastic Co. Ltd. again as general manager. Before participating in the Ningbo Huazhong Plastic Co. Ltd., Mrs. Ou had been the general manager of Ningbo Tanner Garment Co. Ltd (US) from February 2007 to July 2008. She has been in charge of Shanghai Stoll Fashion and Technology International Center (Germany) as general manager from July 2003 to January 2007. She has been senior customer service manager and franchised school director in EF English First from June 2000 to June 2003.

Mrs. Joey Ou graduated from Shanghai Jiao Tong University, majoring in Industry & International Trade in July 1994. She also got the EMBA degree of China Europe International Business School (CEIBS) in June 2005.

Mr. Zhou Ruqing (周汝青), aged 67, 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. Lian Wei Chung (**連巍鐘**), aged 47, 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 18 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 48, 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 ten 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.

The Directors have pleasure in presenting their report together with the audited financial statements of the Company for the year ended 31 December 2013.

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 2013 are set out in note 21 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2013 and the state of the Group's and the Company's affairs as at that date are set out in the financial statements on pages 37 to 40 and page 46 of this report.

DIVIDENDS

The Board recommended a final dividend of HK2.5 cents (equivalent to approximately RMB1.98 cents at exchange rate 1: 0.7921) per Share for the year ended 31 December 2013 (2012: HK1.0 cent), 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 20 May 2014. Details of the dividend for the year ended 31 December 2013 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 37 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2013, 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$75,346,000 (approximately RMB59,237,000), of which HK$20,000,000 (approximately RMB15,842,000) 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 2013 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 2013 are set out in note 35 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2013 were:

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. Yu Shuli
Mr. Tian Yushi
Mr. Xu Jiali (appointed on 31 July 2013)

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 2013 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 that Ms. Kuang Min who was appointed on 26 July 2012 and was re-elected on 16 May 2013, will hold office only until the forthcoming annual general meeting of the Company and will not, 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 except that Mr. Xu Jiali who was appointed on 31 July 2013 will hold office only until the conclusion of the next annual general meeting of the Company after his appointment, being eligible for re-election. 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. Mr. Xu Jiali, who was appointed on 31 July 2013, will hold office only until the forthcoming annual general meeting of the Company and will, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

In accordance with articles 84(1) and 84(2) 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, Ms. Lai Cairong and Mr. Tian Yushi will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. Ms. Kuang Min will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, will not offer herself 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 2013.

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

As at 31 December 2013, 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)	0.47% (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 2013, 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 2013	Granted during the Year	Exercised during the Year	Lapsed during the Year	Cancelled during the Year	Outstanding as at 31 December 2013
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	1,900,000	—	—	(350,000)	—	1,550,000
Others						
In aggregate	9,900,000	—	—	—	—	9,900,000
Total	17,700,000	—	—	(350,000)	—	17,350,000

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 36 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 2013, 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)
Munsun Assets Management Ltd	Investment manager	48,046,000	—	6.01%

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 2013.

Save as disclosed above, as at 31 December 2013, 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 2013, 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.

CONNECTED TRANSACTIONS AND EXEMPTED CONTINUING CONNECTED TRANSACTIONS

During the Year, the Group had the following connected transactions and exempted continuing connected transactions:

Connected transactions

Acquisition of property

On 2 April 2013, Ningbo Huazhong Plastic Products Co., Ltd. ("Ningbo Huazhong Plastic"), a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with Ningbo Huayou Properties Co., Ltd. ("Ningbo Huayou Properties"), pursuant to which Ningbo Huayou Properties agreed to sell and Ningbo Huazhong Plastic agreed to purchase Flats 9-1, 10-1, 10-2, 10-3, 11-1, 11-2, 11-3, 12-1, 12-2 and 12-3 of No. 3 office building situated in Lot III-7-D2 in Gaoxin District, Ningbo, Zhejiang Province, PRC (the "Office Units") at a consideration of RMB41 million (equivalent to approximately HK$50.79 million) which will be satisfied by internal resources of the Group. The payment of consideration will be made in one lump sum on the date of signing of the sale and purchase agreement. Date of completion of the transaction will be on or before 30 June 2014.

As at the date hereof, Ningbo Huayou Properties is owned as to 82% by Mr. Zhou Minfeng ("Mr. Zhou"), the chairman of the Board, and 18% by Huaxiang Group Co., Ltd., which is ultimately and beneficially owned by Mr. Zhou Minfeng's family members. Ningbo Huayou Properties is therefore a connected person of the Company under Rule 14A.11 of the Listing Rules. Accordingly, the purchase of the Office Units by Ningbo Huazhong Plastic from Ningbo Huayou Properties constitutes a connected transaction for the Company under the Listing Rules.

The Office Units will be used as the Group's operational headquarters and product development centre with an aim to integrate the Group's resources and to enhance the overall competiveness of the Group as a result.

The Directors, including the independent non-executive Directors, of the Company are of the view that the terms and conditions of the purchase of the Office Units are fair and reasonable and are in the interests of the Group and its Shareholders as a whole.

Since the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules calculated with reference to the purchase of the Office Units are over 0.1% but less than 5%, the connected transaction in relation to the purchase of the Office Units is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Rule 14A.32 of the Listing Rules.

Details of the above transaction were published in the Company's announcement dated 2 April 2013.

Financial assistance

During the year ended 31 December 2012 and the seven months ended 31 July 2013, the Group had provided financial assistance to Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue Automobile Trimming Co., Ltd. ("Ningbo Huayue") and Changchun Huayou Properties Co., Ltd. ("Changchun Huayou Properties") in the form of (i) advances of RMB30.87 million; (ii) advances of RMB18.90 million ; (iii) advances of RMB11.75 million and a deposit pledge agreement dated 14 June 2013 entered into between Ningbo Huazhong Plastic and a PRC bank pursuant to which Ningbo Huazhong Plastic as pledgor agreed to pledge its bank deposits of RMB55,600,000 in favour of the bank (the "Deposit Pledge"); and (iv) advances of RMB5.88 million, respectively. All the aforesaid financial assistance was provided with the internal resources of the Group and no part of the proceeds from the listing of the Shares on the Stock Exchange on 12 January 2012 (the "Listing") had been applied for the provisions of the financial assistance which was unsecured, interest- free and repayable on demand. Although the financial assistance was provided by the Group not in the ordinary and usual course of its business as defined in the Listing Rules, the Company was of the view that the financial assistance was provided on normal commercial terms.

As at the date of hereof, (i) Mr. Zhou was the chairman of the Board, an executive Director and a controlling Shareholder; (ii) Ningbo Huayou Properties was an associate of Mr. Zhou, being owned as to 82% by Mr. Zhou; (iii) Ningbo Huayue was an associate of Mr. Zhou, being wholly-owned by Mr. Zhou's cousin; and (iv) Changchun Huayou Properties was an associate of Mr. Zhou, being owned as to 80% by Mr. Zhou. Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties are therefore connected persons of the Company under Chapter 14A of the Listing Rules. Accordingly, the provisions of the advances and the Deposit Pledge to/for the benefit of Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties constituted provisions of financial assistance and connected transactions under the Listing Rules.

Since all of the applicable percentage ratios in respect of each of the provisions of the advances to Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties, were less than 5%, each of the provisions of the advances was subject to the reporting and announcement requirements but exempt from the independent Shareholders' approval requirement under Rule 14A.66(2) of the Listing Rules.

Given that certain applicable percentage ratio in respect of the Deposit Pledge was more than 5% but less than 25%, the Deposit Pledge constituted discloseable and connected transaction under Chapter 14 and Chapter 14A of the Listing Rules and was subject to the reporting, announcement and independent Shareholders' approval requirements. However, as at the date of the announcement dated 2 September 2013, the Deposit Pledge had already been released, the Directors did not put forward a resolution at a general meeting of the Company to ratify the entering into and the provision of the Deposit Pledge.

The Group had ceased to provide any further financial assistance to Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties. In respect of the advances, each of Mr. Zhou, Ningbo Huayou Properties, Ningbo Huayue and Changchun Huayou Properties had fully repaid the corresponding advances to the Group as at 31 December 2013. In respect of the Deposit Pledge, it had already been released on 31 August 2013.

Reasons for the provisions of the financial assistance

(i) *Mr. Zhou*

Mr. Zhou is the chairman of the Board, an executive Director and a controlling Shareholder. In order to facilitate the completion of the corporate reorganisation of the Group for the purpose of the Listing, Mr. Zhou personally procured a loan from the independent third party in December 2011 and provided his borrowed funds to the Group for it to settle the considerations for the transfer of the entire equity interest in Ningbo Huazhong Plastic to Huayou Investment (Hong Kong) Limited, with an agreement to absolutely, irrevocably and unconditionally waive all his rights in connection with the return of such funds. As the independent third party demanded Mr. Zhou to repay the loan and to alleviate Mr. Zhou's short-term cash flow needs, the Group therefore made advances, to Mr. Zhou, primarily for him to repay the aforesaid loan.

(ii) *Ningbo Huayou Properties*

Ningbo Huayou Properties is a company incorporated in the PRC with limited liability and is owned as to 82% by Mr. Zhou. It is principally engaged in the development, sale and purchase of real property. The Group has leased certain properties from Ningbo Huayou Properties and its subsidiaries from time to time on terms more favourable to the Group than those available from independent third parties or even at nil consideration. The Group had thus made advances to Ningbo Huayou Properties to satisfy its cash flow requirements from time to time.

(iii) *Ningbo Huayue*

Ningbo Huayue is a company incorporated in the PRC with limited liability and is wholly-owned by Ms. Lai Danfen, a cousin of Mr. Zhou. It is engaged in the manufacturing and sale of automotive ornaments. Ningbo Huayue had provided consultancy and support services in relation to expansion of the Group's business to members of the Group free of charge before the Listing. The Group had thus made advances to Ningbo Huayue and provided the Deposit Pledge for the benefit of Ningbo Huayue to satisfy its cash flow requirements from time to time.

(iv) *Changchun Huayou Properties*

Changchun Huayou Properties is a company incorporated in the PRC with limited liability and is owned as to 80% by Mr. Zhou. It is engaged in the real estate development. Ningbo Huayue had provided advices in relation to establishment of production plants to members of the Group free of charge before the Listing. The Group had thus made advances to Changchun Huayou Properties to satisfy its cash flow requirements from time to time.

Details of the above financial assistance were published in the Company's announcement dated 2 September 2013.

Exempted continuing connected transactions

Certain related party transactions as disclosed in note 40 to the financial statements also constituted exempted continuing connected transactions under Chapter 14A of the Listing Rules.

Related party transactions

The related party transactions as disclosed in note 40 to the financial statements in respect of items denoted with "Δ" and items from (c)(ii) to (c)(iii) also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Such transactions were either exempt from disclosure requirement or disclosed in accordance with the Listing Rules.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Certain contracts of significance were entered into between the Company or any of its subsidiaries and the controlling Shareholders during the year ended 31 December 2013. Details of which were disclosed in the paragraph headed "Connected transactions" above.

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 2013. 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 36 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 38.3% (2012: 36.1%) and 70.6% (2012: 69.5%), respectively, of the Group's total revenue from operations.

Aggregate purchases from the Group's largest and five largest suppliers accounted for 26.2% (2012: 12.9%) and 46.9% (2012: 32.2%), 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 2013 are set out in note 31 to the financial statements.

On behalf of the Board
Zhou Minfeng
Chairman

30 March 2014

EY 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 37 to 116, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 the 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 2013, 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

30 March 2014

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	6	**1,470,893**	1,155,893
Cost of sales		**(1,123,488)**	(914,320)
Gross profit		**347,405**	241,573
Other income and gains	6	**16,840**	18,844
Gain on bargain purchase	7	**—**	14,756
Selling and distribution expenses		**(99,087)**	(94,208)
Administrative expenses		**(142,562)**	(133,610)
Other expenses		**(6,218)**	(7,774)
Operating profit		**116,378**	39,581
Share of profits and losses of:			
An associate		**245**	441
Joint ventures	23	**7,434**	15,967
Finance income	8	**7,037**	6,535
Finance costs	9	**(48,238)**	(47,785)
PROFIT BEFORE TAX	10	**82,856**	14,739
Income tax expense	13	**(30,758)**	(8,864)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**52,098**	5,875
Attributable to:			
Owners of the parent		**47,620**	1,969
Non-controlling interests		**4,478**	3,906
		52,098	5,875
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	16		
Basic			
– For profit for the year		**RMB0.0595**	RMB0.0025
Diluted			
– For profit for the year		**RMB0.0595**	RMB0.0025

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
PROFIT FOR THE YEAR		**52,098**	5,875
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**477**	265
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**477**	265
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**477**	265
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**52,575**	6,140
Attributable to:			
Owners of the parent		**48,097**	2,234
Non-controlling interests		**4,478**	3,906
		52,575	6,140

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**481,750**	430,715
Investment properties	18	**41,389**	42,754
Prepaid land lease payments	19	**163,972**	142,248
Intangible assets	20	**4,204**	—
Investment in an associate	22	**2,730**	2,880
Investments in joint ventures	23	**65,327**	65,333
Prepayments for acquiring property, plant and equipment		**22,098**	4,465
Deferred tax assets	33	**16,593**	21,654
Total non-current assets		**798,063**	710,049
CURRENT ASSETS			
Inventories	24	**181,776**	170,107
Trade and notes receivables	25	**370,913**	320,307
Prepayments and other receivables	26	**81,992**	235,892
Due from the ultimate controlling shareholder	40(d)	**430**	30,163
Due from related parties	40(d)	**6,808**	55,804
Pledged deposits	28	**128,554**	197,951
Cash and cash equivalents	28	**240,659**	133,260
Total current assets		**1,011,132**	1,143,484
CURRENT LIABILITIES			
Trade and notes payables	29	**450,796**	573,893
Other payables, advances from customers and accruals	30	**125,555**	107,471
Interest-bearing bank borrowings	31	**560,759**	621,186
Due to the ultimate controlling shareholder	40(d)	**289**	687
Due to related parties	40(d)	**41,081**	76,138
Income tax payable		**55,902**	30,459
Total current liabilities		**1,234,382**	1,409,834
NET CURRENT LIABILITIES		**223,250**	266,350

	Notes	2013 RMB'000	2012 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**574,813**	443,699
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings — long term	31	**76,000**	—
Government grants	32	**8,969**	2,300
Deferred tax liabilities	33	**23,496**	21,732
Total non-current liabilities		**108,465**	24,032
Net assets		**466,348**	419,667
EQUITY			
Equity attributable to owners of the parent			
Issued capital	35	**65,120**	65,120
Reserves	37	**358,663**	323,856
Proposed final dividend	15	**15,842**	6,486
		439,625	395,462
Non-controlling interests		**26,723**	24,205
Total equity		**466,348**	419,667

Zhou Minfeng
Director

Chang Jingzhou
Director

	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
Profit for the year	—	—	—	—	—	—	—	—	1,969	1,969	3,906	5,875
Other comprehensive income for the year:												
Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	265	—	265	—	265
Total comprehensive income for the year	—	—	—	—	—	—	—	265	1,969	2,234	3,906	6,140
Capitalisation issue of shares (Note 35)	52,096	(52,096)	—	—	—	—	—	—	—	—	—	—
Final 2011 dividend declared	—	—	—	—	—	—	(16,214)	—	—	(16,214)	—	(16,214)
Proposed final 2012 dividend (Note 15)	—	(6,486)	—	—	—	—	6,486	—	—	—	—	—
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	(3,675)	(3,675)
New issue of shares from placing and public offering (Note 35)	13,024	169,312	—	—	—	—	—	—	—	182,336	—	182,336
Share issue expense (Note 35)	—	(10,864)	—	—	—	—	—	—	—	(10,864)	—	(10,864)
Transfer from retained profits (Note 37(a))	—	—	—	216	—	—	—	—	(216)	—	—	—
Equity-settled share option arrangements (Note 36)	—	—	—	—	—	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

	Attributable to owners of the parent											
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	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 2013	65,120	99,866	5,580	27,718	88,278	5,875	6,486	265	96,274	395,462	24,205	419,667
Profit for the year	—	—	—	—	—	—	—	—	47,620	47,620	4,478	52,098
Other comprehensive income for the year: Exchange differences on translation of foreign operations	—	—	—	—	—	—	—	477	—	477	—	477
Total comprehensive income for the year	—	—	—	—	—	—	—	477	47,620	48,097	4,478	52,575
Final 2012 dividend declared	—	—	—	—	—	—	(6,486)	—	—	(6,486)	—	(6,486)
Proposed final 2013 dividend (Note 15)	—	(15,842)	—	—	—	—	15,842	—	—	—	—	—
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	(1,960)	(1,960)
Transfer from retained profits (note 37(a))	—	—	—	731	—	—	—	—	(731)	—	—	—
Equity-settled share option arrangements (Note 36)	—	—	—	—	—	2,552	—	—	—	2,552	—	2,552
As at 31 December 2013	65,120	84,024*	5,580*	28,449*	88,278*	8,427*	15,842	742*	143,163*	439,625	26,723	466,348

* These reserve accounts comprise the consolidated reserves of RMB358,663,000 (2012: RMB323,856,000) in the consolidated statement of financial position.

	Notes	2013 RMB'000	2012 RMB'000
Cash flows from operating activities:			
Profit before tax		**82,856**	14,739
Adjustments for:			
Finance costs	9	**48,238**	47,785
Share of profits and losses of joint ventures and an associate		**(7,679)**	(16,408)
Interest income	8	**(7,037)**	(6,535)
Gain on disposal of items of property, plant and equipment	6	**(57)**	(74)
Release of government grants	32	**(329)**	(329)
Depreciation of property, plant and equipment	17	**55,747**	36,913
Depreciation of investment properties	18	**2,789**	2,443
Amortisation of prepaid land lease payments	19	**3,244**	2,174
Amortisation of intangible assets	20	**650**	—
Gain on bargain purchase	7	**—**	(14,756)
Equity-settled share option expense		**2,552**	5,748
Write-down of inventories to net realisable value		**2,008**	13,833
Provision for impairment of property, plant and equipment	17	**1,212**	1,598
(Reversal of)/provision for impairment of receivables	25	**(2,239)**	98
Increase in inventories		**(13,737)**	(75,128)
Increase in trade and notes receivables		**(48,367)**	(38,778)
Decrease/(increase) in prepayments and other receivables		**77,501**	(53,889)
Increase in amounts due from related parties		**(17,709)**	(1,339)
(Decrease)/increase in trade and notes payables		**(115,997)**	58,648
Increase in other payables, advances from customers and accruals		**15,091**	784
Increase in amounts due to related parties		**130,318**	15,726
Cash generated from/(used in) operations		**209,055**	(6,747)
Income tax paid		**1,510**	(23,852)
Net cash flows generated from/(used in) operating activities		**210,565**	(30,599)

	Notes	2013 RMB'000	2012 RMB'000
Cash flows from investing activities:			
Interest received		**7,037**	6,535
Purchases of items of property, plant and equipment		**(124,966)**	(117,333)
Purchases of items of prepaid land lease payments	19	**(25,699)**	(52,663)
Purchases of items of intangible assets	20	**(4,854)**	—
Proceeds from disposal of items of property, plant and equipment		**1,444**	456
Acquisition of a subsidiary	34	**—**	(31,899)
Proceeds from government grants	32	**7,140**	2,957
Disposal of a subsidiary		**—**	8,400
Dividends received from a joint venture		**7,500**	6,900
Dividends received from an associate		**—**	336
Advances to the ultimate controlling shareholder	40(b)	**(750)**	(30,644)
Advances to related parties	40(b)	**(100,970)**	(21,959)
Recovery of advances to the ultimate controlling shareholder	40(b)	**30,483**	1,142
Recovery of advances to related parties	40(b)	**111,833**	47,821
(Increase)/decrease in non-pledged time deposits with original maturity of three months or more when acquired		**(60,900)**	20,000
Decrease/(increase) in pledged deposits		**69,397**	(42,825)
Net cash flows used in investing activities		**(83,305)**	(202,776)
Cash flows from financing activities:			
New bank loans		**966,759**	832,168
Repayment of bank loans		**(952,136)**	(651,129)
Interest paid		**(48,238)**	(47,785)
Dividends paid	37(b)	**(6,486)**	(16,214)
Dividends paid to non-controlling shareholders		**(1,960)**	(3,675)
Proceeds from placing and public offering	35	**—**	182,336
Share issue expenses	35	**—**	(10,864)
Advances from the ultimate controlling shareholder	40(b)	**—**	1,081
Advances from related parties	40(b)	**50,200**	67,688
Repayment of advances from the ultimate controlling shareholder	40(b)	**(398)**	—
Repayment of advances from related parties	40(b)	**(88,502)**	(112,880)
Net cash flows (used in)/generated from financing activities		**(80,761)**	240,726

	Notes	2013 RMB'000	2012 RMB'000
Net increase in cash and cash equivalents		**46,499**	7,351
Cash and cash equivalents at beginning of year		**123,260**	115,909
Cash and cash equivalents at end of year		**169,759**	123,260
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the consolidated statement of cash flows		**169,759**	123,260
Cash and bank balances	28	**169,759**	123,260
Non-pledged time deposits with original maturity of three months or more when acquired	28	**70,900**	10,000
Cash and cash equivalents as stated in the consolidated statement of financial position		**240,659**	133,260

Details of the major non-cash transactions are included in Note 43.

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**65**	130
Investments in subsidiaries	21	**57,764**	44,501
Total non-current assets		**57,829**	44,631
CURRENT ASSETS			
Prepayments and other receivables	26	**87**	87
Due from a shareholder	40(d)	**62**	56
Due from the ultimate controlling shareholder	40(d)	**—**	30,373
Due from subsidiaries	21/40(d)	**73,966**	130,521
Cash and cash equivalents	28	**2,036**	1,525
Total current assets		**76,151**	162,562
CURRENT LIABILITIES			
Other payables, advances from customers and accruals	30	**479**	586
Due to the ultimate controlling shareholder	40(d)	**—**	210
Due to subsidiaries	21/40(d)	**717**	63,668
Total current liabilities		**1,196**	64,464
Net current assets		**74,955**	98,098
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS		**132,784**	142,729
EQUITY			
Issued capital	35	**65,120**	65,120
Reserves	37	**51,822**	71,123
Proposed final dividend	15	**15,842**	6,486
Total equity		**132,784**	142,729

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") were 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 21.

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.

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 2013. 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.

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. 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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Going concern basis

Notwithstanding that the Group had consolidated net current liabilities of approximately RMB223,250,000 at 31 December 2013, 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 2013, the Group had unutilised credit facilities from banks of approximately RMB249,464,000; and

(ii) 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 2013.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

The adoption of these new and 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 9	*Financial Instruments*[3]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[3]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) — *Investment Entities*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits — Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[1]
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets*
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC 21	*Levies*[1]
IFRS 14	*Regulatory Deferral Accounts*[4]
Annual Improvements 2010-2012 Cycle	*Amendments to a number of HKFRSs issued in January 2014*[2]
Annual Improvements 2011-2013 Cycle	*Amendments to a number of HKFRSs issued in January 2014*[2]

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs *(continued)*

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[3] No mandatory effective date yet determined but is available for adoption
[4] Effective for annual periods beginning on or after 1 January 2016

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 (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Investments in associates and joint ventures

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.
Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

Investments in associates and joint ventures *(continued)*

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

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

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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.

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

Business combinations and goodwill *(continued)*

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.

Fair value measurement

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

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

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

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

Fair value measurement *(continued)*

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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 of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of 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 the statement of 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.

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

Related parties

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

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

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

or

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses (or valuation). 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.

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

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

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

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

Investment properties

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

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

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.

Purchased software

Purchased software is stated at cost less any impairment losses and are amortised using the straight-line basis over the estimated life of 3-10 years.

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.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

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

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

Financial assets *(continued)*

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 by 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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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 yet been incurred). 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).

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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 other payables, amounts due to the ultimate holding company and related parties and interest-bearing bank borrowings.

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

Financial liabilities *(continued)*

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.

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.

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.

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

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.

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 joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Income tax *(continued)*

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.

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.

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

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 36 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 in employee benefit expense. 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".

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.

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

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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures 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 statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in 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 33 to the financial statements.

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

Estimates and assumptions *(continued)*

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 25.

Provision for slow-moving inventories and net realisable value of inventories

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

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets as at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Recognition of share-based compensation costs

As further disclosed in Note 36, 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:

	2013 **RMB'000**	2012 RMB'000
Mainland China	**1,383,956**	1,085,295
Overseas	**86,937**	70,598
Total	**1,470,893**	1,155,893

(b) *Non-current assets*

	2013 **RMB'000**	2012 RMB'000
Mainland China	**731,172**	634,199
Overseas	**50,298**	54,196
Total	**781,470**	688,395

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

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	**2013** **RMB'000**	2012 RMB'000
Customer A	**563,710**	417,724
Customer B	**178,940**	163,924
Customer C	**126,760**	119,456

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:

	2013 RMB'000	2012 RMB'000
Revenue:		
Sales of goods	**1,376,652**	1,074,098
Sales of materials	**94,241**	81,795
	1,470,893	1,155,893
Other income and gains:		
Government grants	**1,403**	4,220
Rental income	**4,590**	5,311
Gain on sales of scrap materials	**1,141**	1,177
Gain on disposal of items of property, plant and equipment	**57**	74
Management fee income (Note (a))	**3,500**	6,000
Others	**6,149**	2,062
Total	**16,840**	18,844

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

7. GAIN ON BARGAIN PURCHASE

	2013 RMB'000	2012 RMB'000
Gain on bargain purchase (Note 34)	**—**	14,756

8. FINANCE INCOME

	2013 RMB'000	2012 RMB'000
Interest income on bank deposits	**7,037**	6,535

9. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest expense on bank loans and borrowings	**48,238**	47,785

10. PROFIT BEFORE TAX

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

	2013 RMB'000	2012 RMB'000
Cost of inventories recognised as expenses	**1,123,488**	914,320
Depreciation of property, plant and equipment	**55,747**	36,913
Depreciation of investment properties	**2,789**	2,443
Amortisation of land lease payments	**3,244**	2,174
Amortisation of intangible assets	**650**	—
Research and development costs	**40,120**	38,933
Lease payments under operating leases in respect of properties	**7,840**	7,899
Auditors' remuneration	**2,937**	2,759
Employee benefit expense (excluding directors' and chief executive's remuneration (Note 11)):		
Wages and salaries	**148,128**	120,310
Pension scheme costs	**8,011**	6,482
Equity-settled share option expense	**1,564**	3,710
	157,703	130,502
Gross rental income	**(9,694)**	(8,365)
Less: Direct expenses that generated rental income	**5,104**	3,054
Rental income, net	**(4,590)**	(5,311)
Net foreign exchange (gains)/losses	**(173)**	2,422
(Reversal of)/provision for impairment of receivables	**(2,239)**	98
Write-down of inventories to net realizable value	**2,008**	13,833
Provision for impairment of property, plant and equipment	**1,212**	1,598
Gain on bargain purchase	**—**	(14,756)
Gain on disposal of items of property, plant and equipment	**(57)**	(74)
Government grants	**(1,403)**	(4,220)
Management fee income	**(3,500)**	(6,000)
Interest income	**(7,037)**	(6,535)

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:

	2013 RMB'000	2012 RMB'000
Fees	**970**	970
Other emoluments:		
Salaries, allowances and benefits in kind	**642**	644
Equity-settled share option expense	**988**	2,038
Pension scheme contributions	**14**	14
	1,644	2,696
	2,614	3,666

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 36 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:

	2013 RMB'000	2012 RMB'000
Mr. Su Xijia	**113**	194
Mr. Tian Yushi	**194**	194
Mr. Yu Shuli	**194**	194
Mr. Xu Jiali	**81**	—
	582	582

There were no other emoluments payable to the independent non-executive directors during the year (2012: 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
2013					
Executive director and chief executive:					
Mr. Zhou Minfeng	—	375	251	11	637
Executive director:					
Mr. Chang Jingzhou	—	267	101	3	371
	—	642	352	14	1,008
Non-executive directors:					
Ms. Lai Cairong	194	—	636	—	830
Mr. Wang Yuming	194	—	—	—	194
Ms. Kuang Min	—	—	—	—	—
	388	—	636	—	1,024

	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

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 one director of the Company and the chief executive (2012: two directors 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 three (2012: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	**1,911**	1,041
Equity-settled share option expense	**—**	188
Pension scheme contributions	**8**	5
	1,919	1,234

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

	2013 RMB'000	2012 RMB'000
Nil to RMB1,000,000	**3**	2

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 became 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 2013 (2012: 15%).

In April 2013, Ningbo Huazhong Plastic Products Co., Ltd. ("Ningbo Huazhong Plastic") was accredited as a "High and New Technology Enterprise" for three years starting from December 2012 and such qualification expired in September 2015 to enjoy a preferential CIT rate of 15% (2012: 15%). All other subsidiaries operating in Mainland China were subject to a tax rate of 25% during the year (2012: 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% (2012: 28.075%) during the year ended 31 December 2013.

13. INCOME TAX *(continued)*

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 the 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:

	2013 **RMB'000**	2012 RMB'000
Current income tax		
Income tax for the year	**23,933**	10,318
Deferred income tax (Note 33)	**6,825**	(1,454)
Total tax charge for the year	**30,758**	8,864

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:

	2013 **RMB'000**	2012 RMB'000
Profit before tax	**82,856**	14,739
Tax at the statutory tax rate	**20,714**	3,685
Lower tax rate for specific provincial or local tax authority	**(2,547)**	3,816
Tax losses not recognised	**2,757**	5,066
Profits and losses attributable to joint ventures and an associate	**(1,175)**	(3,485)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**2,000**	3,284
Non-taxable income	**(176)**	(4,423)
Under-provision in prior years	**994**	—
Expenses not deductible for tax	**2,439**	921
Tax losses utilised	**(24)**	—
Effect on opening deferred tax as a result of preferential tax rate	**5,776**	—
Tax charge for the year	**30,758**	8,864

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of RMB6,011,000 (2012: RMB18,338,000) which has been dealt with in the financial statements of the Company (Note 37(b)).

15. DIVIDENDS

	2013 RMB'000	2012 RMB'000
Proposed final dividend-HK$0.025 (2012: HK$0.01) per ordinary share	**15,842**	6,486
	15,842	6,486

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forth coming annual general meeting.

16. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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 800,000,000 in issue during the year ended 31 December 2013 (2012: 795,191,257, as though the capitalisation issue of shares of 640,000,000 shares prior to the Global Offering had been issued on 1 January 2012).

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the share option scheme (Note 36), where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	2013 RMB'000	2012 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic and diluted earnings per share calculations	**47,620**	1,969

	Number of shares	
	2013	2012
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**800,000,000**	795,191,257
Effect of dilution – weighted average number of ordinary shares:		
Share options	**461,000**	—
	800,461,000	795,191,257

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 2013							
At 31 December 2012 and 1 January 2013:							
Cost	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
At 1 January 2013, net of accumulated depreciation and impairment	213,095	157,195	7,055	5,308	20,630	27,432	430,715
Additions	7,666	22,944	1,118	794	16,450	61,212	110,184
Transfers	23,730	16,022	—	626	—	(40,378)	—
Transfers to investment property (Note 18)	(1,424)	—	—	—	—	—	(1,424)
Disposals	—	(506)	(19)	—	(862)	—	(1,387)
Impairment	(1,212)	—	—	—	—	—	(1,212)
Depreciation provided during the year	(10,772)	(24,785)	(1,820)	(1,684)	(16,686)	—	(55,747)
Exchange realignment	303	314	3	1	—	—	621
At 31 December 2013, net of accumulated depreciation and impairment	231,386	171,184	6,337	5,045	19,532	48,266	481,750
At 31 December 2013:							
Cost and valuation	271,703	312,221	11,606	18,167	46,000	48,266	707,963
Accumulated depreciation and impairment	(40,317)	(141,037)	(5,269)	(13,122)	(26,468)	—	(226,213)
Net carrying amount	231,386	171,184	6,337	5,045	19,532	48,266	481,750
Analysis of cost or valuation:							
At cost	268,925	312,221	11,606	18,167	46,000	48,266	705,185
At 31 December 2013 valuation	2,778	—	—	—	—	—	2,778
	271,703	312,221	11,606	18,167	46,000	48,266	707,963

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 2012							
At 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 34)	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)*

Included in the property, plant and equipment as at 31 December 2013 were certain buildings with a net carrying value of RMB127,386,000 (2012: RMB88,339,000), 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 2013.

Certain of the Group's buildings with a net carrying value of RMB14,908,000 as at 31 December 2013 (2012: RMB16,517,000) were pledged to secure bank loans granted to the Group (Note 31).

Certain of the Group's buildings with a net carrying value of RMB25,991,000 as at 31 December 2012 (2013: Nil) were pledged to secure aval commitments of RMB3,795,0000 (2013: Nil), a form of bank guarantees obtained by the Group in favour of certain customers for their advance payments (Note 30).

Company

	Furniture	
	2013	2012
	RMB'000	RMB'000
At beginning of the year:		
Cost	**167**	—
Accumulated depreciation and impairment	**(37)**	—
Net carrying amount	**130**	—
At beginning of the year, net of accumulated depreciation and impairment	**130**	—
Addition	**—**	167
Depreciation provided during the year	**(65)**	(37)
At end of the year, net of accumulated depreciation and impairment	**65**	130
At end of the year:		
Cost	**167**	167
Accumulated depreciation and impairment	**(102)**	(37)
Net carrying amount	**65**	130
Analysis of cost:		
At cost	**167**	167

18. INVESTMENT PROPERTIES

	2013 RMB'000	2012 RMB'000
Carrying amount at 1 January	**42,754**	45,197
Transfer from owner-occupied property (Note 17)	**1,424**	—
Depreciation	**(2,789)**	(2,443)
Carrying amount at 31 December	**41,389**	42,754

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

The Group's investment properties consist of 2 industrial properties in China. The directors of the Company have determined that the investment properties consist of industrial properties based on the nature, characteristics and risk of each property. The fair value of the Group's investment properties was RMB59,833,000 as at 31 December 2013 (2012: RMB47,399,000), according to the valuation performed by an independent professionally qualified valuer.

Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussion with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

The Group's investment properties are leased to related parties under operating leases, further summary details of which are included in Note 40(b).

Included in the investment properties as at 31 December 2013 were certain buildings with a net carrying value of RMB13,262,000 (2012: RMB13,644,000), 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 2013.

The Group's investment property with a net carrying value of RMB3,380,000 as at 31 December 2013 (2012: RMB3,630,000) was pledged to secure bank loans of the Group (Note 31).

Fair value hierarchy

The recurring fair value measurement for the Group's investment properties, which are industrial properties, is made using significant unobservable inputs (Level 3).

Below is a summary of the valuation techniques used and the key inputs to the valuation of the investment properties:

	Valuation techniques	Significant unobservable inputs
Industrial properties	Discounted cash flow method	Estimated rental value (per s.q.m. and per month) Rent growth (p.a.) Long term vacancy rate Discount rate

19. PREPAID LAND LEASE PAYMENTS

	2013 RMB'000	2012 RMB'000
At beginning of year	**145,176**	94,687
Additions	**25,699**	52,663
Amortisation	**(3,244)**	(2,174)
At end of year	**167,631**	145,176
Current portion included in prepayments and other receivables (Note 26)	**(3,659)**	(2,928)
At end of year	**163,972**	142,248

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 2013 were certain lands with a net book value of RMB17,217,000 (2012: RMB55,022,000), of which the land use right certificates have not been obtained.

Certain of the Group's prepaid land lease payments with a carrying value of RMB31,649,000 as at 31 December 2013 (2012: RMB32,256,000) were pledged to secure bank loans granted to the Group (Note 31).

20. INTANGIBLE ASSETS

	Software RMB'000
Cost at 1 January 2012, 31 December 2012 and 1 January 2013, net of accumulated amortisation	—
Additions	4,854
Amortisation	(650)
At 31 December 2013	4,204
At 31 December 2013	
Cost	4,854
Accumulated amortisation	(650)
Net carrying amount	4,204

21. INVESTMENTS IN SUBSIDIARIES

Company

	2013 RMB'000	2012 RMB'000
Unlisted equity investment, at cost	**52,408**	40,709
Capital contribution in respect of employee share-based compensation	**5,356**	3,792
	57,764	44,501
Loans to subsidiaries	**73,966**	130,521
	131,730	175,022

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB73,966,000 (2012: RMB130,521,000) and RMB717,000 (2012: RMB63,668,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Nominal value of issued ordinary/ registered share capital	Principal activities
Subsidiaries					
Huazhong Investment Company Limited ("Huazhong Investment")	BVI 7 December 2010	100%	—	US$1	Investment holding
Huayou Investment (Hong Kong) Limited ("Huayou Investment")	Hong Kong 28 December 2010	—	100%	HK$1	Investment holding
Ningbo Huazhong Plastic	PRC/Mainland China 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/Mainland China 25 December 1984	—	100%	RMB3,400,000	Manufacture and sale of plastic automotive products
Changchun Huateng Automobile Parts Co., Ltd. ("Changchun Huateng")	PRC/Mainland China 22 July 1997	—	100%	RMB1,000,000	Manufacture and sale of plastic automotive products

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

Name	Place and date of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Nominal value of issued ordinary/ registered share capital	Principal activities
Changchun Huaxiang Automobile Plastic Parts Manufacturing Co., Ltd. ("Changchun Huaxiang")	PRC/Mainland China 9 June 2000	—	100%	RMB75,000,000	Manufacture and sale of plastic automotive products
Ningbo Huazhong Moulding Manufacturing Co., Ltd. ("Ningbo Huazhong Moulding")	PRC/Mainland China 25 January 2002	—	100%	RMB10,000,000	Design, manufacture, and processing of moulds
Guangzhou Huazhong Automobile Decorative Parts Co., Ltd. ("Guangzhou Huazhong")	PRC/Mainland China 24 September 2004	—	100%	RMB3,000,000	Manufacture and sale of plastic automotive products
Chongqing Huazhong	PRC/Mainland China 30 August 2007	—	100%	RMB63,000,000	Manufacture and sale of plastic automotive products
Chengdu Huazhong Automobile Parts Co., Ltd. ("Chengdu Huazhong")	PRC/Mainland China 22 October 2009	—	100%	RMB20,000,000	Manufacture and sale of plastic automotive products
Shanghai Xiangmao Automobile Parts Co., Ltd. ("Shanghai Xiangmao")	PRC/Mainland China 30 November 2009	—	100%	RMB500,000	Manufacture and sale of plastic automotive products
Ningbo Huafeng Plastic and Latex Products Co., Ltd. ("Ningbo Huafeng")	PRC/Mainland China 17 March 1999	—	100%	RMB1,500,000	Manufacture and sale of plastic automotive products
Wuhu Huazhong Automotive Parts Co., Ltd. ("Wuhu Huazhong")	PRC/Mainland China 1 June 2010	—	100%	RMB10,000,000	Manufacture and sale of plastic automotive products

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

Name	Place and date of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Nominal value of issued ordinary/ registered share capital	Principal activities
Yantai Huaxiang Automotive Parts Co., Ltd. ("Yantai Huaxiang")	PRC/Mainland China 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/Mainland China 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/Mainland China 10 May 2011	—	51%	RMB3,000,000	Manufacture and sale of plastic automotive products
Foshan Huazhong Automotive Parts Co., Ltd. ("Foshan Huazhong")	PRC/Mainland China 13 March 2012	—	100%	RMB20,000,000	Manufacture and sale of plastic parts and automotive parts
HZ FBZ	Germany/Mainland China 12 April 2002	100%	—	EUR1,000,000	Manufacture and sale of moulds
Ningbo Huazhong Automotive Parts Co., Ltd. ("Hangzhou Bay Huazhong")	PRC/Mainland China 2 November 2012	50%	50%	US$7,016,000/ US$25,000,000	Manufacture and sale of plastic parts and automotive parts

Other than HZ FBZ and Huayou Investment, the financial statements of these companies were not audited by Ernst & Young, Hong Kong, or another member firm of the Ernst & Young global network.

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2013 RMB'000	2012 RMB'000
Percentage of equity interest held by non-controlling interests:		
Shanghai Huaxin	**49%**	49%
Profit for the year allocated to non-controlling interests:		
Shanghai Huaxin	**4,478**	3,906
Dividends paid to non-controlling interests of Shanghai Huaxin	**1,960**	3,675
Accumulated balances of non-controlling interests at the reporting dates:		
Shanghai Huaxin	**26,723**	24,205

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

Shanghai Huaxin	2013 RMB'000	2012 RMB'000
Revenue	**112,168**	104,951
Total expenses	**(103,029)**	(96,979)
Profit for the year	**9,139**	7,972
Total comprehensive for the year	**9,139**	7,972
Current assets	**59,220**	50,278
Non-current assets	**33,192**	32,907
Current liabilities	**(35,510)**	(31,328)
Non-current liabilities	**(2,364)**	(2,459)
Net cash flows from operating activities	**10,690**	1,061
Net cash flows (used in)/from investing activities	**(4,357)**	2,787
Net cash flows used in financing activities	**(4,497)**	(8,017)
Net increase/(decrease) in cash and cash equivalents	**1,836**	(4,169)

22. INVESTMENT IN AN ASSOCIATE

	2013 RMB'000	2012 RMB'000
Share of net assets	**2,730**	2,880

Particulars of the associate are as follows:

Name	Place and date of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Shanghai Baodegu Plastic Science & Technology Co., Ltd. ("Shanghai Baodegu") (Note (i))	PRC/Mainland China 14 June 1995	45%	Manufacture and sale of plastic auto parts

(i) Since 10 August 1999, Shanghai Huaxin has held a 45% equity interest in Shanghai Baodegu.

The following table illustrates the summarised financial information of Shanghai Baodegu adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Current assets	**7,271**	7,568
Non-current assets	**1,542**	1,847
Current liabilities	**(2,750)**	(3,022)
Net assets	**6,063**	6,393
Net assets, excluding goodwill	**6,063**	6,393
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**45%**	45%
Group's share of net assets of the associate, excluding goodwill	**2,730**	2,880
Carrying amount of the investment	**2,730**	2,880
Revenues	**13,268**	18,882
Profit for the year	**544**	980
Total comprehensive income for the year	**544**	980
Group's share of comprehensive income for the year	**245**	441
Dividend received	**395**	336

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

23. INVESTMENTS IN JOINT VENTURES

	2013 RMB'000	2012 RMB'000
Share of net assets	**65,327**	65,333

Particulars of the Group's joint ventures are as follows:

Name	Place and date of registration/ and business	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/Mainland China 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/Mainland China 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 established 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.

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

23. INVESTMENTS IN JOINT VENTURES *(continued)*

The following table illustrates the summarised financial information of Ningbo Hualete adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	2013	2012
	RMB'000	RMB'000
Cash and cash equivalents	**14,832**	5,830
Other current assets	**91,638**	85,956
Current assets	**106,470**	91,786
Non-current assets	**9,337**	10,337
Financial liabilities, excluding trade and other payables	**(22,349)**	(16,764)
Other current liabilities	**(13,884)**	(16,799)
Net assets	**79,574**	68,560
Net assets, excluding goodwill	**79,574**	68,560
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**50%**	50%
Group's share of net assets of the joint venture, excluding goodwill	**39,787**	34,280
Carrying amount of the investment	**39,787**	34,280
Revenues	**143,901**	131,474
Interest income	**26**	24
Depreciation and amortisation	**(2,395)**	(2,326)
Interest expenses	**(1,025)**	(949)
Profit and total comprehensive income for the year	**26,013**	24,817
Group's share of comprehensive income for the year	**13,006**	12,408
Dividend received	**7,500**	6,900

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. INVESTMENTS IN JOINT VENTURES *(continued)*

The following table illustrates the summarised financial information of Changchun Huaxiang Faurecia adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Cash and cash equivalents	**31,927**	98,156
Other current assets	**261,553**	339,789
Current assets	**293,480**	437,945
Non-current assets	**89,056**	101,138
Financial liabilities, excluding trade and other payables	**(143,524)**	(163,276)
Other current liabilities	**(187,932)**	(313,700)
Net assets	**51,080**	62,107
Net assets, excluding goodwill	**51,080**	62,107
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**50%**	50%
Group's share of net assets of the joint venture, excluding goodwill	**25,540**	31,053
Carrying amount of the investment	**25,540**	31,053
Revenues	**782,834**	739,190
Interest income	**182**	95
Depreciation and amortisation	**(11,647)**	(8,161)
Interest expenses	**(7,048)**	(4,881)
(Loss)/profit and total comprehensive income for the year	**(11,026)**	6,638
Group's share of comprehensive income for the year	**(5,513)**	3,319

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

24. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw materials	**45,259**	42,374
Work in progress	**30,961**	21,874
Finished goods	**105,556**	105,859
	181,776	170,107

25. TRADE AND NOTES RECEIVABLES

	2013 RMB'000	2012 RMB'000
Trade receivables	**367,858**	325,343
Notes receivable	**15,569**	10,120
	383,427	335,463
Impairment of trade receivables	**(12,514)**	(15,156)
	370,913	320,307

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 RMB20,000,000 as at 31 December 2013 (2012: RMB24,526,000) were pledged to secure bank loans granted to the Group (Note 31).

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:

	2013 RMB'000	2012 RMB'000
Within 3 months	**332,568**	276,484
3 to 6 months	**21,084**	22,779
6 months to 1 year	**992**	5,522
Over 1 year	**700**	5,402
	355,344	310,187

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

	2013 RMB'000	2012 RMB'000
At beginning of year	**15,156**	15,058
(Reversal of)/ provision for impairment for the year	**(2,239)**	98
Amounts written off	**(403)**	—
At end of year	**12,514**	15,156

25. TRADE AND NOTES RECEIVABLES *(continued)*

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

	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**333,611**	278,854
Less than 1 month past due	**8,967**	5,209
1 to 2 months past due	**3,045**	9,305
2 to 3 months past due	**9,053**	6,175
Over 3 months and within 1 year past due	**614**	10,011
Over 1 year past due	**54**	633
	355,344	310,187

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.

26. PREPAYMENTS AND OTHER RECEIVABLES

	Group		**Company**	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**50,387**	64,029	**—**	—
Other receivables (Note 41)	**27,946**	168,935	**87**	87
Current portion of prepaid land lease payments (Note 19)	**3,659**	2,928	**—**	—
	81,992	235,892	**87**	87

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.

27. 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 2013 RMB'000 (Note 40(d))	Maximum amount outstanding during the year RMB'000	1 January 2013 RMB'000	Security held
Zhou Minfeng ("Mr. Zhou")	430	30,913	30,163	None
Ningbo Huayou Properties (controlled by Mr. Zhou)	—	8,050	8,050	None
Changchun Huayou Properties Co., Ltd. ("Changchun Huayou") (controlled by Mr. Zhou)	—	5,787	587	None
Guangzhou Chengli Industrial Co., Ltd. (controlled by Mr. Zhou)	1,604	2,104	2,104	None
Huayou Holdings Company Ltd. (controlled by Mr. Zhou)	86	86	81	None
	2,120	46,940	40,985	

The loans granted to directors of the Company are unsecured, interest-free and have no fixed terms of repayment.

28. CASH AND CASH EQUIVALENTS

	Group		Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Cash and bank balances	**41,205**	123,260	**2,036**	1,525
Time deposits	**328,008**	207,951	**—**	—
	369,213	331,211	**2,036**	1,525
Less: Pledged deposits	**(128,554)**	(197,951)	**—**	—
Cash and cash equivalents in the consolidated statement of financial position	**240,659**	133,260	**2,036**	1,525
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(70,900)**	(10,000)	**—**	—
Cash and cash equivalents in the consolidated statement of cash flows	**169,759**	123,260	**2,036**	1,525

28. CASH AND CASH EQUIVALENTS *(continued)*

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 RMB119,975,000 as at 31 December 2013 (2012: RMB105,251,000) were pledged to secure the issue of notes payable (Note 29).

Pledged deposits with a carrying value of RMB8,579,000 as at 31 December 2013 (2012: RMB92,700,000) were pledged to secure the bank loans granted to the Group (Note 31).

29. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables of the Group as at 31 December 2013, based on the invoice date, is as follows:

	2013 **RMB'000**	2012 RMB'000
Within 3 months	**328,634**	414,608
3 to 12 months	**117,371**	157,671
1 to 2 years	**4,172**	705
2 to 3 years	**227**	68
Over 3 years	**392**	841
	450,796	573,893

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 notes payable was secured by pledged deposits of the Group with a carrying value of RMB119,975,000 as at 31 December 2013 (2012: RMB105,251,000) (Note 28).

30. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other payables (Note 41)	**108,145**	91,444	**479**	586
Advances from customers	**12,528**	11,742	**—**	—
Accruals	**4,411**	3,956	**—**	—
Government grants — current portion (Note 32)	**471**	329	**—**	—
	125,555	107,471	**479**	586

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

Certain of the Groups' advances from customers of RMB3,795,000 as at 31 December 2012 (2013: Nil) were secured by buildings with a carrying amount of RMB25,991,000 (2013: Nil) as aval commitments, a form of bank guarantees obtained by the Group in favour of certain customers for their advance payments (Note 17).

31. INTEREST-BEARING BANK BORROWINGS

	2013			2012		
	Effective interest rate %	**Maturity**	**RMB'000**	Effective interest rate %	Maturity	RMB'000
Current						
Bank loans — secured	**2.35~6.6**	**2014**	**84,759**	2.47~6.6	2013	287,186
Bank loans — unsecured	**5.04~6.6**	**2014**	**472,000**	5.6~6.89	2013	334,000
Current portion of long term bank loans — unsecured	**6.77~6.89**	**2014**	**4,000**			—
			560,759			621,186
Non-current						
Bank loans — unsecured	**6.77~6.89**	**2015-2016**	**76,000**			—
			636,759			621,186

	2013	2012
	RMB'000	RMB'000
Analysed into:		
Bank loans		
Within one year	**560,759**	621,186
In the second year	**4,000**	—
In the third to fifth years, inclusive	**72,000**	—
	636,759	621,186

31. INTEREST-BEARING BANK BORROWINGS *(continued)*

All bank borrowings were obtained from third party financial institutions.

As at 31 December 2013, the Group's bank loans of RMB84,759,000 (2012: RMB287,186,000) were secured by the pledges of the Group's assets with carrying values as follows:

	Notes	**2013 RMB'000**	2012 RMB'000
Property, plant and equipment	17	**14,908**	16,517
Investment properties	18	**3,380**	3,630
Prepaid land lease payments	19	**31,649**	32,256
Trade receivables	25	**20,000**	24,526
Pledged deposits	28	**8,579**	92,700
		78,516	169,629

32. GOVERNMENT GRANTS

	2013 RMB'000	2012 RMB'000
Carrying amount at beginning of the year	**2,629**	—
Received during the year	**7,140**	2,958
Released to profit or loss	**(329)**	(329)
Carrying amount at end of the year	**9,440**	2,629
Current portion, classified under other payables, advances from customers and accruals (Note 30)	**471**	329
Non-current	**8,969**	2,300
	9,440	2,629

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

33. DEFERRED TAX

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

	2013 RMB'000	2012 RMB'000
Deferred tax assets arising from:		
— Provision for receivables	**1,952**	3,790
— Write-down of inventories	**4,150**	5,592
— Accruals	**6,379**	6,182
— Unrealised profits	**3,876**	5,790
— Tax losses	**—**	384
— Impairment of property, plant and equipment	**422**	400
	16,779	22,138
Deferred tax liabilities arising from:		
— Valuation surplus	**7,611**	8,145
— Withholding taxes	**16,071**	14,071
	23,682	22,216

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	Unrealised profits RMB'000	Tax losses RMB'000	Impairment of property, plant and equipment RMB'000	Total RMB'000
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 and 1 January 2013	3,790	5,592	6,182	5,790	384	400	22,138
(Charged)/credited to profit or loss (Note 13)	(1,838)	(1,442)	197	(1,914)	(384)	22	(5,359)
As at 31 December 2013	1,952	4,150	6,379	3,876	—	422	16,779

33. DEFERRED TAX *(continued)*

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 2011 and 1 January 2012	3,227	10,787	14,014
Acquisition of subsidiaries (Note 34)	5,760	—	5,760
(Credited)/charged to profit or loss (Note 13)	(842)	3,284	2,442
As at 31 December 2012 and 1 January 2013	8,145	14,071	22,216
(Credited)/charged to profit or loss (Note 13)	(534)	2,000	1,466
As at 31 December 2013	7,611	16,071	23,682

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 became 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%.

Pursuant to the Board resolutions of the Company dated 30 March 2014, no more than RMB20,000,000 of the profits earned by the profit making subsidiaries in Mainland China in 2013 will be appropriated to the Huayou Investment in 2014 and onwards. Hence, deferred tax liability arising from the withholding tax on profits generated by the aforesaid companies in the current year, excluding RMB20,000,000, is not applicable as of 31 December 2013.

At 31 December 2013, other than the amount recognised in the consolidated financial statements, deferred tax has not been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such remaining earnings in the foreseeable future, as they will be permanently used as the Group's future development fund in Mainland China. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB54,256,000 at 31 December 2013 (2012: Nil).

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:

	2013 RMB'000	2012 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**16,593**	21,654
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(23,496)**	(21,732)

33. DEFERRED TAX *(continued)*

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

	2013 **RMB'000**	2012 RMB'000
Unused tax losses	**23,688**	20,011
Deductible temporary differences	**250**	250
	23,938	20,261

Among the above tax losses is approximately RMB3,884,000 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.

34. 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 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.

	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

34. BUSINESS COMBINATIONS *(continued)*

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

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

	RMB'000
Cash consideration	(31,899)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(31,899)

35. ISSUED CAPITAL

Shares

	2013 **RMB'000**	2012 RMB'000
Authorised:		
10,000,000,000 (31 December 2012: 10,000,000,000) ordinary shares of HK$0.10 each	**814,800**	814,800

	Number of shares in issue	**Share capital** RMB'000
Issued and fully paid:		
At 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 and 31 December 2013	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.

35. ISSUED CAPITAL *(continued)*

Shares *(continued)*

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.

During the year, there was no movement in the share capital.

A summary of the transactions during the 2012 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 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, 1 January 2013 and 31 December 2013	800,000,000	65,120	99,866	164,986

36. 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:

	2013		2012	
	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**	**17,700**	1.12	18,000
Forfeited during the year	**1.12**	**(350)**	1.12	(300)
At 31 December	**1.12**	**17,350**	1.12	17,700

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

2013 Number of options '000	2012 Number of options '000	Exercise price HK$ per share	Exercise period
6,072	6,195	1.12	12 January 2013 to 11 January 2017
6,073	6,195	1.12	12 January 2014 to 11 January 2017
5,205	5,310	1.12	12 January 2015 to 11 January 2017
17,350	17,700		

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 RMB2,552,000 during the year ended 31 December 2013 (2012: RMB5,748,000).

36. SHARE OPTION SCHEME *(continued)*

Pre-IPO Share Option Scheme *(continued)*

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 17,350,000 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 17,350,000 additional ordinary shares of the Company and additional share capital of HK$1,735,000 equivalent to RMB1,364,000, and share premium of HK$17,697,000, equivalent to RMB13,913,000 (before issue expenses).

At the date of these financial statements, the Company had 17,350,000 share options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 2.2% of the Company's shares in issue at that date.

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 optimise 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.

36. 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 at 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 (2012: Nil).

37. 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.

37. RESERVES *(continued)*

(a) Group *(continued)*

Statutory reserve funds *(continued)*

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.

(b) Company

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2011 and 1 January 2012	—	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 and 1 January 2013	99,866	5,875	(34,618)	71,123
Equity-settled share option arrangements	—	2,552	—	2,552
Loss for the year	—	—	(6,011)	(6,011)
Proposed final 2013 dividend	(15,842)	—	—	(15,842)
At 31 December 2013	84,024	8,427	(40,629)	51,822

38. 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:

	2013 RMB'000	2012 RMB'000
Within one year	**4,707**	6,395
After one year but not more than five years	**2,580**	2,249
	7,287	8,644

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:

	2013 RMB'000	2012 RMB'000
Within one year	**8,407**	8,365
In the second to fifth years, inclusive	**12,751**	16,794
	21,158	25,159

39. COMMITMENTS

In addition to the operating lease commitments detailed in Note 38 above, the Group had the following capital commitments as at the end of each reporting period:

	2013 RMB'000	2012 RMB'000
Contracted, but not provided for in respect of the acquisition of:		
Property, plant and equipment	**559,177**	618,442
Prepaid land lease payments	**—**	23,370
	559,177	641,812

40. 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 Electronics Co., Ltd. ("Ningbo Huaxiang Electronics")	Significantly influenced by Mr. Zhou Xiaofeng
Ningbo Huayou Properties	Controlled by Mr. Zhou
Huayou Holdings Company Ltd. ("Huayou Holdings")	Controlling 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
Chengdu Huaxiang Auto Parts Co., Ltd. ("Chengdu Huaxiang")	Controlled by Ningbo Huaxiang Electronics
寧波華英模具科技發展有限公司 ("Huaying Moulding")	Controlled by Ningbo Huayou Properties

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

(a) Name and relationship *(continued)*

Name of related party	**Relationship with the 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")	Joint venture of Ningbo Huaxiang Electronics
Ningbo Hualete	Joint venture of 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")	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	Joint venture of the Group
Shanghai Baodegu	An associate of the Group
寧波華翔進出口有限公司 ("Huaxiang Export")	Significantly influenced by Huaxiang Group
寧波市科技園華鼎新材料有限公司 ("Ningbo Huading") *	Significantly influenced by Mr. Zhou
寧波華翔信息技術有限公司 ("Huaxiang Information Technology")	Controlled by Huaxiang Group

* An agreement to dispose of 48% of the equity interest held by Mr. Zhou in Ningo Huading to a third party was entered into in August 2013. The share transfer registration with local authority was completed in February 2014.

40. 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	2013 RMB'000	2012 RMB'000
Sales of goods to related parties	(i)		
Shanghai Baodegu		**1,927**	7,790
Huaxiang Information Technology^Δ		**1,790**	—
Changchun Huaxiang Faurecia		**157**	—
Chengdu Huaxiang		**15**	—
		3,889	7,790
Purchases of goods and services from related parties	(ii)		
Changchun Huaxiang Faurecia		**148,539**	109,910
Nanchang Jiangling		**3,983**	3,874
Huaxiang Resort^Δ		**1,518**	277
Huaxiang Technology^Δ		**1,142**	—
Huaxiang Trim		**804**	3,353
Ningbo Makete		**445**	1,999
Chengdu Huaxiang		**186**	1,126
Huaxiang Sales Co.^Δ		**15**	18
		156,632	120,557
Sales of raw materials to a related party	(i)		
Changchun Huaxiang Faurecia		**89,965**	64,952
Purchases of raw materials from related parties	(ii)		
Ningbo Hualete		**71,611**	62,851
Shanghai Baodegu		**4,936**	5,211
		76,547	68,062
Gross rental income from related parties	(iii)		
Changchun Huaxiang Faurecia		**8,196**	7,346
Ningbo Hualete		**1,019**	1,019
Chengdu Huaxiang		**479**	—
		9,694	8,365
Rental expense charged by related parties			
Guangzhou Chengli^Δ		**520**	—

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

(b) Related party transactions *(continued)*

	Notes	2013 RMB'000	2012 RMB'000
Management fee income from a related party	(iv)		
Changchun Huaxiang Faurecia		**3,500**	6,000
Purchase of an office building from a related party	(v)		
Ningbo Huayou Properties Δ		**41,000**	—
Advances to the ultimate controlling shareholder	(vi)		
Mr. Zhou Δ		**750**	30,644
Recovery of advances to the ultimate controlling shareholder			
Mr. Zhou		**30,483**	1,142
Advances to related parties	(vi)		
Ningbo Huayue Δ		**50,750**	—
Ningbo Huading *		**45,000**	—
Changchun Huayou Δ		**5,200**	587
Guangzhou Chengli Δ		**20**	20
Ningbo Huayou Properties Δ		**—**	18,900
Huaxiang Technology Δ		**—**	2,371
Huayou Holdings Δ		**—**	81
		100,970	21,959
Recovery of advances to related parties			
Ningbo Huayue		**52,870**	19,509
Ningbo Huading		**45,000**	—
Ningbo Huayou Properties		**8,050**	28,000
Changchun Huayou		**5,787**	100
Ningbo Huaxiang Electronics		**126**	81
Huaxiang Technology		**—**	131
		111,833	47,821
Advances from the ultimate controlling shareholder	(vi)		
Mr. Zhou Δ		**—**	1,081
Repayment of advances from the ultimate controlling shareholder			
Mr. Zhou		**398**	—
Advances from related parties	(vi)		
Ningbo Huayue Δ		**27,700**	269
Ningbo Hualete		**22,500**	32,900
Ningbo Huayou Properties Δ		**—**	34,421
Huaxiang Technology Δ		**—**	98
		50,200	67,688

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

(b) Related party transactions *(continued)*

	Notes	2013 RMB'000	2012 RMB'000
Repayment of advances from related parties			
Ningbo Hualete		**58,000**	43,000
Ningbo Huayue		**30,000**	90
Shanghai Baodegu		**502**	—
Ningbo Huayou Properties		—	60,000
Huaying Moulding		—	5,088
Changchun Huaxiang Faurecia		—	4,702
		88,502	112,880

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, services 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 and rental expenses charged by 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): Purchase of an office building from a related party was made according to the terms and conditions agreed between the related parties.

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

(c) Other transactions with related parties

(i) During the year ended 31 December 2013, the Group provided guarantees to Ningbo Hualete for its bank facilities amounting to RMB8,154,000 as at 31 December 2013 (2012: RMB4,530,000).

(ii) During the year ended 31 December 2013, the Group pledged bank deposits of RMB55,600,000 as guarantees to Ningbo Huayue for its bank facilities amounting to RMB50,000,000 (2012: Nil). The guarantees were released during the year.

(iii) During the year ended 31 December 2013, Ningbo Huayue repaid amounts of RMB21,700,000, in aggregate, to the Group on behalf of three third parties to settle their amounts due to the Group in accordance with the agreements among these parties.

(iv) During the year ended 31 December 2013, Ningbo Huading repaid amounts of RMB49,136,000, in aggregate, to the Group on behalf of four third parties to settle their amounts due to the Group in accordance with the agreements among these parties.

The related party transactions with Ningbo Huading in respect of items denoted with "*" and item of (c)(iv) above incurred after the date of the agreement signed by Mr. Zhou with a third party to dispose of his 48% of equity interest in Ningbo Huading.

The related party transactions in respect of items denoted with "Δ" and items from (c)(ii) to (c)(iii) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

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

(d) Outstanding balances with related parties

GROUP

	2013 **RMB'000**	2012 RMB'000
Amount due from the ultimate controlling shareholder		
Mr. Zhou	**430**	30,163
Amounts due from related parties		
Changchun Huaxiang Faurecia	**4,937**	44,698
Guangzhou Chengli	**1,604**	2,104
Chengdu Huaxiang	**89**	—
Huayou Holdings	**86**	81
Huaxiang Technology	**85**	65
Huaxiang Export	**7**	—
Ningbo Huayou Properties	**—**	8,050
Changchun Huayou	**—**	587
Ningbo Huaxiang Electronics	**—**	211
Jingshang Huaxiang	**—**	8
	6,808	55,804
Amount due to the ultimate controlling shareholder		
Mr. Zhou	**289**	687
Amounts due to related parties		
Ningbo Hualete	**25,715**	19,034
Changchun Huaxiang Faurecia	**9,670**	43,116
Shanghai Baodegu	**2,768**	3,001
Nanchang Jiangling	**1,602**	1,308
Ningbo Huayou Properties	**795**	5,693
Huaxiang Resort	**479**	163
Ningbo Makete	**50**	439
Huaxiang Trim	**2**	1,330
Chengdu Huaxiang	**—**	1,057
Huaying Moulding	**—**	720
Ningbo Huayue	**—**	179
Huaxiang Technology	**—**	98
	41,081	76,138

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

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

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

COMPANY

	2013 **RMB'000**	2012 RMB'000
Amount due from a shareholder		
Huayou Holdings	**62**	56
Amount due from the ultimate controlling shareholder		
Mr. Zhou	**—**	30,373
Amounts due from subsidiaries		
Ningbo Huazhong Plastic	**27,000**	85,500
Huayou Investment	**45,021**	45,016
HZ FBZ	**1,931**	—
Huazhong Investment	**14**	5
	73,966	130,521
Amount due to the ultimate controlling shareholder		
Mr. Zhou	**—**	210
Amounts due to subsidiaries		
Ningbo Huazhong Plastic	**717**	25
HZ FBZ	**—**	63,643
	717	63,668

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

	2013 **RMB'000**	2012 RMB'000
Short term employee benefits	**3,318**	3,017
Post-employment benefits	**26**	26
Equity-settled share option expense	**994**	2,633
Total compensation paid to key management personnel	**4,338**	5,676

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

41. 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 2013	**Loans and receivables RMB'000**
Trade and notes receivables	**370,913**
Financial assets included in prepayments and other receivables (Note 26)	**27,946**
Due from the ultimate controlling shareholder	**430**
Due from related parties	**6,808**
Pledged deposits	**128,554**
Cash and cash equivalents	**240,659**
	775,310

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 26)	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

41. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

(a) Group *(continued)*

Financial liabilities

As at 31 December 2013	**Financial liabilities at amortised cost RMB'000**
Financial liabilities included in other payables, advances from customers and accruals (Note 30)	**108,145**
Trade and notes payables	**450,796**
Interest-bearing bank borrowings	**636,759**
Due to the ultimate controlling shareholder	**289**
Due to related parties	**41,081**
	1,237,070

As at 31 December 2012	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables, advances from customers and accruals (Note 30)	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

(b) Company

Financial assets

As at 31 December 2013	**Loans and receivables RMB'000**
Financial assets included in prepayments and other receivables (Note 26)	**87**
Due from a shareholder	**62**
Due from subsidiaries	**73,966**
Cash and cash equivalents	**2,036**
	76,151

41. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

(b) Company *(continued)*

Financial assets *(continued)*

As at 31 December 2012	Loans and receivables RMB'000
Financial assets included in prepayments and other receivables (Note 26)	87
Due from a shareholder	56
Due from the ultimate controlling shareholder	30,373
Due from subsidiaries	130,521
Cash and cash equivalents	1,525
	162,562

Financial liabilities

As at 31 December 2013	**Financial liabilities at amortised cost RMB'000**
Financial liabilities included in other payables, advances from customers and accruals (Note 30)	**479**
Due to subsidiaries	**717**
	1,196

As at 31 December 2012	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables, advances from customers and accruals (Note 30)	586
Due to the ultimate controlling shareholder	210
Due to subsidiaries	63,668
	64,464

42. 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 31.

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

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

	Increase/(decrease) in basis points	**Effect on profit before tax** RMB'000
Year ended 31 December 2013		
RMB	**100**	**(370)**
RMB	**(100)**	**370**
Year ended 31 December 2012		
RMB	100	(790)
RMB	(100)	790

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.

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, trade and other receivables, pledged deposits, amounts due from the ultimate controlling shareholder and 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 53% (2012: 51%) of the total trade and notes receivables as at 31 December 2013.

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

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

Liquidity risk

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

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

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

	On demand RMB'000	**Less than 3 months RMB'000**	**3 to 12 months RMB'000**	**1 to 5 years RMB'000**	**Total RMB'000**
31 December 2013					
Interest-bearing bank borrowings	**—**	**79,606**	**495,894**	**89,876**	**665,376**
Trade and notes payables	**17,641**	**335,993**	**97,162**	**—**	**450,796**
Other payables (Note 30)	**108,145**	**—**	**—**	**—**	**108,145**
Amount due to the ultimate controlling shareholder	**289**	**—**	**—**	**—**	**289**
Amounts due to related parties	**5,696**	**35,385**	**—**	**—**	**41,081**
	131,771	**450,984**	**593,056**	**89,876**	**1,265,687**

	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 30)	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

42. 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:

	2013 **RMB'000**	2012 RMB'000
Trade and notes payables	**450,796**	573,893
Other payables and accruals	**112,556**	95,400
Interest-bearing bank borrowings	**636,759**	621,186
Amount due to the ultimate controlling shareholder	**289**	687
Amounts due to related parties	**41,081**	76,138
Less: Cash and cash equivalents	**(240,659)**	(133,260)
Net debt	**1,000,822**	1,234,044
Equity attributable to owners of the parent	**439,625**	395,462
Capital and net debt	**1,440,447**	1,629,506
Gearing ratio	**69%**	76%

43. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 December 2013, the Group offset its amounts due from against amounts due to Ningbo Hualete of RMB13,199,000; amounts due from against amounts due to Changchun Huaxiang Faurecia of RMB43,038,000; amounts due from three third parties against amounts due to Ningbo Huayue of RMB21,700,000, amounts due from four third parties against amounts due to Ningbo Huading of RMB49,136,000, and other receivables from certain third party vendors of the Group against amounts due to these respective vendors of RMB7,100,000 in accordance with the agreements entered into among respective parties.

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 entered into among respective parties.

44. CONTINGENT LIABILITIES

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

	2013	2012
	RMB'000	RMB'000
Related parties (Note 40(c)(i))	**8,154**	4,530

45. EVENTS AFTER THE REPORTING PERIOD

On 30 March 2014, the board of directors of the Company proposed a final dividend of HK$0.025 per ordinary share totalling HK$20,000,000, approximately RMB15,842,000, for the year ended 31 December 2013, which is subject to the approval of the Company's shareholders at the forthcoming annual general meeting (Note 15).

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2014.

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				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**1,470,893**	1,155,893	1,168,886	1,006,908	826,216
Cost of sales	**(1,123,488)**	(914,320)	(875,784)	(748,663)	(651,324)
Gross profit	**347,405**	241,573	293,102	258,245	174,892
Other income and gains	**16,840**	18,844	70,692	9,993	7,382
Gain on bargain purchase	**—**	14,756	9,766	21,560	—
Selling and distribution costs	**(99,087)**	(94,208)	(83,529)	(75,622)	(67,423)
Administrative expenses	**(142,562)**	(133,610)	(105,721)	(51,133)	(41,018)
Other expenses	**(6,218)**	(7,774)	(3,456)	(5,346)	(4,521)
Finance income	**7,037**	6,535	16,398	9,585	7,766
Finance costs	**(48,238)**	(47,785)	(44,971)	(34,266)	(29,234)
Share of profits and losses of:					
Joint ventures	**7,434**	15,967	(1,529)	9,054	3,443
An associate	**245**	441	425	(422)	—
PROFIT BEFORE TAX	**82,856**	14,739	151,177	141,648	51,287
Income tax expense	**(30,758)**	(8,864)	(38,252)	(35,275)	(15,558)
PROFIT FOR THE YEAR	**52,098**	5,875	112,925	106,373	35,729
Attributable to:					
Owners of the parent	**47,620**	1,969	110,168	105,839	35,371
Non-controlling interests	**4,478**	3,906	2,757	534	358
	52,098	5,875	112,925	106,373	35,729

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**1,809,195**	1,853,533	1,502,392	1,544,540	1,295,031
TOTAL LIABILITIES	**(1,342,847)**	(1,433,866)	(1,246,196)	(1,264,703)	(1,106,428)
NON-CONTROLLING INTERESTS	**(26,723)**	(24,205)	(23,974)	(4,029)	(1,920)
	439,625	395,462	232,222	275,808	186,683

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. Yu Shuli
Mr. Tian Yushi
Mr. Xu Jiali

AUDIT COMMITTEE

Mr. Yu Shuli *(Chairman)*
Mr. Tian Yushi
Mr. Xu Jiali

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 *ACIS, ACS(PE)*

AUTHORISED REPRESENTATIVE

Mr. Zhou Minfeng
Mr. Lian Wei Chung

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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
Level 22, Hopewell Centre
183 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