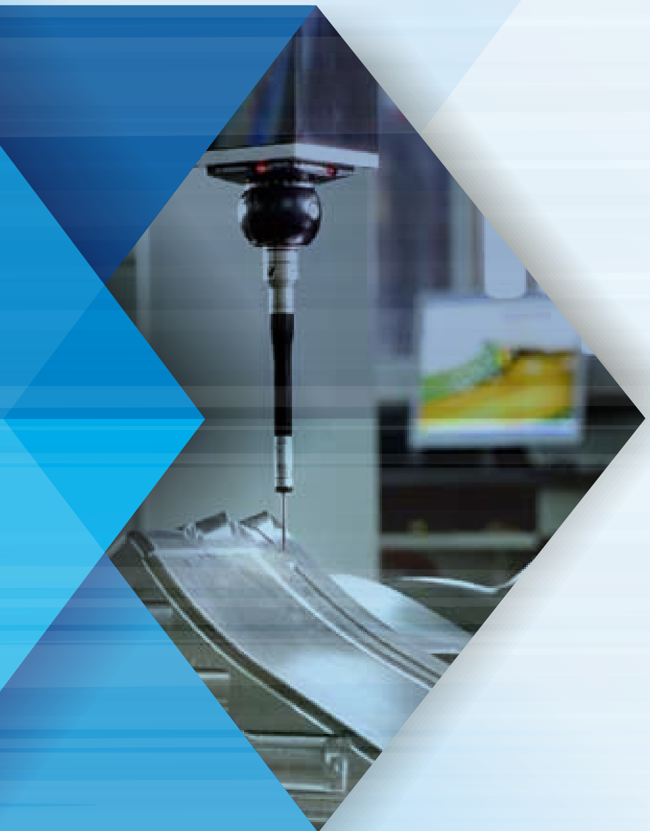
Huazhong In-Vehicle Holdings Company Limited

華眾車載控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 6830



Annual Report

2017

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COMPANY PROFILE

Huazhong In-Vehicle 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 solutions 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 20 factories, amongst which 19 factories operating in different regions in China to cover major automakers in China. As at 31 December 2017, the Group, together with its joint ventures, had manufacturing facilities in Ningbo, Changchun, Shanghai, Chongqing, Yantai, Foshan, Wuhu, Guangzhou and Chengdu. In addition, a moulding factory was established through acquisition in Germany with a view to assist the Group in enhancing and upgrading its production techniques and upgrade manufacturing equipment, while expanding to the overseas market.

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company and all of our staff, I hereby present to the shareholders of the Company (the "**Shareholders**") the annual results of the Group for the year ended 31 December 2017 (the "**Year**").

Given the complex global economic conditions, 2017 has been a challenging year for the Company. Total revenue increased to RMB1.76 billion from RMB1.74 billion in 2016. Gross profit increased by 7.5% year-on-year to RMB514.4 million (2016: RMB478.7 million). Profit attributable to equity shareholders increased by 31.7% year-on-year to RMB138.2 million (2016: RMB104.9 million).

The Group 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.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our management and staff for their outstanding performance over the year, as their contribution was the key to the Group's success. I would also like to take this opportunity to cordially thank all Shareholders, customers and business partners for their support and assistance.

Zhou Minfeng
Chairman

Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Continuing the trend from 2016, the automobile industry has recorded another year of stable growth in 2017. According to the statistics from China Association of Automobile Manufacturers, over 29.0 million vehicles were manufactured and over 28.9 million vehicles were sold in 2017, representing a growth of 3.2% and 3.0%, respectively, from the previous year. In terms of sales and manufacturing volumes, China has again ranked number one in the world for another year.

In 2017, the sales volume of the top 10 automobile manufacturers reached approximately 25.6 million units, accounting for 88.5% (2016: 88.3%) of the overall vehicle sales in China, representing an increase of 0.2 percentage points. As a tier-one supplier with scalable production capacity and strong research and development (the "**R&D**") capability, the Group has established long-term business relationships with these leading players in the market. Out of the top 10 automobile manufacturers, the Group has established business relationships with 6 of them, namely SAIC Motor, FAW Volkswagen, Chang'an Automobile, BAIC Motor, GAC Group and Chery. The solid partnership with industry leaders has provided a strong foothold for the Group to capture the growth of the automobile industry.

BUSINESS REVIEW

The Group offers one-stop solutions 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.

The Group offers a wide range of automobile body parts, including internal and external structural and decorative parts (such as front/rear bumper, front-end carrier, dashboard, ABCD-pillars, air inlet grille and rocker panel), air conditioning unit casings and liquid tanks through our subsidiaries and jointly controlled entities. We also manufacture fabric used for ABCD-pillar and headliner for automobile through one of our jointly controlled entities.

The Group also produces moulds and tooling for our manufacturing arm, with the ability to produce moulds and tooling for complex or large-size automobile body parts such as bumper and front-end carrier. Apart from automobile-related products, the Group also manufactures other products such as top cowl cover for engine of motorboat and office chair parts.

In 2017, the Group 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 RMB1.76 billion, representing an increase of approximately 1.3% as compared to approximately RMB1.74 billion in 2016. Profit attributable to the owners of the parent for the Year was approximately RMB138.2 million, representing an increase of approximately 31.7% as compared to approximately RMB104.9 million in 2016.

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 R&D 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;

(iv) non-automobile products; and

(v) sale of raw materials.

	2017		2016	
		Gross profit		Gross profit
	Revenue	Margin	Revenue	Margin
	RMB'00	%	RMB'000	%
Automotive interior and exterior structural and decorative parts	**1,345,644**	**33.1**	1,233,256	30.6
Moulds and tooling	**140,196**	**14.9**	180,763	21.5
Casings and liquid tanks of air conditioners and heaters	**149,775**	**14.2**	185,425	23.4
Non-automobile products	**75,165**	**31.9**	69,275	22.6
Sale of raw materials	**50,956**	**4.7**	70,172	5.0
Total	**1,761,736**	**29.2**	1,738,891	27.5

For the Year, the total revenue generated from automotive interior and exterior structural and decorative parts was approximately RMB1,345,644,000 (2016: RMB1,233,256,000), accounting for 76.4% of the Group's total revenue for the Year (2016: 70.9%). The increase was primarily because of the expansion of new markets and new customers during the Year. Gross profit margin increased from approximately 30.6% in 2016 to approximately 33.1% in 2017, primarily due to improved operating efficiency and implementation of stringent cost control.

For the Year, revenue from moulds and tooling was approximately RMB140,196,000 (2016: RMB180,763,000), accounting for approximately 8.0% of the Group's total revenue for the Year (2016: 10.4%). Gross profit margin decreased from 21.5% in 2016 to 14.9% in the Year, mainly because of infavorable product mix shift. The decrease in revenue was mainly due to the decrease in sales of moulds and tooling in China.

For the Year, revenue from casings and liquid tanks of air conditioners and heaters was approximately RMB149,775,000 (2016: RMB185,425,000), accounting for approximately 8.5% of the Group's total revenue for the Year (2016: 10.7%). Gross profit margin decreased from approximately 23.4% in 2016 to approximately 14.2% in the Year, mainly because of the decrease in demand of certain products with higher gross margin.

For the Year, revenue from non-automobile products was approximately RMB75,165,000 (2016: RMB69,275,000), accounting for approximately 4.3% of the Group's total revenue for the Year (2016: 4.0%). Gross profit margin increased from approximately 22.6% in 2016 to approximately 31.9% in the Year, mainly because of the change in product mix with better gross margin.

For the Year, revenue from sale of raw materials was approximately RMB50,956,000 (2016: RMB70,172,000), accounting for approximately 2.9% of the Group's total revenue for the Year (2016: 4.0%). Gross profit margin remained stable at approximately 4.7% during the Year.

Other Income and Gains

Other income and gains of the Group for the Year amounted to approximately RMB28,805,000 (2016: RMB22,847,000). The increase was mainly attributable to the exchange gain arise from the appreciation of RMB against United States dollars ("**USD**").

Selling and Distribution Expenses

The Group's selling and distribution expenses for the Year amounted to approximately RMB120,242,000 (2016: RMB117,418,000). The proportion of selling and distribution expenses in sales revenue for the Year was around 6.8% (2016: 6.8%).

Administrative Expenses

The Group's administrative expenses for the Year amounted to approximately RMB192,341,000, representing an decrease of approximately 3.1% as compared to approximately RMB198,454,000 in 2016.

Share of Profits and Losses of Joint Ventures

During the Year, the Group recorded approximately RMB13,348,000 of the share of profits of joint ventures as compared to the share of profits of approximately RMB14,377,000 for 2016.

Finance Income

The Group's finance income decreased by approximately 41.5% from approximately RMB10,345,000 in 2016 to approximately RMB6,050,000 in the Year. The decrease was mainly due to the decrease in non-pledged time deposits made during the Year.

Finance Costs

The Group's finance costs decreased from approximately RMB47,296,000 in 2016 to approximately RMB40,398,000 in the Year, representing a decrease of approximately 14.6%, which was attributable to a decrease of average bank borrowing balance during the Year.

Taxes

The Group's tax expenses increased by approximately 23.3% from approximately RMB41,957,000 in 2016 to approximately RMB51,724,000 in the Year. The increase was mainly attributable to the increase in taxable profits during the Year.

Liquidity and Financial Resources

For the Year, the net cash generated from operating activities was approximately RMB320,900,000 (2016: RMB179,357,000). The cash generated from operating activities was mainly from the profits during the Year.

The net cash used in investing activities was approximately RMB150,575,000 (2016: RMB112,597,000). The net cash used in financing activities was approximately RMB208,033,000 (2016: RMB77,275,000). The net cash used in investing activities was mainly for the purchase of property, plant and equipment. The net cash used in financing activities was mainly due to the repayment of bank loans.

As a result of the above-mentioned comprehensive factors, the net cash outflow of the Group was approximately RMB37,708,000 (2016: RMB10,515,000).

As at 31 December 2017, the cash and cash equivalents of the Group (including cash and bank deposits) was approximately RMB96,799,000 (31 December 2016: RMB187,987,000).

As at 31 December 2017, the interest-bearing bank borrowings of the Group were approximately RMB722,791,000 (31 December 2016: RMB791,720,000) of which approximately RMB25,818,000 (equivalent to EUR3,309,000) and RMB99,973,000 (equivalent to USD15,300,000) were borrowed in Euro and USD, respectively, and approximately RMB604,321,000 were due within one year. Effective interest rate ranges from 2.72% to 6.72%. Amongst the bank borrowings, RMB99,973,000 were borrowed at floating interest rate, representing 13.8% of total borrowings (86.2% of total borrowings at fixed interest rate).

The Board expects that the bank loans would either be settled by fund from internal resources or rolled over 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 2017, the Group had capital commitments amounting to approximately RMB183,330,000 (31 December 2016: RMB208,619,000) 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, Euro and USD. 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.

Capital Structure

On 11 January 2017, 3,358,000 ordinary shares were issued pursuant to exercise of share options at the price of HK$0.56.

Bonus Issue

On 26 June 2017, 160,835,800 ordinary shares were issued pursuant to the bonus issue of shares on the basis of one (1) bonus share for every ten (10) existing shares in issue on 16 June 2017.

The total number of issued and fully paid ordinary shares of the Company as at 31 December 2017 was 1,769,193,800.

Contingent Liabilities

As at 31 December 2017, the Group had no significant contingent liabilities (31 December 2016: Nil).

Pledge of Assets

As at 31 December 2017, the Group's assets of approximately RMB193,859,000 (2016: RMB95,765,000) were pledged to secure some of the Group's interest-bearing bank borrowings. The book value of the pledged assets is set out below:

	2017 RMB'000	2016 RMB'000
Property, plant and equipment	**10,225**	10,655
Investment properties	**2,383**	2,632
Prepaid land lease payments	**44,021**	45,158
Pledged deposits	**137,230**	37,320
Total	**193,859**	95,765

As at 31 December 2017, pledged deposits with book value of approximately RMB52,634,000 (2016: RMB50,196,000) were used as security to provide guarantee for the issue of notes payable.

Gearing Ratio

As at 31 December 2017, the Group's gearing ratio was approximately 65.3%, which was decreased slightly as compered with the gearing ratio of approximately 67.9% as at 31 December 2016. 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.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries and Future Plans for Material Investments or Capital Assets

During the Year, the Group did not have any significant investments or acquisition or sale of subsidiaries. There was no plan authorised by the Board for any material investments or additions of capital assets as at the date of this annual report.

Employees and Remuneration Policies

The Group had a total of 2,978 (2016: 3,166) employees as at 31 December 2017. Total staff costs of the Group (excluding the Directors' and chief executive's remuneration) for the Year was approximately RMB190,728,000 (2016: approximately RMB209,678,000). The decrease was mainly attributable to the decrease of number of employees. The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of our employees.

Events after the Year

There were no significant events after the Year up to the date of this annual report.

PROSPECT

Going forward into 2018, China's general macro-economic conditions is continually to expect to have a stable growth.

The removal of purchase tax subsidies for fuel-efficient vehicles earlier this year could have some negative impact on the sales volume growth of passenger vehicles in China during the early part of the year. Nevertheless, in the long run, China's automobile industry is expected to continue to grow steadily in the coming years.

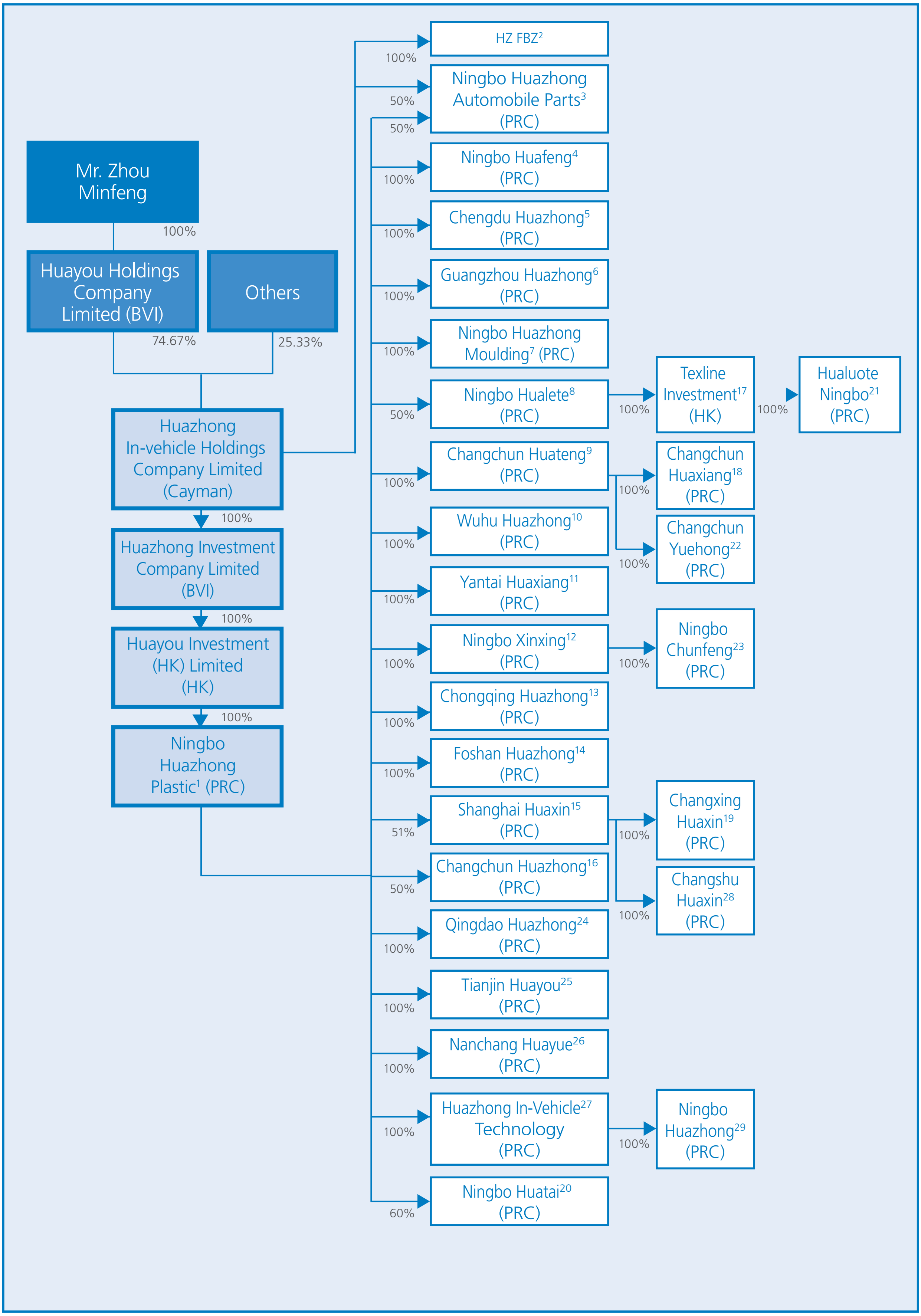
The Group proactively formulates a prospective development strategy, taking the lead to expand into the field of automotive lightweight products. With years of experience in the automotive parts industry, we believe that the approach of "replacing steel with plastics" will continue to be developed in the industry.

Plastics, being the most important automotive lightweight material, have thus seen strong growth potential. With the continues technology advancement to improve its strengths, tensile properties and hardness, plastic applications in automobile manufacturing has moved from decorative parts to functional structures, such as bumpers, bonnet components and automobile skeleton.

In addition, the Group was able to improve operating efficiency and resulted in an improved margin. In order to stay competitive, the Group will continue to control costs and improve efficiency.

The Group will continue to implement its development strategy of "committing to product research and development and engineering and implementing strategic investments", and become a leading automobile body parts manufacturer in China in terms of reputation and market share.

Last but not the least, we wish to re-affirm that maximization of shareholder value, whilst adhering to the highest standards of corporate governance, will always remain our top priority.


Mr. Zhou Minfeng
100%
Huayou Holdings Company Limited (BVI)
Others
74.67%
25.33%
Huazhong In-vehicle Holdings Company Limited (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%
Ningbo Huafeng[4] (PRC)
100%
Chengdu Huazhong[5] (PRC)
100%
Guangzhou Huazhong[6] (PRC)
100%
Ningbo Huazhong Moulding[7] (PRC)
50%
Ningbo Hualete[8] (PRC)
100%
Texline Investment[17] (HK)
100%
Hualuote Ningbo[21] (PRC)
100%
Changchun Huateng[9] (PRC)
100%
Changchun Huaxiang[18] (PRC)
100%
Changchun Yuehong[22] (PRC)
100%
Wuhu Huazhong[10] (PRC)
100%
Yantai Huaxiang[11] (PRC)
100%
Ningbo Xinxing[12] (PRC)
100%
Ningbo Chunfeng[23] (PRC)
100%
Chongqing Huazhong[13] (PRC)
100%
Foshan Huazhong[14] (PRC)
51%
Shanghai Huaxin[15] (PRC)
100%
Changxing Huaxin[19] (PRC)
100%
Changshu Huaxin[28] (PRC)
50%
Changchun Huazhong[16] (PRC)
100%
Qingdao Huazhong[24] (PRC)
100%
Tianjin Huayou[25] (PRC)
100%
Nanchang Huayue[26] (PRC)
100%
Huazhong In-Vehicle[27] Technology (PRC)
100%
Ningbo Huazhong[29] (PRC)
60%
Ningbo Huatai[20] (PRC)

COMPANY STRUCTURE

Notes:

1. Ningbo Huazhong Plastic Products Co., Ltd.
（寧波華眾塑料製品有限公司）
2. HZ FbZ Formenbau Züttlingen GmbH
3. Ningbo Huazhong Automobile Parts Co., Ltd.
（寧波華眾汽車零部件有限公司）
4. Ningbo Huafeng Plastic and Latex Products Co., Ltd.
（寧波華峰橡塑件有限公司）
5. Chengdu Huazhong Automobile Parts Co., Ltd.
（成都華眾汽車零部件有限公司）
6. Guangzhou Huazhong Automobile Decorative Parts Co., Ltd.
（廣州華眾汽車飾件有限公司）
7. Ningbo Huazhong Moulding Manufacturing Co., Ltd.
（寧波華眾模具製造有限公司）
8. Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd.
（寧波華樂特汽車裝飾布有限公司）
9. Changchun Huateng Automobile Parts Co., Ltd.
（長春市華騰汽車零部件有限公司）
10. Wuhu Huazhong Automotive Parts Co., Ltd.
（蕪湖華眾汽車零配件有限公司）
11. Yantai Huaxiang Automotive Parts Co., Ltd.
（煙台華翔汽車零部件有限公司）
12. Ningbo Xinxing Automobile Plastic Parts Manufacturing Co., Ltd.
（寧波新星汽車塑料件製造有限公司）
13. Chongqing Huazhong Automobile Decorative Parts Co., Ltd.
（重慶市華眾汽車飾件有限公司）
14. Foshan Huazhong Automobile Parts Co., Ltd.
（佛山華眾汽車零部件有限公司）
15. Shanghai Huaxin Automobile Latex and Plastic Co., Ltd.
（上海華新汽車橡塑製品有限公司）
16. Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd.
（長春華眾延鋒彼歐汽車外飾有限公司）
17. Texline Investment Co., Limited
（華樂特投資有限公司）
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）
20. Ningbo Huatai Telematics Technology Co., Ltd.
（寧波華太車載技術有限公司）
21. Ningbo Tex Line Automotive Textiles Co.,Ltd
（寧波華絡特汽車內飾有限公司）
22. Changchun Yuehong Investment Co., Ltd.
（長春閱宏投資有限公司）
23. Ningbo Chunfeng Investment Co., Ltd.
（寧波春峰投資有限公司）
24. Qingdao Huazhong Automotive Parts Co., Ltd.
（青島華眾汽車零部件有限公司）
25. Tianjin Huayou Automotive Parts Co., Ltd.
（天津華友汽車零部件有限公司）
26. Nanchang Huayue Plastic Products Company Co., Ltd.
（南昌華越塑料製品有限公司）
27. Ningbo Huazhong In-Vehicle Technology Co., Ltd.
（寧波華眾車載技術有限公司）
28. Changshu Huaxin Automobile Latex and Plastic Co., Ltd.
（常熟華新汽車零部件有限公司）
29. Ningbo Huazhong Holdings Co., Ltd.
（寧波華眾控股有限公司）

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 risk management and 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 (the "**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 the following deviations.

Code Provisions A.6.7 and E.1.2

Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders; while code provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting.

Mr. Zhou Minfeng (the chairman of the Board), four non-executive Directors and four independent non-executive Directors were unable to attend the Company's annual general meeting and extraordinary general meeting held on 7 June 2017 due to their other business engagement. An executive Director chaired the meetings whereas other attended Board members were already of sufficient calibre and number for answering questions raised by the Shareholders.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**") as the code of conduct governing dealings by all the 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 of the Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the Year.

The Board

During the Year, the Board consists of eleven Directors, comprising three executive Directors, four non-executive Directors and four independent non-executive Directors. During the Year, four Board meetings and two general meetings were held (i.e. one annual general meeting and one extraordinary general meeting, both held on 7 June 2017). Details of the attendance of the Directors are as follows:

	Attendance/Number of	
Name of Director	**Board Meetings**	**Shareholders' Meetings**
Executive Directors		
Mr. Zhou Minfeng *(Chairman)*	4/4	0/2
Mr. Li Xuejun *(Chief Executive Officer)* (appointed on 1 September 2017)	N/A	N/A
Mr. Chang Jingzhou	4/4	2/2
Non-Executive Directors		
Ms. Lai Cairong	2/4	0/2
Mr. Wang Yuming	4/4	0/2
Mr. Guan Xin	4/4	0/2
Mr. Liu Genyu	0/4	0/2
Mr. He Jifeng (resigned on 7 November 2017)	4/4	0/2
Independent Non-Executive Directors		
Mr. Wong Luen Cheung Andrew *(Vice-chairman)*	4/4	0/2
Mr. Yu Shuli	4/4	0/2
Mr. Tian Yushi	4/4	0/2
Mr. Xu Jiali	2/4	0/2

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 the Directors or dissenting views expressed, are kept by the Joint Company Secretaries and are open for inspection by the 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 code provision A.6.5 of the 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. During the Year, 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. Li Xuejun who was appointed as an executive Director and chief executive officer of the Company.

A summary concerning the participation of the Directors in continuous professional development during the Year according to the records provided by the Directors is as follows:

Names of Directors	Reading materials updating on new rules and regulations
Executive Directors	
Mr. Zhou Minfeng *(Chairman)*	✓
Mr. Li Xuejun *(Chief Executive Officer)* (appointed on 1 September 2017)	✓
Mr. Chang Jingzhou	✓
Non-Executive Directors	
Ms. Lai Cairong	✓
Mr. Wang Yuming	✓
Mr. Guan Xin	✓
Mr. Liu Genyu	✓
Mr. He Jifeng (resigned on 7 November 2017)	✓
Independent Non-Executive Directors	
Mr. Wong Luen Cheung Andrew *(Vice-chairman)*	✓
Mr. Yu Shuli	✓
Mr. Tian Yushi	✓
Mr. Xu Jiali	✓

Chairman and Chief Executive Officer

The positions of the chairman and the chief executive officer of the Company were held by separate individuals, with Mr. Zhou Minfeng being the chairman of the Board and Mr. Li Xuejun being the chief executive officer of the Company. The chairman of the Board is responsible for ensuring that the Board is functioning properly with good corporate governance practices and procedures. He also steers the Board and the Company towards corporate goals. The chief executive officer of the Company is responsible for effective implementation of the overall strategies and initiatives adopted by the Board. With the support of the chief executive officer and the Joint Company Secretaries, the chairman of the Board seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information on a timely basis.

Appointment and Re-election of Directors

Each of the non-executive Directors has entered into a letter of appointment with the Company and was appointed for an initial term of three years. Ms. Lai Cairong was re-appointed at the annual general meeting of the Company on 16 June 2016 for three years. Mr. Wang Yuming and Mr. Guan Xin were re-appointed at the annual general meeting of the Company on 7 June 2017 for three years. Mr. Liu Genyu was re-appointed at the annual general meeting of the Company on 16 June 2016 for three years. He was then re-designated as a non-executive Director and entered into a letter of appointment with the Company for a term of one year commencing from 1 September 2017.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company and was appointed for an initial term of three years. Mr. Wong Luen Cheung Andrew and Mr. Xu Jiali were re-appointed at the annual general meeting of the Company on 29 May 2015 for three years and Mr. Yu Shuli and Mr. Tian Yushi were re-appointed at the annual general meeting of the Company on 16 June 2016 for three years.

According to article 83(3) of the Articles, any Director appointed by the Board to fill a causal 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. Therefore, Mr. Li Xuejun will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offers himself for re-election.

According to 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 least once every three years. Therefore, Mr. Wong Luen Cheung Andrew, Mr. Yu Shuli, Mr. Tian Yushi and Mr. Xu Jiali will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

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 four independent non-executive Directors representing one-third of the Board.

Among the four 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

The Joint Company Secretaries are responsible for facilitating the Board process, as well as communications among Board members, with the Shareholders and management. Mr. Cheung Wah Lung Warren and Ms. Ho Wing Yan, the Joint Company Secretaries, have complied with the requirements to undertake over 15 hours of professional training 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 risk management and internal control systems 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.

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

— reviewed the Group's audited annual results for the year ended 31 December 2016 and the unaudited interim results for the six months ended 30 June 2017, 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 effective systems of risk management and internal control and the Company's internal audit function.

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

Name of member	Attendance/Number of Meetings
Mr. Yu Shuli	2/2
Mr. Tian Yushi	2/2
Mr. Xu Jiali	2/2

Remuneration Committee

The Company established a remuneration committee (the "**Remuneration Committee**") on 7 December 2011 with written terms of reference. The primary duties of the Remuneration Committee are to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of non-executive Directors. The Remuneration Committee currently consists of three members, namely, Mr. Yu Shuli, an independent non-executive Director who is the chairman of the Remuneration Committee, Mr. Zhou Minfeng, an executive Director and Mr. Tian Yushi, an independent non-executive Director. The Board expects the Remuneration Committee to exercise independent judgment and ensure that executive Directors do not participate in the determination of their own remunerations.

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

During the Year, one meeting was held by the Remuneration Committee. The individual attendance record of each member at the meeting 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 2017 are set out in note 10 to the financial statements. The number of senior management of the Group whose remuneration for the year ended 31 December 2017 fell within the following band is as follows:

	Number of senior management
RMB1,000,000 to RMB2,000,000	—
Nil to RMB1,000,000	1

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 2017; 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 was held by the Nomination Committee. The individual attendance record of each member at the meeting 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 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 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 2017, 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 auditor of the Company concerning its responsibilities for the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 60 to 63 of this annual report.

Auditor's Remuneration

The Company has appointed Ernst & Young as the external auditor of the Company. During the year ended 31 December 2017, the Group was required to pay an aggregate of approximately RMB2.55 million (2016: RMB2.50 million) to the external auditor for their audit services relating to financial information.

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. 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 Directors.

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.

Constitutional documents

During the Year, there has been no significant change in the Company's constitutional documents.

Risk Management and Internal Control

During the Year, the Board complied with the code provisions on risk management and internal control as set out in the CG Code. The Board has overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and maintaining appropriate and effective risk management and internal control systems for the Group. The systems are designed to manage the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company has established a set of comprehensive policies, standards and procedures in areas of operational, financial and risk controls for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors.

The Board has overseen the Company's risk management and internal control systems on an ongoing basis. A year end review of the effectiveness of the Company's and its subsidiaries risk management and internal control systems has been conducted annually and the systems are considered to be effective and adequate. Self-assessment and comprehensive risk assessment surveys have been conducted during the review. The Company also has an internal audit function to carry out the analysis and independent appraisal of the adequacy and effectiveness of the systems, and has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest.

All Directors and those employees who could have access to, and monitor, the information of the Group are responsible for making appropriate measures to prevent abuse or misuse of such information. Employees of the Group are prohibited from using inside information for their own benefit.

The Board is also vested with the responsibility to disseminate to the Shareholders and the public any inside information in the form of announcements and circulars, in accordance with the Listing Rules.

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.

INTRODUCTION

This Environmental, Social and Governance Report (the "**Report**") summarises the Group's advocacy, plans and performance on the environment, society and governance and reveals its commitments to sustainable development.

SCOPE AND REPORTING PERIOD

Unless otherwise stated, this Report focuses on the Mainland China environmental, social and governance measures and other issues related to the sustainable development of Ningbo Huazhong Plastic Products Co., Ltd. ("**Ningbo Huazhong Plastic**") — the main subsidiary of the Group — for the year from 1 January 2017 to 31 December 2017 ("**Reporting Period**").

REPORTING FRAMEWORK

This Report was prepared in accordance with the code provisions of "Environment, Social and Governance Reporting Guide" set out in Appendix 27 of the Listing Rules. For the corporate governance practices of the Group, please refer to the Corporate Government Report in this Annual Report.

OUR VISIONS AND MISSIONS ON SUSTAINABLE DEVELOPMENT

"Integrity, Responsibility, Creation and Sharing" are not only are our long-standing core values, but are also the four essential elements of our sustainable development policy. Our visions and missions on sustainable development include:

- To become China's top automotive parts manufacturer through dedication and the provision of sincere and honest services;
- To exceed our customers' expectations by continuously enhancing the quality of our products;
- To adopt sustainable practices and promote high levels of awareness of safety and environmental management; and
- To advocate a working environment with mutual respect, friendship, fairness and a pleasant ambience and value diverse opinions and cultures.

COMMUNICATION WITH STAKEHOLDERS

The Group places emphasis on its shareholders' opinions on the business, environmental, social and governance matters. To understand and respond to its stakeholders on their matters of concern, the Group and its major stakeholders (e.g. customers, suppliers, employees, shareholders, trade unions and regulatory bodies, etc.) communicate through various channels such as meetings, customer seminars, company website, etc. The Group takes its stakeholders' expectations into consideration in formulating its operational strategies and environmental, social and governance measures, in the hope of creating higher values for society through mutual cooperation to continuously improve the Group's performance.

You are welcomed to provide us with your valuable opinions on this Report or our sustainable development by mail to Room 1704, 17/F., Tai Yau Building, 181 Johnston Road, Wanchai, Hong Kong.

QUALITY MONITORING AND CONTROL

Quality management is of utmost importance to this Group as it directly affects our customers' satisfaction levels. We have already obtained ISO 9001-based ISO/TS 16949 certification, which is recognised by the international automotive industry and focused on quality management in the automotive industry. In order to conveniently monitor the quality of our products, we have introduced quantifiable production performance references such as the production plan achievement rate, one-off product passing rate and sample passing rate, etc.

Dedicated department for quality monitoring and control

To ensure product quality, we have in place a quality monitoring program which reviews the quality of raw materials, semi-finished products and final products involved in production. We have an independent department for quality monitoring and control, which is responsible for carrying out random tests on raw materials and products. We have set up our own laboratories, where we have professional quality monitoring and control equipment, to conduct physical and chemical tests (such as robust performance, flame resistant, thermal aging and formaldehyde test) on random samples of raw materials and products. In addition, to ensure our products are up to standard, we send random product samples to independent testing institutes for testing.

Customer feedback

We highly value our customers' opinions. We understand our customers' satisfaction levels by means of questionnaire surveys and formulate improvement measures to continuously bolster the quality of our products and services after analysing the collected opinions of our customers. Additionally, we will co-develop quality improvement plans with our major customers through direct discussions with their quality monitoring and control department, in order to further enhance product quality. In the next three to five years, we plan to implement "Project 5070", which aims to reduce the product quality failure rates for our factories by 50% annually and decrease quality failure rates for end-users by 70% on a yearly basis.

Correction and prevention

We have established the "Control Procedures for Corrective and Preventive Measures", which aims to investigate product failure incidents by collecting information from multiple sources, including customer complaints, incident environments and venues, internal review reports and customers' satisfaction levels, and carry out corresponding rectification measures to prevent similar incidents in future.

Product liability

We do not maintain product liability insurance. Our Directors consider that it is not an industry norm to maintain product liability insurance because there is no such requirement under current PRC laws and product liability insurance is not commonly available from insurance companies in the PRC.

During the Reporting Period, we did not recall any products owing to health or safety issues, and to the best knowledge of our Directors, the Group did not receive any complaints from any persons relating to health and safety or deviation from the advertisements and label descriptions for our products and services.

OCCUPATIONAL SAFETY

We endeavour to provide and maintain a safe and healthy working environment for employees to protect them from work-related accidents or injuries. We have already obtained BS OHSAS 18001 certification (for occupational health and safety) and the Safe Production Standardisation Certificate awarded by The State Administration of Work Safety; our production process must adhere to the occupational safety policy of "Full Participation, Primary Prevention, Health and Safety, Compliance with Laws and Regulations and Continuous Improvement".

Full participation

- Our top management promised to stick to our occupational health and safety policies.
- All our employees participate in the drafting and implementation of our occupational safety management measures.

Primary prevention

- Prior to launching of project, every process, position, workplace, equipment, facility and project subject to risks identification and assessment, so that corresponding risks prevention measures can be implemented in advance.
- Inspections of hidden safety hazards are carried out. Corrective and preventive measures are adopted to eliminate accidents before they actually happen.

Safety and health

- Employees' lives, health, safe production guarantee and safety education and training override all.
- Comprehensive safety and health regulations are formulated.
- Training is provided for employees to equip them with safety, health and hygiene knowledge.
- Regular body check-ups are arranged for employees.

Compliance with laws and regulations

- We promise to comply with laws and regulations, rules, systems and standards related to occupational health and safety.

Continuous improvement

- Our occupational health and safety regulations are constantly reviewed and improved to abide by the laws and regulations.
- The Plan-Do-Check-Action Management Model is implemented.
- Regular reviews of internal and external occupational health and safety are conducted.

In respect of laws and regulations, the main laws applicable to the Group's safety management and monitoring include: the Safety Production Act of People's Republic of China (《中華人民共和國安全生產法》), Regulations for Production Safety Incident Reporting, Investigations and Handling (《生產安全事故報告和調查處理條例》), Special Equipment Safety Supervision Regulations (《特種設備安全監察條例》) and Fire Safety Law (《消防法》). During the Reporting Period, to the best knowledge of the Directors, the Group received no major administrative sanctions and penalties for violating any laws and regulations related to the provision of safe working environment and the protection of employees against occupational hazards. Moreover, the Group received no complaints or notices associated with violating any laws and regulations on safety issues from regulatory bodies.

Work injury incident investigations

In order to implement the "Health and Safety and Continuous Improvement" occupational safety policy, it is necessary to carry out full investigations into employee safety incidents. We classify incidents into four categories, namely minor injury incidents, serious injury incidents, major injury or fatal incidents and extremely major fatal incidents, and have set up corresponding handling procedures for different types of incidents. We first understand the root causes of the incident through investigation; then we launch corrective measures targeting the root causes and reinforce the corresponding preventative measures; following persistent improvement works, the risk of similar incidents happening is reduced step by step. During the Reporting Period, more than 20 work injury incidents happened, most of which were caused by human error and none of which was fatal.

Continuous risks management

Risks management is an important part of occupational safety. By identifying the sources of dangers, assessing the identified risks and implementing corresponding risk control measures, we can continuously identify and assess occupational health and safety risks. For those which pose major risks to the Group's operations, we must put as much effort as possible to minimise or eradicate the risks and minimise work injuries and financial losses. In the past year, we mainly use our experience and analogy method in identifying and analysing the possibilities of risk occurrence, the frequency of exposure to a dangerous environment and the consequences of related incidents, and execute relevant management plans to reduce identified risks. At the same time, each department is responsible for conducting regular reviews of the effectiveness of existing management plans, to assess whether our occupational health and safety goals can be achieved through such plans.

In order to ensure our production facilities comply with applicable safety standards, we have formulated a fire safety handbook, a production safety handbook and other guidelines and handbooks relating to operational safety with the aim of assuring all work being carried out in accordance to standards and safety guidelines.

Emergency plans

To ensure the Company can swiftly respond to incidents and potential emergencies which may happen during production and provision of services, we have established the "Emergency Preparation and Response Procedures" (《應急準備和響應程序》), in the hope of preventing or reducing the environmental impacts and related diseases, injuries and potential occupational health and safety losses through early preparation and effective implementation of emergency response plans.

To facilitate the execution of our emergency plans effectively during incidents, we have also established an emergency response team to be responsible for conducting, organising and guiding emergency plans in the event of incidents. For persons with special needs in emergency response, we have arranged corresponding training especially for the key personnel who are capable of handling emergencies and urgent issues, such as firefighters and paramedics, etc.

During the Reporting Period, we also conducted a comprehensive training in fire safety and emergency response drill. Through actual practice, we have strengthened our employees' ability to escape from the fire scene and rescue themselves, in order to reduce life and financial losses through all possible measures. Thanks to the guidance by our security department, which had strengthened our employees' ability to use the fire safety equipment, the drill was successfully carried out under the leadership of the Company's management.

Measures against summer heat strokes

Under the influence of global warming, our staff may need to work in a hot environment and may suffer from a heat stroke if there is lack of cooling measures. Therefore, we carried out two major measures to prevent heat strokes during the Reporting Period:

- Installing air coolers at work sites
- Proper supplies for temperature reduction and heat stroke prevention are regularly purchased during high-temperature periods in summer

We also implemented the following measures to maintain a safe and healthy working environment:

- All enclosed areas in offices and factory premises are designated as non-smoking zones with no exception.
- There is a first-aid kit at every workplace to ensure employees who are injured or ill during work can be immediately taken care of.
- In every production unit, there is at least one employee with a first-aid certificate to provide necessary help in case of an incident.
- There are designated rest zones in different areas of our workplace to provide our employees with a better rest environment.

In the future, we will continue to seek opportunities to improve our working environment.

OUR EMPLOYEES

Talents are one of the essential elements for long-term and positive development of the Company. The Group has always treated its employees with benevolence and generosity. We emphasise on the personality of each and every one of our employees, utilise their strengths and unleash their personal potential, so as to accomplish the Group's ultimate objectives and gather strength to achieve sustainable development.

Talent recruitment

During the Reporting Period, we constantly strived to attract and retain capable individuals and recruit staff through various channels including local HR agencies, campus recruitment and job advertisements. During the recruitment process, we pledged not to take into account candidates' nationality, gender, age, family status or other facts unrelated to their ability and qualifications in making employment decisions.

We adopt a fair, open and just system of competition and assess employees according to the job requirements, their overall ability and achievements. We carry out open recruitment and consider only the abilities of the applicants. We avoid sole reliance on academic qualifications or seniority and provide every employee with fair promotion opportunities.

Employee benefits

An attractive remuneration system is necessary for attracting and retaining talents. In the past year, we continuously reviewed our existing remuneration system to provide comprehensive protection for our employees and ensure they work for the company with peace of mind. We make payments of five types of social insurance (including pension, medical, unemployment, maternity and work-related injury insurance) and housing fund (五險一金) for the employees. We review our remuneration structure every year to ensure its fairness and competitiveness. Moreover, we conduct regular performance reviews of our employees and the results are used as references for promotion and salary adjustment. At present, we have formulated the "Huazhong Craftsmen" scheme to select and develop employees who strive for excellence.

We adhere strictly to statutory employment standards, such as wages, working hours and rest periods, and maintain appropriate internal standards and workplace practices.

	Employee demographics
Total number of employees	864
Employees by gender	
Male	392
Female	472
Employment status	
Full-time	864
Part-time	—
Employment category	
Top management	6
Middle management	35
General employees and technicians	823
Employees by age	
Below 20 in age	11
21-30 in age	164
31-40 in age	277
41-50 in age	310
51-60 in age	95
Above 60 in age	7

	Employee turnover analysis
Total turnover	89
Employees by gender	
Male	50
Female	39
Employees by age	
Below 20 in age	4
21-30 in age	33
31-40 in age	27
41-50 in age	17
51-60 in age	7
Above 60 in age	1

Care for employees' needs out of work

In addition to providing our employees with employment benefits, we are also concerned about the other needs of our employees. We understand that our employees need to reunite with their families during Chinese New Year periods. For the employees' ease of returning home, we arrange train tickets and dedicated vehicles for our employees. During festive periods such as Mid-Autumn Festival and International Women's Day, we arrange gifts presentation and celebration activities for our employees so that they can feel the festive atmosphere.

Communication with employees

Regular communication with employees is of utmost importance in meeting their needs and providing them with a good working environment. Regular communication with employees is a crucial process, we organise staff seminars on a regular basis so that our employees can express their feelings and voices so our management can understand their needs directly and thereby continuously improving existing management.

Furthermore, to show that we respect and value our employees, during the Reporting Period, we conducted an employee satisfaction survey, which focused on areas including employees' development, remuneration, working environment, personal relationships and company culture. In addition to helping us understand their level of satisfaction in various aspects, the survey allowed us to identify the most urgent problems and contemplate corresponding improvement measures. We hope to make our best effort to fulfil our employees' needs and thereby achieving sustainable development for the Company and its employees alike.

Anti-discrimination

We understand the importance of a fair working environment and forbid discrimination on the grounds of race, skin colour, age, gender, sexual orientation, ethnicity, disability, pregnancy, religion and affiliation to trade unions or marriage status in employee treatment such as promotion, rewarding, demotion and recruitment. We also prohibit discrimination, forced labour, the deprivation of employees' right to rest and harassment at and outside the workplace. To maintain a good corporate environment, all employees may directly communicate with and report to the Group's top management. Furthermore, in case of termination or resignation, we also arrange dedicated human resources officers to have a face-to-face meeting with the employee, in order to understand the root causes of their resignation or termination and to ensure that no employees resign due to unreasonable causes.

Labour standards

In active compliance with related laws, we avoid the use of child or forced labour in our business operations and adopt a zero-tolerance policy towards any form of child and forced labour. During our recruitment process, we check candidates' ID Card to verify their personal particulars (including their age) as a precautionary measure. Our production department has a management system for overtime working. Employees who need to work overtime for work reasons are required to complete an "Overtime Application Form" and have their application reviewed and approved by their department in-charge. None of our employees shall work overtime against their will.

HR-related laws and regulations

With regard to the laws and regulations relating to human resources or employment such as Law of the People's Republic of China on Employment Contracts (《中華人民共和國勞動合同法》), Labour Law of the People's Republic of China (《中華人民共和國勞動法》), Social Insurance Law of the People's Republic of China (《社會保險法》) and Prevention and Control of Occupational Diseases Law of the People's Republic of China (《職業病防治法》), during the Reporting Period, to the best knowledge of the Directors, the Group has received no severe administrative sanctions or punishment from any regulatory bodies or other individual regarding remuneration and termination, recruitment and promotion, working hours, rest time, equal opportunities, diversity, anti-discrimination, the use of child labour, forced labour or other advantages and benefits. Neither has the Group received any complaints or notifications from any regulatory body in regard to the violation of the aforementioned laws and regulations.

TRAINING AND DEVELOPMENT

We are convinced that sound education and training is not only conducive for boosting employees' productivity, but also an important cornerstone of sustainable development. We continuously provide our employees with a big variety of training. To extensively promote our values, consolidate our powers and train more talents, we have established the Huazhong Corporate University (華眾企業大學). During the Reporting Period, our training focused on the following areas:

Training for new employees	• Induction training (including ice-breaking training, company introduction, regulatory system training, employee etiquettes, quality awareness and fundamental quality knowledge, 6S management training, production safety knowledge, exams, etc.)
	• On-the-job training
Company-level training	• Stress and emotions management
	• Introduction to the five core tools (APQP/PPAP/FMEA/SPC/MSA)
	• Complete production management and rapid mould change methods
	• Training on new products

Department-level training	•	Reading sharing session
	•	Taxation training
	•	Customer review method
	•	Project management method
Work site training	•	Training on quality issues
	•	6S management training
	•	Standardised operation training

	Staff training hours
Total training hours	8,223 hours
Average training hours	9.5 hours/person
Training hours by gender	
Male	5,720 hours
Female	2,503 hours
Training hours by employee level	
Top management	500 hours
Middle management	1,504 hours
General employees and technicians	6,219 hours
Training hours by age	
21-30 in age	3,250 hours
31-40 in age	2,535 hours
41-50 in age	1,832 hours
51-60 in age	606 hours

ENVIRONMENTAL PROTECTION

Global warming and climate change have become major environmental issues faced by countries around the world. The Group aims to reduce energy consumption and emissions reduction and has been exploring operational models that are less hazardous to the environment. We implement an environmental management system and policies and has obtained ISO 14001 certification.

We need to comply with different environmental protection laws and regulations, including but not limited to Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Law on Environmental Impact Evaluations of the PRC (《中華人民共和國環境影響評價法》) and Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》). During the Reporting Period, to the best knowledge of our Directors, the Group received no complaints about environmental protection from any regulatory body or any individual and has caused no major environmental protection issues owing to its production activities. During the Reporting Period, the Group received no major administrative sanctions and penalties due to its violation of environmental laws and regulations, which adversely affect its operations.

Emissions and resources utilisation

Inevitably, greenhouse gases are produced during the process of our production. An examination of the Group's production activities shows that our greenhouse gas emissions mainly come from the electricity consumption during our production, and our production activities also result in the emission of nitrogen oxides. In future environmental protection issues will remain one of the main elements in our production and operations. We will continue to review our existing production operation mode regularly to see if we can reduce our impact on the environment by adjusting our entire production process, in attempts to achieve balance between production operations and environmental protection with maximised efforts.

Energy management

As operation of machines in our factories consume large amount of electricity during production, we are dedicated to reducing the power consumption mainly by purchasing new injection moulding machine with faster operation and thus shorter production periods. The Company has taken the following measures in energy management:

- Set up an energy management committee to improve energy management and efficiency;
- Analyse and monitor the Group's energy consumption on a regular basis;
- Install energy-efficient light tubes and make use of natural daylight in our factory and offices as much as possible;
- Set the temperature of air conditioning in our offices to an energy-efficient level at 24°C to 26°C;
- Encourage employees to switch off all computers and factory/office equipment, electrical appliances and air-conditioners when not in use; and
- Ensure equipment and devices are switched off during downtime and breaks.

During the Reporting Period, the Group's energy consumption and emissions data are as follows:

Description	Unit	Amount
Total greenhouse gas emissions	Tonne of carbon dioxide equivalent	9,282.32
Direct emission (area 1)		
— Natural gas, gasoline, diesel consumption	Tonne of carbon dioxide equivalent	190.73
Indirect emission (area 2)		
— Power consumption	Tonne of carbon dioxide equivalent	9,091.59
Density — greenhouse gas emissions per 1,000 production units	Tonne of carbon dioxide equivalent/ per 1,000 production units	0.21
SOx emission	Kg	0.80
NOx emission	Tonne	43.35
Total energy consumption	Kilowatt hours	13,865,984.17
Electricity	Kilowatt hours	12,923,374.00
Liquefied natural gas	Kilowatt hours	440,084.33
Unleaded gasoline	Kilowatt hours	393,594.85
Diesel	Kilowatt hours	108,930.98
Density — energy consumption per 1,000 production units	Kilowatt hours/1,000 production units	309.65

Water resources and sewage management

Water is used for cooling purposes during the production process. To reduce usage, the water used for cooling during production is recycled and therefore we do not generate a large volume of waste water in the production process. The water we use is mainly used in factory canteen, toilet flushing, taps and drinking water. In addition, we have completed the canteen sewage treatment project so as to ensure the waste water meets the requirements of regulations before being discharged. Currently, there is no problem with water source. During the Reporting Period, the Group's water consumption data are as follows:

Description	Unit	Amount
Total water consumption	Cubic metre	104,073
Density — water consumption per 1,000 production units	Cubic metre/1,000 production units	2.32

Waste management

The Group does not generate any hazardous waste in the ordinary course of business. Our production process generates mainly non-hazardous wastes such as plastic and metal scraps. To reduce the amount of wastes, all plastic wastes are crushed and then reused for the Group's production. The metal scraps are collected by resources recycling companies for recycling treatments.

During the Reporting Period, the Group's data regarding the non-hazardous waste it generated and packaging materials are as follows:

Description	Unit	Amount
Total amount of non-hazardous waste	Tonne	74.00
Recycled waste for reuse — metal	Tonne	70.46
Waste disposed at landfill — paper	Tonne	3.54
Density — non-hazardous waste per 1,000 production units	Kg/1,000 production units	1.65
Total amount of packaging materials	Tonne	2,274.22
Density — packaging materials per 1,000 production units	Kg/1,000 production units	50.79

A number of schemes and activities have been unveiled at our offices to encourage employees to participate in waste reduction. They include:

- Promote green information and electronic communications, such as emails and electronic workflow system, to achieve the goal of "paperless and digital" workplace;
- Place memos with environmentally friendly messages and tips on office equipment;
- Set up paper recycle box in office and participate in toner bottles and cartridges recycling programme;
- Use durable items, such as ceramic cups and reusable spoons instead of disposable cups and wooden stirrers

Green production

With low pressure injection moulding ("LPIM") we developed and the application of LPIM in making automobile internal decorative parts, fabric can be adhered firmly to plastic backing of products without using any glue or other chemical substances and therefore is environmentally friendly. Both of our developed moulds (i.e. the eco high-efficiency low pressure injection mould for knitted fabric in high-end car interior parts and injection mould for long fibreglass automobile front frames (with medium size metal inserts)) have environmentally friendly and energy-saving features.

We also improve our product design and production process by using plastic instead of steel to reduce the weight of the engine and cooling system products. It is expected that the weight of a vehicle will be reduced by 4 — 6 kg, and as an indirect result the use of fuel will be reduced and so will the amount of greenhouse gas emission. In addition, with plastic used instead of steel, welding process is eliminated and the production process is simplified, which helps reduce energy consumption.

With our continuous effort on environment protection, The People's Government of Ningbo Municipality ("寧波市政府") has issued a certificate to recognise us as an Advanced Enterprise in Energy Saving and Emission Reduction ("節能減排先進企業").

We will look for opportunities to further reduce emissions and wastes on an on-going basis in order to minimise the impacts of the Group's activities on the environment and natural resources.

Noise management

Since the Group's production business involves the use of mechanical equipment, we have commissioned a qualified monitoring agency to conduct inspections in accordance with the Noise Standards for Industrial and Corporate Factories in People's Republic of China (《中華人民共和國工業企業廠界雜訊標準》) (GB 12348-90) to monitor our environmental noise emissions. We will pay attention to the equipment with high-level of noise emissions, and assess the need for implementation of additional noise reduction measures such as installing sound enclosures.

SUPPLY CHAIN MANAGEMENT

We strive to provide customers with high-quality automotive part products. Prior to any procurement, we carry out rigorous supplier review procedures to ensure the products provided by suppliers meet our production requirements.

We base selection of suppliers on their cost prices, products and service quality, technical standards, production capacities, environmental protection conditions, delivery time, ethical behaviours and social responsibilities, etc. Our quality control department would also assess our sub-contractors on a monthly basis according to the product return rate and the feedback from our production line.

Additionally, to ensure the materials or products provided by our suppliers are up to standard, we stipulate that all our suppliers are required to obtain ISO/TS 16949 certification (including the additional requirements of the specific types of automotive industry certification ISO 9001). Internationally recognised certification will be one of our reference indicators.

Our major production materials comprise mainly of various types of resin, such as polycarbonate/acrylonitrile butadiene styrene ("**PC/ABS**") and polypropylene ("**PP**"), accessories (such as metal clamps and screws) and fabric.

Most of the fabric used in our production comes from our jointly controlled company, Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd. ("**Ningbo Hualete**"). For other production materials such as resins and accessories, they are of generic standards which are not unique nor solely dependent on any particular supplier. Most of our suppliers of production materials are from China, with certain production materials, including higher grade plastics, and accessories being sourced from overseas.

We have been dedicated to operating our business with honesty and integrity in stringent compliance with applicable local laws and regulations. Since we recognise that our cooperation with our suppliers and business partners has a significant impact on the quality of our products as well as our reputation, we expect our suppliers and business partners to operate in a manner that demonstrates the best practices in connection with environmental and social matters.

PROTECT INDIVIDUAL INFORMATION AND PRIVACY

We are committed to protecting privacy and confidentiality of personal data of our employees, customers, business partners and other identifiable individuals. Our employees are instructed to handle customer information with due care. They may obtain information about the customer only when there is a good reason to do so. We collect and use customer information in a responsible and non-discriminatory manner by restricting the use of the customer information to the purposes consistent with those identified in our contracts.

During the Reporting Period, to the best of the Directors' knowledge, the Group did not receive any complaint from its customers or any other parties in respect of non-compliance of privacy issues.

ERADICATING CORRUPTION

The Group insists on maintaining high standards and business integrity in its operations and adopts a zero-tolerance policy towards any form of corruption behaviours including bribery, fraud and money laundering.

Presently, in addition to offering mandatory anti-corruption training to new employees, we stipulate in our "Employee Handbook" (《員工手冊》) that employees are forbidden to acquire business interests by bribing, providing or receiving illegal benefits such as financial rewards and commissions. Aside from that, we have also signed "Anti-corruption Agreement" (《廉潔合同》) with some of our customers and suppliers, whereby both parties acknowledge their anti-corruption responsibility in written form. On top of that, we also provide our employees with a secretive platform, through which they may report any problems arisen in our operations.

The Group strictly adheres to all applicable laws and regulations such as Criminal Law of the People's Republic of China (《中華人民共和國刑法》), to maintain a fairness and just society. During the Reporting Period, to the best of the Directors' knowledge, the Group did not receive any compliant from anyone in respect of bribery, blackmailing, fraud and money laundering.

GIVING BACK TO SOCIETY

As a responsible corporate citizen, we believe that we can promote the harmonious development of society by actively fulfilling our responsibility to improving people's livelihoods. Our management encourages employees to improve the society through community involvement, both management and employees of the Group are eager to take their own initiatives in helping and supporting the local communities and neighbours.

Assisting disabled people with employment

The disabled is one of the groups which needs help in society. Since the establishment of the Group, it has been providing employment opportunities to disabled people, in the hope of helping to integrate them into the society. As at 31 December 2017, we have provided employment opportunities to 13 people with disability. In the future, we will give back to society by continuously providing employment opportunities to more people in need.

HKEX ESG REPORTING GUIDE CONTENT INDEX

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KPI A1.1	Types of emissions and related emissions data.	Emissions and resources utilisation	33
KPI A1.2	Total greenhouse gas emissions (in tons) and (if applicable) density (if calculated per unit of output, per item of facility).	Emissions and resources utilisation	33
KPI A1.3	The total amount of hazardous waste generated (in tons) and (if applicable) density (if calculated in units of production per item of facilities).	The Group’s operations do not involve hazardous waste	N/A
KPI A1.4	The total amount of non-hazardous waste produced (in tons) and (if applicable) density (if calculated in units of production per item of facilities).	Waste management	34
KPI A1.5	Describe the measures to reduce emissions and the results obtained.	Environmental protection	31
KPI A1.6	Describe ways to deal with hazardous and non-hazardous waste, measures to reduce production, and results obtained.	Waste management	33

Main scope, aspects, general disclosure and key performance indicators ("KPI")		Section/remarks	Page
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KPI A2.2	Total water consumption and density (e.g. calculated per unit of output, per facility).	Water resources and sewage management	33
KPI A2.3	Describe energy use efficiency plans and results.	Environmental protection	31
KPI A2.4	Describe any problems that can be found in the application of water, as well as plans to improve water use efficiency and the results obtained.	Water resources and sewage management	33
KPI A2.5	The total amount of packaging materials used in finished products (in tons) and (if applicable) per unit of production.	Waste management	34
Aspect A3: Environment and Natural Resources			
General disclosure	Policies to reduce the issuer's significant impact on the environment and natural resources	Environmental protection	31
KPI A3.1	Describe the significant impact of business activities on the environment and natural resources and the actions that have been taken to manage the impact.	Environmental protection	31

Main scope, aspects, general disclosure and key performance indicators ("KPI")		Section/remarks	Page
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KPI B1.1	The total number of employees by employment type, age group and region.	Employee demographics	28
KPI B1.2	The rate of employee turnover by age group and region.	Employee turnover analysis	29
Aspect B2: Health and Safety			
General disclosure	To provide a safe working environment and to protect employees from occupational hazards: (a) Policy; and (b) Details on compliance with laws and regulations with material impacts on the issuer.	Occupational safety	25
KPI B2.1	The number and rate of work-related deaths.	During the Reporting Period, there were no work-related deaths	N/A
KPI B2.2	Lost work days due to work-related injuries.	Relevant data is not disclosed for the year	N/A
KPI B2.3	Describe the occupational health and safety measures adopted, as well as the relevant implementation and monitoring methods.	Occupational safety	25

Main scope, aspects, general disclosure and key performance indicators ("KPI")		Section/remarks	Page
B. Society			
Employment and Labour Practices			
Aspect B3: Development and Training			
General disclosure	Policies on improving employees' knowledge and skills in performing job duties. Describe training activities.	Training and development	30
KPI B3.1	Percentage of employees trained by gender and category of employee (e.g. senior management, middle management, etc.).	Staff training hours	31
KPI B3.2	The average number of training hours completed by each employee by gender and employee category.	Staff training hours	31
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KPI B4.1	Describe measures to review recruitment practices to avoid child labour and forced labour.	Labour standards	30
KPI B4.2	Describe the steps taken to eliminate the situation when a violation is found.	We will set up a task force to deal with illegal child labour or forced labour immediately, protect child labour or forced labour, penalize relevant employees/suppliers, and inform local social welfare agencies to ensure that problems are dealt with as soon as possible.	N/A

Main scope, aspects, general disclosure and key performance indicators ("KPI")		Section/remarks	Page
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KPI B5.1	Number of suppliers by region.	Relevant data is not disclosed for the year	N/A
KPI B5.2	Describe the practice of appointing suppliers, the number of suppliers subject to relevant practices, and the implementation and monitoring methods of relevant practices.	Relevant data is not disclosed for the year	N/A
Aspect B6: Product Liability			
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KPI B6.1	Percentage of products to be recalled of the total products sold or shipped for safety and health reasons.	During the Reporting Period, no product was recalled for safety and health reasons	N/A
KPI B6.2	Number of complaints about products and services received and how to deal with them.	During the Reporting Period, there were no complaints regarding any products or services	N/A
KPI B.6.3	Describe the practices related to the maintenance and protection of intellectual property	Relevant data is not disclosed for the year	N/A
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KPI B6.5	Describe consumer data protection and privacy policies, and related implementation and monitoring methods.	Protect individual information and privacy	35

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General disclosure	About preventing bribery, extortion, fraud and money laundering: (a) Policy; and (b) Details on compliance with laws and regulations with material impacts on the issuer.	Eradicating corruption	36
KPI B7.1	The number of corruption lawsuits filed against the issuer or his employees during the Reporting Period and the outcome of the lawsuit.	During the Reporting Period, there was no accusation that the Group or the employees of the Group involved in corruption lawsuits.	N/A
KPI B7.2	Describe preventive measures and whistle-blowing procedures, as well as related implementation and monitoring methods.	Eradicating corruption	36
Aspect B8: Community Investment			
General disclosure	The policy on community participation to understand the needs of the communities in which they operate and to ensure that their business activities take into account the interests of the community.	Giving back to society	36
KPI B8.1	Focus on the areas of contribution (e.g. education, environmental issues, labour needs, health, culture, sports)	Relevant data is not disclosed for the year	N/A
KPI B8.2	Use resources (such as money or time) in the focus areas.	Relevant data is not disclosed for the year	N/A

Directors

Executive Directors

Mr. Zhou Minfeng (周敏峰), aged 51, was appointed as an executive Director on 3 December 2010. He is the chairman of the Board and executive Director. He is also a member of the remuneration committee and the chairman of the nomination committee of the Company. Mr. Zhou has over 22 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.

Mr. Li Xuejun (李學軍), aged 52, was appointed as an executive Director and the chief executive officer of the Company on 1 September 2017. He has over 24 years of experience in the car industry in PRC. Mr. Li obtained his bachelor's degree in Industry Automation from Shandong University of Technology (山東工業大學) in July 1986 and his master's degree in Economics from Renmin University of China (中國人民大學) in July 1993. Mr. Li had been a teacher in Shandong Taian Machinery and Electronic Industry Training Centre* (山東泰安機械電子工業局培訓中心), the managing director of Beijing Tiancifu Bioengineering Co., Ltd.* (北京天賜福生物工程有限公司), a vice general manager of Shenyang Jinbei Coach Manufacturing Co., Ltd.* (瀋陽金杯客車有限公司), the technical representative in Shandong Juli Group Co., Ltd.* (山東巨力股份有限公司), a vice president and a member of the party committee in BAIC Motor Corporation Ltd.* (北京汽車股份有限公司), the secretary of the party committee in Beijing Hainachuan Automotive Parts Co., Ltd.* (北京海納川汽車部件股份有限公司), and the chairman of supervisory committee in Inalfa Roof Systems Group B.V.

In addition, Mr. Li had been appointed as a director of a number of listed companies, such as Beiqi Foton Motor Co., Ltd.* (北汽福田汽車股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600166) (from June 2013 to November 2016), Xiezhong International Holdings Limited, a company listed on the Stock Exchange (stock code: 3663) (from August 2014 to August 2016) and Shandong Binzhou Bohai Piston Co., Ltd.* (山東濱州渤海活塞股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600960) (from November 2015 to December 2016).

Mr. Chang Jingzhou (常景洲), aged 57, was appointed as an executive Director on 7 December 2011. Mr. Chang has over 15 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 73, was appointed as a non-executive Director on 7 December 2011. Ms. Lai served as a director of Ningbo Huazhong Plastic since September 1999. Since August 2008, Ms. Lai also served as the chairperson of the board of Xiangshan Huangxiang International Hotel (象山華翔國際大酒店). Ms. Lai is the mother of Mr. Zhou, the executive Director and chairman of the Company. Ms. Lai graduated from Xizhou Middle School (西周中學) in July 1961.

Mr. Wang Yuming (王玉明), aged 61, 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.

Mr. Guan Xin (管欣), aged 56, was appointed as a non-executive Director on 7 November 2014. Mr. Guan has been the head of the Institute of Automotive Research of Jilin University (吉林大學汽車研究院) since May 2010 and the director of the State Key Laboratory of Automotive Simulation and Control of Jilin University (吉林大學汽車仿真與控制國家重點實驗室) since March 1998. Mr. Guan is also a professor specializing in automotive design and manufacture. From December 2004 to December 2012, Mr. Guan was the dean of the College of Automotive Engineering of Jilin University (吉林大學汽車工程學院). From June 1993 to March 1998, he was the executive deputy director of the State Key Laboratory of Automotive Dynamic Simulation of Jilin University of Technology (吉林工業大學汽車動態模擬國家重點實驗室). From February 1989 to June 1993, he was a lecturer and associate professor at Jilin University of Technology. Mr. Guan obtained a bachelor's degree, a master's degree and a doctoral degree in engineering from Jilin University of Technology (吉林工業大學) in 1982, 1985 and 1990 respectively.

Mr. Liu Genyu (劉根鈺), aged 54, was appointed as an executive Director and chief executive officer of the Company on 4 January 2016 and was re-designated from these positions to a non-executive Director on 1 September 2017. He was an executive director, a chief executive officer, and a member of the executive committee of China Power New Energy Development Company Limited (a company listed on the Stock Exchange, stock code: 735) for the period from 2007 to 2012. Mr. Liu is a senior engineer. He graduated from Tsinghua University with a degree of Executive Master of Business and Administration (EMBA). Mr. Liu had also served in positions including the vice president of Chongqing Jiulong Electric Power Co., Ltd. and a lecturer in Harbin Power Vocational Technology College. He is currently an executive director and the vice chairman of China Nuclear Energy Technology Corporation Limited (a company listed on the Stock Exchange, stock code: 611).

Independent non-executive Directors

Mr. Wong Luen Cheung Andrew (王聯章), aged 60, was appointed as an independent non-executive Director on 8 April 2015 and the vice-chairman of the Company on 30 December 2015. Mr. Wong is currently an independent non-executive director of CITIC Bank (中信銀行), the chairman of its nomination and remuneration committees and a member of its audit and related party transactions control committee, an independent director of CANADIAN SOLAR INC (加拿大阿特斯陽光電子集團) and an independent non-executive director of ACE Life Insurance Co., Ltd. (瑞士安達人壽保險有限公司). Mr. Wong is also a director of China Overseas Friendship Association (中華海外聯誼會). Since January 2013, he has been a member of the eleventh Chinese People's Political Consultative Conference (中國人民政治協商會議), Shaanxi Provincial Committee (陝西省委員會), Xian, China. Mr. Wong held various senior positions at the Royal Bank of Canada (加拿大皇家銀行), including the assistant representative for China operations, representative of southern China, the branch manager of the Shanghai branch. He also held various positions at the Union Bank of Switzerland (瑞士聯合銀行), including head of China desk and an executive director of debt capital markets. Mr. Wong previously also served as a director of China Citicorp International Limited, a merchant banking arm of Citibank (花旗銀行集團商人銀行 — 萬國寶通國際有限公司). Further, Mr. Wong was the head of Greater China business of Hang Seng Bank Limited (恒生銀行有限公司) and the managing director of corporate and investment banking - Greater China of DBS Bank Limited, Hong Kong (香港星展銀行有限公司). Mr. Wong has been a member of the Shenzhen Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議) since 2002. Mr. Wong was awarded the National Excellent Independent Director by the Shanghai Stock Exchange (上海證券交易所) in 2010. Mr. Wong also received the Medal of Honour (Hong Kong SAR) from the Hong Kong SAR Government in 2011. Mr. Wong was an independent non-executive director of China Minsheng Banking Corp., Ltd. (中國民生銀行股份有限公司), a company listed on the Stock Exchange and the Shanghai Stock Exchange, from July 2006 to May 2012, and was also a member of its audit committee, risk management committee and nomination committee and the chairman of its compensation and remuneration committee. Mr. Wong was also a non-executive director of Intime Department Store (Group) Company Limited (銀泰商業（集團）有限公司), a company listed on the Stock Exchange from 31 May 2013 to 5 September 2014.

Mr. Yu Shuli (於樹立), aged 69, 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. Subsequently, Mr. Yu served as an independent executive of Ningbo Huaxiang Electronics (寧波華翔電子股份有限公司), a company listed on Shenzhen Stock Exchange, from January 2008 to December 2013 and has been a supervisor of Ningbo Huaxiang Electronics since January 2014.

Mr. Tian Yushi (田雨時), aged 72, 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 57, 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

Mr. Zhou Ruqing (周汝青), aged 71, 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. Cheung Wah Lung Warren (張華龍), aged 38, joined the Company on 9 June 2015 and is the chief financial officer and a joint company secretary of the Company. He graduated with a bachelor of business and administration degree from the Simon Fraser University in Canada. He is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Chartered Secretaries. Prior to joining the Company, Mr. Cheung Wah Lung Warren worked in the assurance and advisory business services department of Ernst & Young, Certified Public Accountants, and served as the financial controller of a company listed on the Stock Exchange from November 2010 to May 2015.

Mr. Cui Jihong (崔繼宏), aged 52, 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. Cheung Wan Lung Warren (張華龍) is a member of the senior management and a Joint Company Secretary. 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. She has more than 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 Group for the year ended 31 December 2017.

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 is principally engaged in manufacture and sale of internal and external decorative and structural automobile parts, moulds and tooling, casing and liquid tank of air conditioning or heater units and other non-automobile products.

Business Review

The business review of the Group is set out in the sections of Chairman's Statement, Management Discussion and Analysis, Environmental, Social and Governance Report, Financial Summary and paragraphs below.

The Group complies with the requirements under the Companies Ordinance, the Listing Rules and the Securities and Futures Ordinance (the "**SFO**") for the disclosure of information and corporate governance. The Group also complies with the requirements of Employment Ordinance and ordinances relating to occupational safety for the interest of employees of the Group. No important event affecting the Group has occurred since the end of the financial year under review.

Key Risk Factors

The following lists out the key risks and uncertainties facing the Group.

Reliance on Automobile Industry and Automakers and Automobile body parts Manufacturers as Our Customers

As we rely on automakers and automobile body parts manufacturers as customers or potential customers of our products, our financial performance largely depends on the continued growth of the automobile industry and the continued growth of outsourcing in the automobile industry. The automobile industry has been characterised by shorter time in new car models launch, continuous technological advancement, evolving industry standards and changing customer needs, all of which indicate a trend of shorter product life cycles.

Sales of our products to a particular automaker or automobile body parts manufacturer are influenced by the sales performance of particular car models to which our products relate. In particular, the relevant automaker's ability to anticipate changes in consumer tastes, preferences and requirements, its capability to design and manufacture cars to meet such consumer tastes, preferences and requirements, its sales and marketing capabilities, its sales and after-sales services, and its competitiveness as compared with other competitors in the market, may affect the sales performance of particular car models to which our products relate. Undesirable sales performance of any particular automaker and/or particular car model to which our products relate may adversely affect, our sales of the relevant products.

Overall market demand for cars may also be affected by factors such as global and regional economic and market conditions, personal disposal income and interest rate levels, fuel price, seasonality of sales of automobiles, government policies and measures on emission control and automobile consumption and purchases. These factors, which are beyond our control, may affect the annual production of automobiles by automakers, increase the manufacturing and distribution cost of automobiles, and/or result in downward pressure on the selling prices of automobiles, which, in each case, may in turn result in downward pressure on the selling prices of our products or otherwise adversely affect our sales and profitability.

We also have no or limited control on, among other factors, the expected market responses and demands of any particular car model (which can be affected by the automaker's ability to respond to the changing customer tastes or preference in a timely manner), the popularity of the car brand, the development process and rollout plans of the car model. There is also no assurance that our customers will proceed with the commercial production of any particular new car model with automobile body parts developed by us, or will place purchase orders with us for commercial production thereof. If the sales of any particular products supplied or developed by us cannot achieve the intended result for whatever reason, our sales of such products to our customers may be adversely affected, which may in turn materially and adversely affect our overall financial results.

Dependence on a Few Key Customers

Sales to our five largest customers, in aggregate, accounted for about 54.4% (2016: 58.8%) of our total sales during the Year. All of our five largest customers had more than 10 years of business relationship with us. If any of these customers ceases to do business with us, or substantially reduces the volume of its business transactions with us, or delays or cancels any purchase orders for our products, or fails to or otherwise delays in payment for our products for whatever reason, or if we are unable to secure new, substitute customers with comparable sale volume and profit margin, our profitability and financial position can be adversely affected.

Impact of Local and International Regulations

The business operation of the Group is also subject to government policy, relevant regulations and guidelines established by the regulatory authorities. Failure to comply with the rules and requirements may lead to penalties, amendments or suspension of the business operation by the authorities. The Group closely monitors changes in government policies, regulations and markets as well as conducting studies to assess the impact of such changes.

Third-Party Risks

The Group has been relying on third-party service providers in parts of business to improve performance and efficiency of the Group. While gaining the benefits from external service providers, the management realizes that such operational dependency may pose a threat of vulnerability to unexpected poor or lapses in service including reputation damage, business disruption and monetary losses. To address such uncertainties, the Group engages only reputed third-party providers and closely monitors their performance.

Key Relationships with Employees, Customers and Suppliers

The Group recognizes the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found in the year under review.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and regular analyze on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

Subsidiaries

Details of the principal subsidiaries of the Group as at 31 December 2017 are set out in note 1 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2017 and the state of the Group's affairs as at that date are set out in the financial statements on pages 64 to 67 of this annual report.

Dividend

The Board recommends the payment of a final dividend of RMB0.4810 cent per ordinary share for the Year (2016: Nil). During the Year, an interim dividend of HK0.3536 cent per ordinary share was declared.

Reserves

Details of movements in reserves of the Company and the Group are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves of the Company

As at 31 December 2017, 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 RMB19,685,000. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, 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 2017 are set out in note 15 to the financial statements.

Share Capital

Details of the movements in issued capital of the Company during the year ended 31 December 2017 are set out in note 31 to the financial statements.

Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 147.

Directors

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

Executive Directors
Mr. Zhou Minfeng *(Chairman)*
Mr. Li Xuejun *(Chief Executive Officer)* (appointed on 1 September 2017)
Mr. Chang Jingzhou

Non-Executive Directors
Ms. Lai Cairong
Mr. Wang Yuming
Mr. Guan Xin
Mr. Liu Genyu (re-designated from an executive Director and ceased to be Chief Executive Officer with effect from 1 September 2017)
Mr. He Jifeng (resigned on 7 November 2017)

Independent Non-Executive Directors
Mr. Wong Luen Cheung Andrew *(Vice-chairman)*
Mr. Yu Shuli
Mr. Tian Yushi
Mr. Xu Jiali

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, except Mr. Li Xuejun, had entered into a service contract with the Company for a term of three years commencing from 12 January 2012 (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. Mr. Li Xuejun, an executive Director, had entered into a service agreement with the Company commencing from 1 September 2017, which will continue thereafter until terminated by either part by giving other party not less than three months' written notice.

Each of the non-executive Directors, except Mr. Liu Genyu, has entered into a letter of appointment with the Company and was appointed for an initial term of three years. Ms. Lai Cairong was re-appointed at the annual general meeting of the Company on 16 June 2016 for three years. Mr. Wang Yuming and Mr. Guan Xin were re-appointed at the annual general meeting of the Company on 7 June 2017 for three years. Mr. Lin Genyu was re-appointed as an executive Director at the annual general meeting of the Company on 16 June 2016 for three years. He was then re-designated as a non-executive Director and entered into a letter of appointment with the Company for a term of one year commencing from 1 September 2017.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company and was appointed for an initial term of three years. Mr. Wong Luen Cheung Andrew and Mr. Xu Jiali were re-appointed at the annual general meeting of the Company on 29 May 2015 for three years; and Mr. Yu Shuli and Mr. Tian Yushi were re-appointed at the annual general meeting of the Company on 16 June 2016 for three years.

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. Therefore, Mr. Li Xuejun will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offers himself for re-election.

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, Mr. Wong Luen Cheung Andrew, Mr. Yu Shuli, Mr. Tian Yushi and Mr. Xu Jiali will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

Directors' and Senior Management's Biographies

Biographical details of the Directors and senior management are set out on pages 43 to 47 of this annual report.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

No transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, either directly or indirectly, subsisted at the end of the Year or at any time during the Year.

Indemnity for Directors

The Company has maintained appropriate directors and officers liability insurance and such permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Year.

Directors' and Chief Executive Officer's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2017, the Directors and the chief executive officer 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 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 officer 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	Approximate percentage of the issued Shares
Mr. Zhou Minfeng	Interests of controlled corporation (1)	1,318,350,000	74.52%
	Spouse's interest	1,100,000(2)	0.06%
Mr. Chang Jingzhou	Beneficial owner	840,400	0.05%
Mr. Wong Luen Cheung Andrew	Beneficial owner	2,000,000	0.11%

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) Ms. Chen Chun'er, the spouse of Mr. Zhou Minfeng, has interest in 1,100,000 Shares. Therefore, Mr. Zhou Minfeng is deemed to be interested in Ms. Chen Chun'er's Shares.

Save as disclosed above, as at 31 December 2017, none of the Directors or the chief executive officer 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 officer 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).

Equity-Linked Agreement

Details of the equity-linked agreement entered into during the Year or subsisting at the end of the Year are set out below:

Share Option Schemes

Pre-IPO Share Option Scheme

The Company adopted a pre-IPO share option scheme (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 Pre-IPO Share Option Scheme was expired on 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 2017	Granted during the year ended 31 December 2017	Exercised during the year ended 31 December 2017	Lapsed during the year ended 31 December 2017	Cancelled during the year ended 31 December 2017	Outstanding as at 31 December 2017
Directors						
Mr. Zhou Minfeng	3,000,000	—	—	(3,000,000)	—	—
Mr. Chang Jingzhou	1,200,000	—	(764,000)	(436,000)	—	—
Ms. Lai Cairong	7,600,000	—	—	(7,600,000)	—	—
Senior Management						
In aggregate	3,100,000	—	(1,594,000)	(1,506,000)	—	—
Others						
In aggregate	19,800,000	—	(1,000,000)	(18,800,000)	—	—
Total	34,700,000	—	(3,358,000)[1]	(31,342,000)	—	—

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

As at the date of this annual report, no shares were available for issue under the Pre-IPO Share Option Scheme.

Further details of the Pre-IPO Share Option Scheme are set out in note 32 to the financial statements.

Share Option Scheme

The Company adopted a share option scheme (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. The remaining life of the Share Option Scheme is 5 years. There were no outstanding options, and there were no options granted, exercised, lapsed or cancelled pursuant to the Share Option Scheme during the Year and as at the date of this report. As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme was 77,500,000, representing approximately 4.38% of the issued share capital of the Company.

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 officer of the Company, as at 31 December 2017, the persons or corporations (other than Director or chief executive officer of the Company) who had interests or short positions in the Shares and underlying Shares 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	Approximate percentage of the issued Shares
Huayou Holdings [1]	Beneficial owner	1,318,350,000	74.52%
Chen Chun'er [2]	Beneficial owner	1,100,000	0.06%
	Spouse's interest	1,318,350,000[3]	74.52%

Notes:

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

(2) Ms. Chen Chun'er is the spouse of Mr. Zhou Minfeng.

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

Save as disclosed above, as at 31 December 2017, the Directors and the chief executive officer of the Company are not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares 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 Automobile Latex and Plastic Co., Ltd ("**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 2017, the Directors and the chief executive officer 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.

Term Loan Facility And Specific Performance Obligation

On 22 August 2016, the Company's wholly-owned subsidiary, Huayou Investment (Hong Kong) Limited, as a borrower (the "**Borrower**") entered into a facility agreement (the "**Facility Agreement**") relating to a USD17,000,000 term loan facility (the "**Loan Facility**") with a licensed bank in Hong Kong. The final maturity date of the Loan Facility shall be the date falling 3 years from 22 August 2016.

Pursuant to the Facility Agreement, the Loan Facility will be cancelled and all outstanding under Loan Facility should be payable immediately upon Mr. Zhou Minfeng ("**Mr. Zhou**") ceases to maintain in aggregate at least 51% direct or indirect equity interest in the Borrower. As at the date of this report, Mr. Zhou indirectly owned approximately 74.52% of the issued share capital of the Borrower.

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.

Related Party Transactions and Connected Transactions

The related party transactions as disclosed in note 38 to the financial statements in respect of items denoted with "Δ" and item disclosed in Note 38(c) also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements (if applicable) in accordance with Chapter 14A of the Listing Rules.

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 2017. 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 the Cayman Islands where the Company was 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 32 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 28.3% (2016: 28.5%) and 54.4% (2016: 58.8%), respectively, of the Group's total revenue from operations.

Aggregate purchases from the Group's largest and five largest suppliers accounted for 6.3% (2016: 8%) and 19.2% (2016: 14%), respectively, of the Group's total purchases from suppliers.

At no time during the Year, did a Director, his/her close 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.

Auditor

Ernst & Young will retire and, being eligible, offer itself for re-appointment. A resolution for its re-appointment as auditor 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 annual 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 2017 are set out in note 28 to the financial statements.

On behalf of the Board
Zhou Minfeng
Chairman

28 March 2018

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Huazhong In-Vehicle Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 146, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of investment in a joint venture	
Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd. (formerly known as Changchun Huaxiang Faurecia), a 50% equity joint venture of the Group with a carrying value approximately RMB58,843,000 as at 31 December 2017, has been suffering losses since 2011. There is a risk of impairment of the Group's investment in this joint venture. The recoverable amount of the investment in the joint venture is determined using a discounted cash flow model. Key assumptions and methodologies adopted by the Group in the model have a significant effect on the determination of the recoverable amount. Related disclosures are included in Note 4 "Significant accounting judgements, estimates and assumptions" and Note 20 "Investments in Joint Ventures" to the financial statements.	We performed the following procedures in relation to the impairment assessment: 1) Reviewed the discounted cash flow forecast and the key parameters and assumptions used, which included, among others, the period of cash flows with reference to revenue growth rate, EBIT ratio, working capital movement, terminal growth and discount rates; 2) Compared the 2017 actual operating results of the joint venture with its 2017 forecast prepared by management in 2016, discussed discrepancies with management and reviewed revised forecast; 3) Re-calculated the impairment assessment performed by management.

Key audit matter	How our audit addressed the key audit matter
Net realizable value of inventories	
As at 31 December 2017, the Group had inventories of approximately RMB372,575,000 at the lower of the cost and net realizable value. We identified the determination of net realizable value of inventories as a key audit matter because the carrying amount of inventories is significant and the calculation of inventories' net realizable value requires significant management estimation based on future market demands and estimated selling prices. Related disclosures are included in Note 4 "Significant accounting judgements, estimates and assumptions" and Note 22 "Inventories" to the financial statements.	We performed the below procedures in relation to the provision assessment for inventories: 1) Obtained an understanding of the Group's inventory provision policy and checked the calculation of the inventory provision based on the Group's policy. We evaluated management's assumptions used to calculate the provision by checking the ageing analysis of inventories, subsequent sales and usage of inventories; 2) Tested slow moving and obsolete inventory items during inventory observation as at the year end.

Other information included in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

Other information included in the Annual Report *(continued)*

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Shun Lung Wai.

Ernst & Young
Certified Public Accountants
Hong Kong

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	6	**1,761,736**	1,738,891
Cost of sales		**(1,247,313)**	(1,260,153)
Gross profit		**514,423**	478,738
Other income and gains	6	**28,805**	22,847
Selling and distribution expenses		**(120,242)**	(117,418)
Administrative expenses		**(192,341)**	(198,454)
Other expenses		**(16,382)**	(10,668)
Operating profit		**214,263**	175,045
Share of profits and losses of:			
Associates	19	**1,733**	(12)
Joint ventures	20	**13,348**	14,377
Finance income	7	**6,050**	10,345
Finance costs	8	**(40,398)**	(47,296)
PROFIT BEFORE TAX	9	**194,996**	152,459
Income tax expense	12	**(51,724)**	(41,957)
PROFIT FOR THE YEAR		**143,272**	110,502
Attributable to:			
Owners of the parent		**138,151**	104,907
Non-controlling interests		**5,121**	5,595
		143,272	110,502
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic			
— For profit for the year		**RMB0.0781**	RMB0.0594
Diluted			
— For profit for the year		**RMB0.0781**	RMB0.0590

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	**143,272**	110,502
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**1,285**	326
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**1,285**	326
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**1,285**	326
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**144,557**	110,828
Attributable to:		
Owners of the parent	**139,436**	105,233
Non-controlling interests	**5,121**	5,595
	144,557	110,828

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**623,692**	587,074
Investment properties	16	**31,369**	33,876
Prepaid land lease payments	17	**192,914**	173,399
Intangible assets	18	**6,650**	4,382
Investment in associates	19	**18,533**	2,004
Investments in joint ventures	20	**142,605**	105,641
Prepayments for acquiring property, plant and equipment		**72,878**	55,927
Available-for-sale investment	21	**15,000**	15,000
Deferred tax assets	30	**16,490**	16,177
Total non-current assets		**1,120,131**	993,480
CURRENT ASSETS			
Inventories	22	**372,575**	295,575
Trade and notes receivables	23	**612,857**	568,277
Prepayments and other receivables	24	**133,885**	166,407
Due from related parties	38(d)	**70,920**	137,122
Pledged deposits	25	**189,864**	87,516
Cash and cash equivalents	25	**96,799**	187,987
Total current assets		**1,476,900**	1,442,884
CURRENT LIABILITIES			
Trade and notes payables	26	**621,519**	590,648
Other payables, advances from customers and accruals	27	**213,261**	190,752
Interest-bearing bank borrowings	28	**604,321**	509,388
Due to the ultimate controlling shareholder	38(d)	**2,150**	3,603
Due to related parties	38(d)	**74,531**	51,085
Income tax payable		**57,005**	54,814
Total current liabilities		**1,572,787**	1,400,290
NET CURRENT (LIABILITIES)/ASSETS		**(95,887)**	42,594

	Notes	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,024,244**	1,036,074
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	28	**118,470**	282,332
Government grants	29	**8,570**	8,884
Deferred tax liabilities	30	**42,630**	29,212
Total non-current liabilities		**169,670**	320,428
Net assets		**854,574**	715,646
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	**142,956**	128,587
Reserves	33	**674,704**	553,263
		817,660	681,850
Non-controlling interests		**36,914**	33,796
Total equity		**854,574**	715,646

Zhou Minfeng
Director

Chang Jingzhou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	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	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 2016	128,587	20,030	5,580	34,348	88,278	9,504	(2,961)	293,251	576,617	31,316	607,933
Profit for the year	—	—	—	—	—	—	—	104,907	104,907	5,595	110,502
Other comprehensive income for the year:											
Exchange differences related to foreign operations	—	—	—	—	—	—	326	—	326	—	326
Total comprehensive income for the year	—	—	—	—	—	—	326	104,907	105,233	5,595	110,828
Dividends paid to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(3,115)	(3,115)
Transfer to statutory reserve funds and discretionary surplus reserve	—	—	—	10,093	—	—	—	(10,093)	—	—	—
As at 31 December 2016	128,587	20,030*	5,580*	44,441*	88,278*	9,504*	(2,635)*	388,065*	681,850	33,796	715,646
As at 1 January 2017	**128,587**	**20,030***	**5,580***	**44,441***	**88,278***	**9,504***	**(2,635)***	**388,065***	**681,850**	**33,796**	**715,646**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**138,151**	**138,151**	**5,121**	**143,272**
Other comprehensive income for the year:	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Exchange differences related to foreign operations	**—**	**—**	**—**	**—**	**—**	**—**	**1,285**	**—**	**1,285**	**—**	**1,285**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**1,285**	**138,151**	**139,436**	**5,121**	**144,557**
Exercise of share option	**300**	**2,196**	**—**	**—**	**—**	**(816)**	**—**	**—**	**1,680**	**—**	**1,680**
Lapse of share option	**—**	**—**	**8,688**	**—**	**—**	**(8,688)**	**—**	**—**	**—**	**—**	**—**
Bonus issue	**14,069**	**(14,069)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Dividends paid to non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,003)**	**(2,003)**
Interim 2017 dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,306)**	**(5,306)**	**—**	**(5,306)**
Transfer to statutory reserve funds and discretionary surplus reserve	**—**	**—**	**—**	**14,363**	**—**	**—**	**—**	**(14,363)**	**—**	**—**	**—**
As at 31 December 2017	**142,956**	**8,157***	**14,268***	**58,804***	**88,278***	**—***	**(1,350)***	**506,547***	**817,660**	**36,914**	**854,574**

* These reserve accounts comprise the consolidated reserves of RMB674,704,000 (2016: RMB553,263,000) in the consolidated statement of financial position.

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from operating activities:			
Profit before tax		**194,996**	152,459
Adjustments for:			
Finance costs	8	**40,398**	47,296
Share of profits of joint ventures and associates		**(15,081)**	(14,365)
Interest income	7	**(6,050)**	(10,345)
Gain on disposal of items of property, plant and equipment	6	**(1,041)**	(7,841)
Gain on deregistration of associates	6	**(3,181)**	—
Release of government grants	29	**(1,318)**	(1,118)
Depreciation of property, plant and equipment	15	**71,486**	81,158
Depreciation of investment properties	16	**2,507**	2,508
Amortisation of prepaid land lease payments	17	**4,227**	3,890
Amortisation of intangible assets	18	**829**	440
Write-down of inventories to net realisable value		**(5,121)**	2,704
Provision for/(reversal of) impairment of trade receivables	23	**12,735**	(1,513)
Increase in inventories		**(70,495)**	(11,554)
(Increase)/decrease in trade and notes receivables		**(47,145)**	12,206
Decrease/(increase) in prepayments and other receivables		**23,909**	(20,784)
Decrease/(increase) in amounts due from related parties		**66,202**	(160,468)
Increase in trade and notes payables		**35,871**	84,336
Increase in other payables, advances from customers and accruals		**34,045**	25,051
Increase in amounts due to related parties		**23,446**	9,818
Decrease in amounts due to the controlling shareholder		**(1,453)**	(649)
(Increase)/decrease in pledged deposits		**(2,438)**	28,858
Cash generated from operations		**357,328**	222,087
Income tax paid		**(36,428)**	(42,730)
Net cash flows generated from operating activities		**320,900**	179,357

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Cash flows from investing activities:			
Interest received		**8,983**	9,680
Purchases of items of property, plant and equipment		**(165,024)**	(106,702)
Purchases of items of land use right	17	**(25,046)**	(27,202)
Purchases of items of intangible assets		**(2,959)**	(143)
Proceeds from disposal of items of property, plant and equipment		**20,518**	16,471
Addition of an investment in associates		**(16,800)**	—
Addition of an investment in a joint venture		**(30,000)**	—
Purchase of available-for-sale investments		**—**	(35,000)
Receipt of government grants for property, plant and equipment	29	**1,088**	588
Recovery of advances to related parties	38(b)	**—**	18,316
Recovery of entrusted loans to a related party	38(b)	**—**	55,000
Deregistration of associates	19	**5,185**	—
Disposal of a subsidiary		**—**	(5,710)
Decrease in non-pledged time deposits with original maturity of three months or more when acquired		**53,480**	2,105
Investment in a joint venture		**—**	(40,000)
Net cash flows used in investing activities		**(150,575)**	(112,597)
Cash flows from financing activities:			
Proceeds from exercise of share options		**1,680**	—
Proceeds from bank loans	35	**783,822**	970,419
Repayment of bank loans	35	**(845,925)**	(982,983)
Interest paid		**(40,398)**	(47,296)
Dividends paid	35	**(5,299)**	—
Dividends paid to non-controlling shareholders		**(2,003)**	(3,115)
Increase in pledged deposits		**(99,910)**	(14,300)
Net cash flows used in financing activities		**(208,033)**	(77,275)
Net decrease in cash and cash equivalents		**(37,708)**	(10,515)
Cash and cash equivalents at beginning of year		**65,472**	75,987
Cash and cash equivalents at end of year	25	**27,764**	65,472

	Notes	2017 RMB'000	2016 RMB'000
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the consolidated statement of cash flows		**27,764**	65,472
Cash and bank balances	25	**27,764**	65,472
Non-pledged time deposits with original maturity of three months or more when acquired	25	**69,035**	122,515
Cash and cash equivalents as stated in the consolidated statement of financial position		**96,799**	187,987

1. Corporate and Group 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.

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").

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Issued ordinary/ registered share capital	Principal activities
Subsidiaries					
Huazhong Investment Company Limited ("Huazhong Investment")	BVI	100%	—	US$1	Investment holding
Huayou Investment (Hong Kong) Limited ("Huayou Investment")	Hong Kong	—	100%	HK$1	Investment holding
Ningbo Huazhong Plastic Products Co., Ltd. ("Ningbo Huazhong Plastic")	PRC/Mainland China	—	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	—	100%	RMB3,400,000	Manufacture and sale of plastic automotive products

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Name	Place of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Issued ordinary/ registered share capital	Principal activities
Changchun Huateng Automobile Parts Co., Ltd. ("Changchun Huateng")	PRC/Mainland Chin	—	100%	RMB1,000,000	Manufacture and sale of plastic automotive products
Changchun Huaxiang Automobile Plastic Parts Manufacturing Co., Ltd. ("Changchun Huaxiang")	PRC/Mainland China	—	100%	RMB75,000,000	Manufacture and sale of plastic automotive products
Ningbo Huazhong Moulding Manufacturing Co., Ltd. ("Ningbo Huazhong Moulding")	PRC/Mainland China	—	100%	RMB10,000,000	Design, manufacture, and processing of moulds
Guangzhou Huazhong Automobile Decorative Parts Co., Ltd. ("Guangzhou Huazhong")	PRC/Mainland China	—	100%	RMB3,000,000	Manufacture and sale of plastic automotive products
Chongqing Huazhong Automobile Decorative Parts Co., Ltd. ("Chongqing Huazhong")	PRC/Mainland China	—	100%	RMB63,000,000	Manufacture and sale of plastic automotive products
Chengdu Huazhong Automobile Parts Co., Ltd. ("Chengdu Huazhong")	PRC/Mainland China	—	100%	RMB20,000,000	Manufacture and sale of plastic automotive products
Ningbo Huafeng Plastic and Latex Products Co., Ltd. ("Ningbo Huafeng")	PRC/Mainland China	—	100%	RMB1,500,000	Manufacture and sale of plastic automotive products
Wuhu Huazhong Automotive Parts Co., Ltd. ("Wuhu Huazhong")	PRC/Mainland China	—	100%	RMB10,000,000	Manufacture and sale of plastic automotive products

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Name	Place of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Issued ordinary/ registered share capital	Principal activities
Yantai Huaxiang Automotive Parts Co., Ltd. ("Yantai Huaxiang")	PRC/Mainland China	—	100%	RMB10,000,000	Manufacture and sale of plastic automotive products
Shanghai Huaxin Automobile Latex and Plastic Co., Ltd. ("Shanghai Huaxin")	PRC/Mainland China	—	51%	RMB28,000,000	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	—	51%	RMB3,000,000	Manufacture and sale of plastic automotive products
Changshu Huaxin Automobile Latex and Plastic Co., Ltd. ("Changshu Huaxin")	PRC/Mainland China	—	51%	RMB3,000,000	Manufacture and sale of plastic automotive products
Foshan Huazhong Automotive Parts Co., Ltd. ("Foshan Huazhong")	PRC/Mainland China	—	100%	RMB20,000,000	Manufacture and sale of plastic parts and automotive parts
HZ FBZ Formenbau Züttlingen GmbH ("HZ FBZ")	Germany	100%	—	EUR1,000,000	Manufacture and sale of moulds
Ningbo Huazhong Automotive Parts Co., Ltd. ("Hangzhou Bay Huazhong")	PRC/Mainland China	50%	50%	US$25,000,000	Manufacture and sale of plastic parts and automotive parts

1. Corporate and Group Information *(continued)*

Information about subsidiaries *(continued)*

Name	Place of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Issued ordinary/ registered share capital	Principal activities
Ningbo Huatai In-Vehicle Technology Co., Ltd. ("Ningbo Huatai")	PRC/Mainland China	—	60%	RMB5,000,000/ RMB30,000,000	Development, manufacture and sale of in-vehicle system and equipment
Nanchang Huayue Plastic Products Company Co., Ltd. ("Nanchang Huayue")	PRC/Mainland China	—	100%	RMB2,000,000	Manufacture and sale of plastic automotive products
Qingdao Huazhong Automotive Parts Co., Ltd. ("Qingdao Huazhong")	PRC/Mainland China	—	100%	RMB7,594,095/ RMB10,000,000	Manufacture and sale of plastic parts and automotive parts
Tianjin Huayou Automotive Parts Co., Ltd. ("Tianjin Huayou")	PRC/Mainland China	—	100%	RMB20,000,000	Manufacture and sale of plastic parts and automotive parts
Ningbo Huazhong In-Vehicle Technology Co., Ltd. ("In-Vehicle Technology")	PRC/Mainland China	—	100%	RMB5,000,000	Development, manufacture and sale of in-vehicle system and equipment
Changchun Yuehong Investment Co., Ltd. ("Changchun Yuehong")	PRC/Mainland China	—	100%	Nil/RMB5,000,000	Investment, consulting, manufacture, design and sale of automotive parts
Ningbo Chunfeng Investment Co., Ltd. ("Ningbo Chunfeng")	PRC/Mainland China	—	100%	Nil/RMB5,000,000	Investment, consulting, manufacture, design and sale of automotive parts

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

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Basis of Preparation *(continued)*

The financial statements have been prepared under the going concern basis notwithstanding that the Group had net current liabilities of RMB95,887,000 as at 31 December 2017. The directors of the Company are of opinion that based on the available unutilised banking facilities as at 31 December 2017, the Group will have the necessary liquid funds to finance its working capital and to meet its capital expenditure requirements. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

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 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 Changes in Accounting Policies and Disclosures

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 Included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 35 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 Issued but not yet Effective International Financial Reporting Standards

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC-22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC-23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 No mandatory effective date yet determined but available for adoption

2.3 Issued but not yet Effective International Financial Reporting Standards *(continued)*

Further information about those IFRSs that are expected to be applicable to the Group is described below.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets categorised as loans and receivables as they are all debt instruments held within a business model whose objective is to hold assets in order to collect contractual cash flows and with the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. An equity investment currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised. For the available-for-sale financial investment stated at cost less any impairment losses as of 31 December 2017, the Group does not expect any significant changes in the carrying amount as at 1 January 2018 even though the different measurement model will be introduced upon the initial adoption of the standard.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group does not expect any significant changes in the provision for impairment upon the initial adoption of the standard.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

2.3 Issued but not yet Effective International Financial Reporting Standards *(continued)*

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt IFRS 15 on from 1 January 2018 and plans to adopt the modified retrospective approach. During the year ended 31 December 2017, the Group has assessed the impact of this standard and expects that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption, and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 36 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB18,148,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short-term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

3. Summary of Significant Accounting Policies

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.

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.

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 of the acquiree.

3. Summary of Significant Accounting Policies *(continued)*

Business combinations and goodwill *(continued)*

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 is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

Fair value measurement

The Group measures its freehold land 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.

3. Summary of Significant Accounting Policies *(continued)*

Fair value measurement *(continued)*

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

All assets and liabilities for which fair value is measured or disclosed in the 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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress and freehold land, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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 estimated 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 buildings and machinery under construction or pending installation, 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 when completed and ready for use.

3. Summary of Significant Accounting Policies *(continued)*

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held 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. Such properties are measured initially at cost, including transaction costs. After initial recognition, the Group chooses the cost model to measure all of its investment properties.

Depreciation is calculated on the straight-line basis to write off the cost to its residual value over its estimated useful life. The estimated useful lives are as follows:

Buildings	20 to 30 years

The carrying amounts of investment properties measured using the cost method are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

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 is amortised using the straight-line basis over the estimated life of 3 to 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.

3. Summary of Significant Accounting Policies *(continued)*

Operating leases

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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.

Subsequent measurement

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

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 the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

3. Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

3. Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is 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)*

Investments and other financial assets *(continued)*

Impairment of 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 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.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

3. Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets *(continued)*

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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 controlling shareholder and related parties and interest-bearing bank borrowings.

Subsequent measurement

Loans and borrowings

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

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

3. Summary of Significant Accounting Policies *(continued)*

Financial liabilities *(continued)*

Subsequent measurement *(continued)*

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 a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

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

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, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

3. Summary of Significant Accounting Policies *(continued)*

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, an associate 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, an associate and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

3. Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

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

Provisions

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

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Government grants

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

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

3. Summary of Significant Accounting Policies *(continued)*

Revenue recognition

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

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

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

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

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

Share-based payments

The Company operates share option schemes 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 32 to the financial statements.

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

3. Summary of Significant Accounting Policies *(continued)*

Share-based payments *(continued)*

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether 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".

Other employee benefits

Pension scheme — Mainland China

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Pension scheme — Hong Kong

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Pension scheme — Germany

The Group contributes on a monthly basis to a defined contribution plan organised by the governmental authority in Germany. The Group's liability in respect of this plan is limited to the contributions payable at the end of each reporting period. Contributions to this plan are expensed as incurred.

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 are recognised as a liability when they are approved by the shareholders in a general meeting.
Proposed final dividends are disclosed in the notes to the financial statements.

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

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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

3. Summary of Significant Accounting Policies *(continued)*

Foreign currencies *(continued)*

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.

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

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.

4. Significant Accounting Judgements, Estimates and Assumptions *(continued)*

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.

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

Management reviews the aging analysis of inventories of the Group at the end of each reporting period, and makes a provision for slow-moving inventory items. Management estimates the net realisable value for such inventories based primarily on the 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 judgement. Where the actual outcome or expectation in the future is different from the original estimate, such differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which such estimate has been changed.

Impairment of non-financial assets (other than freehold land)

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.

5. Segment Information

For management purposes, the Group is organised into one single business unit that is 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:

	2017 RMB'000	2016 RMB'000
Mainland China	**1,594,420**	1,595,277
Overseas	**167,316**	143,614
Total	**1,761,736**	1,738,891

(b) *Non-current assets*

	2017 RMB'000	2016 RMB'000
Mainland China	**1,069,327**	942,995
Overseas	**34,314**	34,308
Total	**1,103,641**	977,303

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

Information about major customers

Revenue from sales to customers that individually amounted to 8 percent or more of the Group's revenue for the year is set out in the following table:

Company	**2017 MB'000**	2016 RMB'000
Customer A	**499,136**	496,157
Customer B	**148,118**	182,060

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, Other Income and Gains

An analysis of revenue, other income and gains is as follows:

	2017 RMB'000	2016 RMB'000
Revenue:		
Sale of goods	**1,710,780**	1,668,719
Sale of materials	**50,956**	70,172
	1,761,736	1,738,891
Other income and gains:		
Government grants	**2,857**	1,936
Rental income	**8,220**	10,470
Gain on sales of scrap materials	**775**	638
Gain on disposal of items of property, plant and equipment	**1,041**	7,841
Gain on deregistration of an associate	**3,181**	—
Foreign exchange gain, net	**7,880**	—
Others	**4,851**	1,962
Total	**28,805**	22,847

7. Finance Income

	2017 RMB'000	2016 RMB'000
Interest income on bank deposits	**6,050**	10,345

8. Finance Costs

	2017 RMB'000	2016 RMB'000
Interest expense on bank borrowings	**40,398**	47,296

9. Profit before Tax

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

	2017 RMB'000	2016 RMB'000
Cost of inventories recognised	**1,247,313**	1,260,153
Depreciation of property, plant and equipment	**71,486**	81,158
Depreciation of investment properties	**2,507**	2,508
Amortisation of land lease payments	**4,227**	3,890
Amortisation of intangible assets	**829**	440
Research and development costs	**59,987**	57,233
Lease payments under operating leases in respect of properties	**13,974**	13,192
Auditors' remuneration	**2,550**	2,500
Employee benefit expense (excluding directors' and chief executive's remuneration (Note 10)):		
Wages and salaries	**177,892**	195,665
Pension scheme costs	**12,836**	14,013
	190,728	209,678
Gross rental income	**(11,886)**	(13,929)
Less: Direct expenses for generating rental income	**3,666**	3,459
Rental income, net	**(8,220)**	(10,470)
Foreign exchange differences, net	**(7,880)**	5,597
Recognised impairment of trade receivables and other receivables	**12,735**	(1,513)
Write-down of inventories to net realisable value	**(5,121)**	2,704
Gain on disposal of items of property, plant, and equipment	**(1,041)**	(7,841)
Government grants	**(2,857)**	(1,936)
Interest income on bank deposits	**(6,050)**	(10,345)

10. Directors' and Chief Executive's Remuneration

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

	2017 RMB'000	2016 RMB'000
Fees	2,383	2,390
Other emoluments:		
Salaries, allowances and benefits in kind	1,581	1,981
Pension scheme contributions	31	34
	1,612	2,015
	3,995	4,405

During the years ended 31 December 2011 and 31 December 2015, certain directors of the Company were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in Note 32 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:

	2017 RMB'000	2016 RMB'000
Mr. Tian Yushi	201	215
Mr. Yu Shuli	201	215
Mr. Xu Jiali	201	215
Mr. Wong Luen Cheung Andrew	806	768
	1,409	1,413

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

10. 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
2017					
Executive director and chief executive:					
Mr. Liu Genyu*	—	748	—	13	761
Mr. Li Xuejun*	—	98	—	—	98
Executive directors:					
Mr. Zhou Minfeng	—	372	—	13	385
Mr. Chang Jingzhou**	—	363	—	5	368
	—	1,581	—	31	1,612
Non-executive directors:					
Ms. Lai Cairong	201	—	—	—	201
Ms. Guan Xin	201	—	—	—	201
Mr. He Jifeng***	306	—	—	—	306
Mr. Wang Yuming	201	—	—	—	201
Mr. Liu Genyu	65	—	—	—	65
	974	—	—	—	974

	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
2016					
Executive director and chief executive:					
Mr. Liu Genyu	—	1,267	—	16	1,283
Executive directors:					
Mr. Zhou Minfeng	—	372	—	13	385
Mr. Chang Jingzhou	—	342	—	5	347
	—	1,981	—	34	2,015
Non-executive directors:					
Ms. Lai Cairong	187	—	—	—	187
Ms. Guan Xin	215	—	—	—	215
Mr. He Jifeng	360	—	—	—	360
Mr. Wang Yuming	215	—	—	—	215
	977	—	—	—	977

10. Directors' and Chief Executive's Remuneration *(continued)*

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

* With effect from 1 September 2017, Mr. Liu Genyu re-designed from the Chief Executive Officer ("CEO") and an executive director to a non-executive director. Mr. Li Xuejun was appointed as the CEO and an executive director from then on.

** On 11 January 2017, Mr. Chang Jingzhou, an executive director of the Company, exercised share options of 764,000 shares.

*** On 7 November, Mr. He Jifeng resigned as a non-executive director.

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

11. Five Highest Paid Employees

The five highest paid employees during the year included four directors and the chief executive (2016: three directors and the chief executive), details of whose remuneration are set out in Note 10 above. Details of the remuneration for the year of the remaining one (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	920	1,420
Pension scheme contributions	15	16
	935	1,436

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

	Numbers of employees	
	2017	2016
RMB1,000,000 to RMB2,000,000	—	1
Nil to RMB1,000,000	1	1
	1	2

12. 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.

12. Income Tax *(continued)*

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") at a rate of 25% on the taxable income as reported in their PRC statutory accounts adjusted in accordance with relevant PRC income tax laws.

Pursuant to the relevant tax rules in the PRC, Chongqing Huazhong and Chengdu Huazhong were qualified as Western China development enterprises, and were entitled to a preferential rate of 15% during the year ended 31 December 2017 (2016: 15%).

In November 2016, Ningbo Huazhong Plastic Products Co., Ltd. ("Ningbo Huazhong Plastic") was accredited as a "High and New Technology Enterprise" for three years to enjoy a preferential rate of 15% for the years ended 31 December 2016 and 2017, and the year ending 2018 (2016: 15%).

In November 2017, Ningbo Huazhong Moulding Manufacturing Co., Ltd. ("Ningbo Huazhong Moulding") was accredited as a "High and New Technology Enterprise" for three years to enjoy a preferential rate of 15% for the year ended 31 December 2017 and the years ending 31 December 2018 and 2019 (2016: 25%).

Pursuant to the local tax rules in Germany, HZ FBZ Formenbau Züttlingen GmbH ("HZ FBZ") was subject to a tax rate of 28.075% during the year ended 31 December 2017 (2016: 28.075%).

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

	2017 **RMB'000**	2016 RMB'000
Current income tax		
Income tax for the year	**38,353**	31,042
Deferred income tax (Note 30)	**13,371**	10,915
Total tax charge for the year	**51,724**	41,957

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

12. Income Tax *(continued)*

	2017 RMB'000	2016 RMB'000
Profit before tax	**194,996**	152,459
Tax at the statutory tax rate	**48,749**	38,115
Tax rate differences for specific provincial or local tax authority	**(7,607)**	(3,738)
Tax losses not recognised	**2,845**	1,896
Profits and losses attributable to joint ventures and associates	**(3,770)**	(3,591)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**12,704**	10,000
Under/(Over) provision in prior years	**1,116**	(215)
Expenses not deductible for tax	**1,906**	2,180
Tax losses utilised previous periods	**(544)**	(6,391)
Tax incentives on eligible expenditures	**(3,967)**	—
Realisation of profits attributable to an associate from its deregistration	**246**	—
Effect on opening deferred tax of increase in rates	**46**	3,701
Tax charge for the year	**51,724**	41,957

13. Dividends

	2017 RMB'000	2016 RMB'000
Interim — HK0.3536 cent (2016: Nil) per ordinary share	**5,306**	—

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

14. Earnings per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount 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 1,769,092,600 in issue during the year ended 31 December 2017 (2016: 1,765,500,000*).

The calculation of the diluted earnings per share amount 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, 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:

	2017 RMB'000	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**138,151**	104,907
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,769,092,600**	1,765,500,000*
Effect of dilution — weighted average number of ordinary shares:		
Share options	**141,300**	13,026,300
	1,769,233,900	1,778,526,300

* Adjusted for bonus issue of 160,500,000 shares on the basis of one (1) bonus share for every ten (10) existing shares in issue on 16 June 2017.

15. Property, Plant and Equipment

	Plant and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Tooling RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 31 December 2016 and 1 January 2017:							
Cost or valuation	435,019	401,586	14,577	15,726	101,786	20,110	988,804
Accumulated depreciation and impairment	(85,170)	(218,089)	(10,311)	(11,244)	(76,916)	—	(401,730)
Net carrying amount	349,849	183,497	4,266	4,482	24,870	20,110	587,074
At 1 January 2017, net of accumulated depreciation and impairment	349,849	183,497	4,266	4,482	24,870	20,110	587,074
Additions	9,555	36,408	4,199	737	6,408	68,969	126,276
Transfers	18,141	4,548	—	560	—	(23,249)	—
Disposals	(5,767)	(4,050)	(130)	(566)	(8,459)	(505)	(19,477)
Depreciation provided during the year	(18,097)	(35,214)	(1,806)	(1,296)	(15,073)	—	(71,486)
Exchange realignment	460	842	3	—	—	—	1,305
At 31 December 2017, net of accumulated depreciation and impairment	354,141	186,031	6,532	3,917	7,746	65,325	623,692
At 31 December 2017:							
Cost or valuation	457,621	435,808	17,866	16,381	47,703	65,325	1,040,704
Accumulated depreciation and impairment	(103,480)	(249,777)	(11,334)	(12,464)	(39,957)	—	(417,012)
Net carrying amount	354,141	186,031	6,532	3,917	7,746	65,325	623,692

15. Property, Plant and Equipment *(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 2016							
At 31 December 2015 and 1 January 2016:							
Cost or valuation	391,469	405,885	14,029	21,061	63,772	27,485	923,701
Accumulated depreciation and impairment	(66,558)	(229,815)	(9,379)	(16,790)	(49,657)	—	(372,199)
Net carrying amount	324,911	176,070	4,650	4,271	14,115	27,485	551,502
At 1 January 2016, net of accumulated depreciation and impairment	324,911	176,070	4,650	4,271	14,115	27,485	551,502
Additions	12,173	33,638	2,186	1,856	38,900	35,723	124,476
Transfers	31,070	11,787	—	167	—	(43,024)	—
Disposals	(260)	(5,772)	(1,448)	(712)	(410)	(28)	(8,630)
Depreciation provided during the year	(18,576)	(32,622)	(1,124)	(1,101)	(27,735)	—	(81,158)
Exchange realignment	531	396	2	1	—	(46)	884
At 31 December 2016, net of accumulated depreciation and impairment	349,849	183,497	4,266	4,482	24,870	20,110	587,074
At 31 December 2016:							
Cost or valuation	435,019	401,586	14,577	15,726	101,786	20,110	988,804
Accumulated depreciation and impairment	(85,170)	(218,089)	(10,311)	(11,244)	(76,916)	—	(401,730)
Net carrying amount	349,849	183,497	4,266	4,482	24,870	20,110	587,074

Included in the property, plant and equipment as at 31 December 2017 were certain buildings with a net carrying value of RMB120,899,000 (2016: RMB170,151,000), 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 2017.

The Group's land included in plant and buildings with a carrying amount of RMB5,892,000 (2016: RMB5,518,000) is situated in Germany and is held freehold.

Certain of the Group's buildings with a net carrying value of RMB10,225,000 as at 31 December 2017 (2016: RMB10,655,000) were pledged to secure bank loans granted to the Group (Note 28).

16. Investment Properties

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**33,876**	36,384
Depreciation	**(2,507)**	(2,508)
Carrying amount at 31 December	**31,369**	33,876

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 three industrial properties in China. The directors of the Company have determined that the investment properties consist of one class of asset based on the nature, characteristics and risk of each property. The fair value of the Group's investment properties was RMB70,780,000 as at 31 December 2017 (2016: RMB66,000,000), 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 38.

Included in the investment properties as at 31 December 2017 were certain buildings with a net carrying value of RMB10,534,000 (2016: RMB11,362,000), 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 2017.

The Group's investment properties with a net carrying value of RMB2,383,000 as at 31 December 2017 (2016: RMB2,632,000) were pledged to secure bank loans of the Group (Note 28).

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 technique used and the key inputs to the valuation of the investment properties:

	Valuation technique	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

17. Prepaid Land Lease Payments

	2017 RMB'000	2016 RMB'000
At beginning of year	**177,486**	159,574
Additions	**25,046**	21,802
Amortisation	**(4,227)**	(3,890)
At end of year	**198,305**	177,486
Current portion included in prepayments and other receivables (Note 24)	**(5,391)**	(4,087)
At end of year	**192,914**	173,399

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 2017 were certain lands with a net book value of RMB25,399,000 (2016: RMB10,596,000), of which the land use right 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 leasehold land. 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 2017.

Certain of the Group's prepaid land lease payments with a carrying value of RMB 44,021,000 as at 31 December 2017 (2016: RMB45,158,000) were pledged to secure bank loans granted to the Group (Note 28).

18. Intangible Assets

	Software RMB'000	Development costs RMB'000	Total RMB'000
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	**4,341**	**41**	**4,382**
Additions	**2,959**	**—**	**2,959**
Amortisation provided during the year	**(814)**	**(15)**	**(829)**
Exchange realignment	**124**	**14**	**138**
At 31 December 2017	**6,610**	**40**	**6,650**
At 31 December 2017:			
Cost	**9,727**	**1,210**	**10,937**
Accumulated amortisation and impairment	**(3,241)**	**(1,184)**	**(4,425)**
Exchange realignment	**124**	**14**	**138**
Net carrying amount	**6,610**	**40**	**6,650**

18. Intangible Assets *(continued)*

	Software RMB'000	Development costs RMB'000	Total RMB'000
31 December 2016			
Cost at 1 January 2016,			
net of accumulated amortisation	4,311	52	4,363
Additions	143	—	143
Amortisation provided during the year	(426)	(14)	(440)
Exchange realignment	313	3	316
At 31 December 2016	4,341	41	4,382
At 31 December 2016:			
Cost	6,614	1,210	7,824
Accumulated amortisation and impairment	(2,586)	(1,172)	(3,758)
Exchange realignment	313	3	316
Net carrying amount	4,341	41	4,382

19. Investment in Associates

	2017 RMB'000	2016 RMB'000
Share of net assets	**18,533**	2,004

Particulars of the associates are as follows:

Name	**Place 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	45%	Manufacture and sale of plastic auto parts
Kaihua Lianlian New Energy Technology Co., Ltd. ("Kaihua Lianlian") (Note (ii))	PRC/Mainland China	42%	Manufacture and sale of plastic auto parts

(i) Since 10 August 1999, Shanghai Huaxin had held a 45% equity interest in Shanghai Baodegu. On 25 January 2017, Shanghai Baodegu deregistered.

(ii) In January 2017, Shanghai Huaxin acquired a 42% equity interest of Kaihua Lianlian, a limited liability company registered in the PRC.

19. Investment in Associates *(continued)*

The following table illustrates the summarised financial information of Kaihua Lianlian for 2017 and Shanghai Baodegu for 2016, respectively, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	Kaihua Lianlian 2017 RMB'000	Shanghai Baodegu* 2016 RMB'000
Current assets	25,292	7,637
Non-current assets	20,331	994
Current liabilities	(1,497)	(4,177)
Net assets	44,126	4,454
Net assets, excluding goodwill	44,126	4,454
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	42%	45%
Group's share of net assets of the associate, excluding goodwill	18,533	2,004
Carrying amount of the investment	18,533	2,004
Revenues	36,900	—
Profit/(loss) for the year	4,125	(27)
Total comprehensive income/(loss) for the year	4,125	(27)
Group's share of comprehensive income/(loss) for the year	1,733	(12)
Dividend	—	—

* Shanghai Baodegu did not contribute any profit/(loss) to the Group in 2017. Upon deregistration, Shanghai Baodegu declared its liquidation profit distribution amounting to RMB5,185,490 to Shanghai Huaxin.

The financial statements of Kaihua Lianlian and Shanghai Baodegu were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

20. Investments in Joint Ventures

	2017 RMB'000	2016 RMB'000
Share of net assets	142,605	105,641

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

Name	Place 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	50%	50%	50%	Manufacture and sale of auto parts, design and manufacture of high-grade textiles
Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd. ("Changchun Huazhong Yanfeng") (Note (ii))	PRC/Mainland China	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 Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd. (formerly known as Changchun Huaxiang Faurecia) was established in Jilin Province, the PRC, with a 50% equity interest held by the Group. The joint venture has changed the other investor from Ningbo Huading to Yanfeng Omnium on 23 May 2017 due to the share transfer agreement between Ningbo Huading and Yanfeng Omnium. According to the share transfer agreement, Yanfeng Omnium will hold 50% of the equity interest in Changchun Huazhong Yanfeng. The name of the company is also changed to Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd. The registration was authorised on 23 May 2017.

20. 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:

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	**2,665**	4,996
Other current assets	**211,159**	227,506
Current assets	**213,824**	232,502
Non-current assets	**48,320**	6,385
Financial liabilities, excluding trade and other payables	**(59,900)**	(59,900)
Other current liabilities	**(34,721)**	(29,016)
Net assets	**167,523**	149,971
Net assets, excluding goodwill	**167,523**	149,971
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	**83,762**	74,986
Carrying amount of the investment	**83,762**	74,986
Revenues	**165,352**	172,185
Interest income	**22**	19
Depreciation and amortisation	**(656)**	(794)
Interest expenses	**(2,863)**	(746)
Profit and total comprehensive income for the year	**30,318**	31,776
Group's share of comprehensive income for the year	**15,159**	15,888
Dividend	**5,000**	5,000

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

20. Investments in Joint Ventures *(continued)*

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

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	92,692	21,777
Other current assets	158,704	253,926
Current assets	251,396	275,703
Non-current assets	107,207	134,494
Other current liabilities	(240,917)	(348,887)
Net assets	117,686	61,310
Net assets, excluding goodwill	117,686	61,310
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, including additional loss	58,843	30,655
Carrying amount of the investment	58,843	30,655
Revenues	530,468	501,112
Interest income	413	296
Depreciation and amortisation	(29,813)	(25,319)
Interest expenses	—	(7,352)
Loss and total comprehensive loss for the year	(3,622)	(3,022)
Group's share of comprehensive loss for the year, including additional loss	(1,811)	(1,511)

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

21. Available for sale Investment

	2017 RMB'000	2016 RMB'000
Unlisted equity investment, at cost	**15,000**	15,000

As at 31 December 2017, the unlisted equity investment were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

22. Inventories

	2017 RMB'000	2016 RMB'000
Raw materials	**42,933**	48,515
Work in progress	**109,117**	69,382
Finished goods	**220,525**	177,678
	372,575	295,575

23. Trade and Notes Receivables

	2017 RMB'000	2016 RMB'000
Trade receivables	**519,970**	519,871
Notes receivable	**98,978**	51,932
	618,948	571,803
Impairment of trade receivables	**(6,091)**	(3,526)
	612,857	568,277

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.

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

23. Trade and Notes Receivables *(continued)*

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

	2017 RMB'000	2016 RMB'000
Within 3 months	475,893	485,461
3 to 6 months	30,003	26,444
6 months to 1 year	4,267	3,576
Over 1 year	3,716	864
	513,879	516,345

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

	2017 RMB'000	2016 RMB'000
At beginning of year	3,526	5,039
Reversal of impairment for the year	(636)	(3,207)
Impairment losses recognised	3,201	1,694
At end of year	6,091	3,526

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

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	476,324	489,118
Less than 1 month past due	25,101	21,812
1 to 2 months past due	2,097	2,267
2 to 3 months past due	2,973	1,630
Over 3 months and within 1 year past due	3,668	784
Over 1 year past due	3,716	734
	513,879	516,345

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.

24. Prepayments and Other Receivables

	2017 RMB'000	2016 RMB'000
Other receivables	**48,324**	80,101
Provision for impairment	**(10,170)**	—
Other receivables, net (Note 39)	**38,154**	80,101
Prepayments	**90,340**	82,219
Land lease payments (Note 17)	**5,391**	4,087
	133,885	166,407

The movements in provision for impairment of other receivables are as follows:

	2017 RMB'000	2016 RMB'000
At beginning of the year	**—**	—
Impairment losses recognised	**10,170**	—
At end of the year	**10,170**	—

Included in the above provision for impairment of other receivables is provision for individually impaired other receivables of approximately RMB10,170,000 (2016: nil), with an aggregate carrying amount before provision of approximately RMB10,170,000 (2016: nil) as at 31 December 2017.

An ageing analysis of other receivables, that are neither individually nor collectively considered to be impaired, is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	**38,154**	80,101

None of the balances, except for the other receivables disclosed above, is either past due or impaired, as they relate to balances for which there was no recent history of default.

25. Cash and Cash Equivalents

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**165,530**	65,472
Time deposits	**121,133**	210,031
	286,663	275,503
Less: Pledged deposits	**(189,864)**	(87,516)
Cash and cash equivalents in the consolidated statement of financial position	**96,799**	187,987
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(69,035)**	(122,515)
Cash and cash equivalents in the consolidated statement of cash flows	**27,764**	65,472

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 RMB52,634,000 as at 31 December 2017 (2016: RMB50,196,000) were pledged to secure the issue of notes payable (Note 26).

Pledged deposits with a carrying value of RMB137,230,000 as at 31 December 2017 (2016: RMB37,320,000) were pledged to secure the bank loans granted to the Group (Note 28).

26. Trade and Notes Payables

An aging analysis of the trade and notes payables of the Group as at 31 December 2017, based on the invoice date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 3 months	450,177	442,083
3 to 12 months	167,645	144,350
1 to 2 years	1,996	1,048
2 to 3 years	1,047	940
Over 3 years	654	2,227
	621,519	590,648

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 were secured by pledged deposits of the Group with a carrying value of RMB52,634,000 as at 31 December 2017 (2016: RMB50,196,000) (Note 25).

27. Other Payables, Advances from Customers and Accruals

	2017 RMB'000	2016 RMB'000
Other payables (Note 39)	134,748	140,386
Advances from customers	72,603	39,256
Accruals	5,088	10,379
Government grants — current portion (Note 29)	815	731
Dividends payables	7	—
	213,261	190,752

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

28. Interest-Bearing Bank Borrowings

	2017 Effective interest rate %	2017 Maturity	2017 RMB'000	2016 Effective interest rate %	2016 Maturity	2016 RMB'000
Current						
Bank loans — secured	**2.85-4.57**	**2018**	**126,817**	2.49-6.55	2017	10,598
Bank loans — unsecured	**2.72-4.60**	**2018**	**369,878**	2.72-6.60	2017	490,790
Current portion of long term bank loans — unsecured	**4.99-6.31**	**2018**	**107,626**	6.77-6.89	2017	8,000
			604,321			509,388
Non-current						
Bank loans — unsecured	**2.72-6.72**	**2019**	**118,470**	2.72-6.72	2018-2019	282,332
			118,470			282,332
			722,791			791,720

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**604,321**	509,388
In the second year	**118,470**	149,976
In the third to fifth years, inclusive	**—**	132,356
	722,791	791,720

All bank borrowings were obtained from third party financial institutions.

28. Interest-Bearing Bank Borrowings *(continued)*

As at 31 December 2017, the Group's bank facilities of RMB255,000,000 (2016: RMB419,065,000) were secured by the pledges of the Group's assets. RMB81,000,000 of the pledged bank facilities (2016: RMB10,598,000) were utilised by the Group as at 31 December 2017. The carrying values of the pledged assets are as follows:

	Notes	2017 RMB'000	2016 RMB'000
Property, plant and equipment	15	**10,225**	10,655
Investment properties	16	**2,383**	2,632
Prepaid land lease payments	17	**44,021**	45,158
Pledged deposits	25	**137,230**	37,320
		193,859	95,765

29. Government Grants

	2017 RMB'000	2016 RMB'000
Carrying amount at beginning of the year	**9,615**	10,145
Received during the year	**1,088**	588
Released to profit or loss	**(1,318)**	(1,118)
Carrying amount at end of the year	**9,385**	9,615
Current portion, classified under other payables, advances from customers and accruals (Note 27)	**815**	731
Non-current	**8,570**	8,884
	9,385	9,615

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

30. Deferred Tax

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets arising from:		
— Provision for impairment of receivables	3,690	652
— Write-down of inventories	1,911	2,670
— Accruals	9,139	9,385
— Unrealised profits	2,604	3,881
	17,344	16,588
Deferred tax liabilities arising from:		
— Valuation surplus	6,209	5,052
— Withholding taxes	37,275	24,571
	43,484	29,623

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

	Provision for impairment of receivables RMB'000	Write-down of inventories RMB'000	Accruals RMB'000	Unrealised profits RMB'000	Total RMB'000
As at 31 December 2015 and 1 January 2016	1,245	4,062	8,047	5,422	18,776
(Charged)/credited to the statement of profit or loss (Note 12)	(593)	(1,392)	1,338	(1,541)	(2,188)
As at 31 December 2016 and 1 January 2017	652	2,670	9,385	3,881	16,588
Credited/(charged) to the statement of profit or loss (Note 12)	3,038	(759)	(246)	(1,277)	756
As at 31 December 2017	3,690	1,911	9,139	2,604	17,344

30. 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 1 January 2016	6,224	14,571	20,795
(Credited)/charged to the statement of profit or loss (Note 12)	(1,273)	10,000	8,727
Exchange realignment	101	—	101
As at 31 December 2016 and 1 January 2017	5,052	24,571	29,623
Charged to the statement of profit or loss (Note 12)	1,423	12,704	14,127
Exchange realignment	(266)	—	(266)
As at 31 December 2017	6,209	37,275	43,484

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%.

At 31 December 2017, 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 RMB296,378,000 at 31 December 2017 (2016: RMB296,378,000).

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

30. Deferred Tax *(continued)*

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

	2017 RMB'000	2016 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	16,490	16,177
Net deferred tax liabilities recognised in the consolidated statement of financial position	(42,630)	(29,212)

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

	2017 RMB'000	2016 RMB'000
Unused tax losses	154,790	152,489

Included in the above tax losses is an amount of approximately RMB38,333,000 (2016: RMB40,668,000) arising from HZ FBZ, which is entitled to a deduction of future taxable profits with no expiry period. The remaining tax losses 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.

31. Issued Capital

Shares

	2017 RMB'000	2016 RMB'000
Issued and fully paid: 1,769,193,800 (31 December 2016: 1,605,000,000) ordinary shares of HK$0.10 each	142,956	128,587

31. Issued Capital *(continued)*

Shares *(continued)*

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2016, 31 December 2016 and 1 January 2017	1,605,000,000	128,587	20,030	148,617
Exercise of share option	3,358,000	300	2,196	2,496
Bonus issue	160,835,800	14,069	(14,069)	—
At 31 December 2017	1,769,193,800	142,956	8,157	151,113

32. Share Option Schemes

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:

	2017		2016	
	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	0.56	34,700	0.56	34,700
Exercised during the year	0.56	(3,358)	—	—
Lapsed during the year	0.56	(31,342)	—	—
At 31 December	—	—	0.56	34,700

32. Share Option Schemes *(continued)*

Pre-IPO Share Option Scheme *(continued)*

As at 31 December 2017, the Company had no outstanding share options under the Pre-IPO Share Option Scheme.

The exercise prices and exercise periods of the share options outstanding as at 31 December 2016 are as follows:

2016

Number of options '000	**Exercise price** HK$ per share	**Exercise period**
12,144	0.56	12 January 2013 to 11 January 2017
12,144	0.56	12 January 2013 to 11 January 2017
10,410	0.56	12 January 2013 to 11 January 2017
34,700		

The fair value of the share options granted in 2011 was RMB10,011,000, of which the Group recognised no share option expense during the year ended 31 December 2017 (2016: nil).

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.

32. Share Option Schemes *(continued)*

Share Option Scheme

The Company adopted a share option scheme (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 for 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 of directors of the Company ("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 quotation sheet on the Offer Date; and

(c) the average of the closing prices of a share as stated in the Stock Exchange's daily quotation sheets 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 are no share options granted in 2017 (2016: nil).

At the end of the reporting period, the Company had no outstanding share options under the Share Option Scheme.

33. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity 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 the net profit should be made to the enterprise expansion fund, after offsetting accumulated losses from prior years, and before profit distributions to its investors. The percentages to be appropriated to the enterprise expansion fund are determined by the boards of directors of the subsidiaries.

Statutory surplus reserve

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

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

34. Partly-Owned Subsidiary with Material Non-Controlling Interests

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

	2017 RMB'000	2016 RMB'000
Percentage of equity interest held by non-controlling interests:		
Shanghai Huaxin	**49%**	49%

	2017 RMB'000	2016 RMB'000
Profit for the year allocated to non-controlling interests:		
Shanghai Huaxin	**5,121**	5,595
Dividends paid to non-controlling interests of Shanghai Huaxin	**2,003**	3,115
Accumulated balances of non-controlling interests at the reporting dates:		
Shanghai Huaxin	**36,914**	33,796

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

Shanghai Huaxin	2017 RMB'000	2016 RMB'000
Revenue	**114,681**	121,708
Total expenses	**(104,230)**	(110,289)
Profit for the year	**10,451**	11,419
Total comprehensive income for the year	**10,451**	11,419
Current assets	**74,427**	80,184
Non-current assets	**42,066**	28,448
Current liabilities	**(41,158)**	(37,476)
Non-current liabilities	**—**	(2,185)
Net cash flows from operating activities	**2,534**	4,434
Net cash flows used in investing activities	**(18,641)**	(2,784)
Net cash flows from/(used in) financing activities	**13,000**	(3,461)
Net decrease in cash and cash equivalents	**(3,107)**	(1,811)

35. Notes to the Consolidated Statement of Cash Flows

Reconciliation of liabilities arising from financing activities:

	Interest-bearing bank borrowings
At 1 January 2017	791,720
Changes from financing cash flows	(62,103)
Foreign exchange movement	(6,826)
At 31 December 2017	722,791

	Dividends payable
At 1 January 2017	—
Interim 2017 dividends	5,306
Changes from financing cash flows	(5,299)
At 31 December 2017	7

36. Operating Lease Arrangements

Group as lessee

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

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

	2017 RMB'000	2016 RMB'000
Within one year	**12,711**	4,655
After one year but not more than five years	**5,437**	4,773
	18,148	9,428

37. Commitments

In addition to the operating lease commitments detailed in Note 36 above, the Group had the following capital commitments as at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for, in respect of the acquisition of:		
Property, plant and equipment	**183,330**	208,619

38. 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. Chen Chun'er	Spouse of Mr. Zhou
Mr. Zhou Xiaofeng	Brother of Mr. Zhou
Ningbo Huaxiang Electronics Co., Ltd. ("Ningbo Huaxiang Electronics")	Significantly influenced by Mr. Zhou Xiaofeng
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
Ningbo Huaying Moulding Technology Development Co., Ltd. ("Huaying Moulding")	Controlled by Mr. Zhou
成都華翔汽車頂棚系統有限公司 ("Chengdu Huaxiang") (Formerly known as 成都安通林華翔汽車內飾件有限公司 "Chengdu Antolin Huaxiang")	Joint venture of Ningbo Huaxiang Electronics
公主岭華翔汽車頂棚系統有限公司 ("Gongzhuling Huaxiang") (Formerly known as 公主岭安通林華翔汽車內飾件有限公司 "Gongzhuling Antolin Huaxiang")	Joint venture of Ningbo Huaxiang Electronics
寧波華翔汽車銷售服務有限公司 ("Huaxiang Sales Co.")	Collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong
南昌江鈴華翔汽車零部件有限公司 ("Nanchang Jiangling")	Joint venture of Ningbo Huaxiang Electronics

38. Related Party Transactions and Balances *(continued)*

(a) Name and relationship *(continued)*

Name of related party	Relationship with the Group
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
Guangzhou Chengli Industrial Co., Ltd. ("Guangzhou Chengli")	Controlled by Mr. Zhou
Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd.	Joint venture of the Group
Shanghai Baodegu	Associate of the Group
Kaihua Lianlian	Associate of the Group
寧波華翔進出口有限公司 ("Huaxiang Export")	Significantly influenced by Mr. Zhou Cimei and Ms. Lai Cairong
華翔集團 ("Huaxiang Group")	Connected person of the Company
沈陽華翔汽車零部件有限公司 ("Shenyang Huaxiang")	Subsidiary of Ningbo Huaxiang Electronics
Ningbo Tex Line Automotive Textiles Co.,Ltd. ("Ningbo Hualuote")	Subsidiary of Joint venture of the Group

38. Related Party Transactions and Balances *(continued)*

(b) Related party transactions

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

	Notes	2017 RMB'000	2016 RMB'000
Sales of raw materials and goods to related parties:	(i)		
Changchun Huazhong Yanfeng		**66,168**	103,409
Ningbo Hualuote		**955**	—
Ningbo Hualete		**434**	—
Huaxiang Export		**432**	—
Huaying Moulding		**370**	—
		68,359	103,409
Purchases of raw materials, goods and services from related parties:	(ii)		
Ningbo Hualete		**62,191**	63,320
Changchun Huazhong Yanfeng		**8,239**	58,379
Shenyang Huaxiang		**7,092**	4,002
Nanchang Jiangling		**2,734**	2,160
Huaxiang ResortΔ		**638**	1,489
Gongzhuling Huaxiang		**300**	—
Huaxiang Trim		**100**	—
Huaxiang Sales Co.Δ		**4**	—
		81,298	129,350
Gross rental income from related parties:	(iii)		
Changchun Huazhong Yanfeng		**8,663**	9,897
Ningbo Hualete		**1,052**	1,072
		9,715	10,969
Rental expenses charged by related parties:	(iii)		
Huaying MouldingΔ		**1,064**	638
Guangzhou ChengliΔ		**389**	1,000
		1,453	1,638
Purchase of land use right from a related party:	(iv)		
Huaxiang GroupΔ		**—**	14,820
Recovery of advances to a related party:	(v)		
Changchun Huazhong Yanfeng		**—**	18,316
Recovery of entrusted loan to a related party:	(vi)		
Changchun Huazhong Yanfeng		**—**	55,000

38. Related Party Transactions and Balances *(continued)*

(b) Related party transactions *(continued)*

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

Note (iii): The gross rental income from and rental expenses charged by related parties were in accordance with the terms and conditions agreed between the related parties through lease agreements.

Note (iv): The purchase of land use right from the related party was made according to the price and terms offered by the related party.

Note (v): The advances to a related party are interest-free and repayable on demand.

Note (vi): The entrusted loan was lent to a related party through Agricultural Bank of China and China Construction Bank with an one-year term and an annual interest rate of 5.6%.

(c) Other transactions with related parties

As at the end of the reporting period, the Group received guarantees from Mr. Zhou and Ms. Chen Chun'er for the Group's banking facilities amounting to nil as at 31 December 2017 (2016: RMB300,000,000), among which nil was utilised by the Group as at 31 December 2017 (2016: RMB52,000,000).

The related party transactions in respect of items denoted with "Δ" and the item disclosed in Note 38(c) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(d) Outstanding balances with related parties

	2017 **RMB'000**	2016 RMB'000
Amounts due from related parties:		
Changchun Huazhong Yanfeng	**68,716**	137,049
Ningbo Hualuote	**1,117**	—
Ningbo Hualete	**581**	73
Huaxiang Export	**506**	—
	70,920	137,122
Amount due to the ultimate controlling shareholder:		
Mr. Zhou	**2,150**	3,603

38. Related Party Transactions and Balances *(continued)*

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

	2017 RMB'000	2016 RMB'000
Amounts due to related parties:		
Ningbo Hualete	**67,594**	42,808
Shenyang Huaxiang	**3,299**	4,682
Changchun Huazhong Yanfeng	**1,980**	—
Nanchang Jiangling	**830**	2,780
Guangzhou Chengli	**387**	15
Huaxiang Resort	**179**	281
Huayou Holdings	**158**	158
Huaying Moulding	**100**	335
Huaxiang Sales Co.	**4**	—
Huaxiang Export	**—**	26
	74,531	51,085

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

(e) Compensation of key management personnel of the Group

	2017 RMB'000	2016 RMB'000
Short term employee benefits	**3,740**	4,684
Post-employment benefits	**56**	59
Total compensation paid to key management personnel	**3,796**	4,743

Further details of directors' and the chief executive's remuneration are included in Note 10 to the financial statements.

39. 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:

Financial assets

As at 31 December 2017	Loans and receivables RMB'000
Trade and notes receivables	612,857
Financial assets included in prepayments and other receivables (Note 24)	38,154
Due from related parties	70,920
Pledged deposits	189,864
Cash and cash equivalents	96,799
	1,008,594

As at 31 December 2016	Loans and receivables RMB'000
Trade and notes receivables	568,277
Financial assets included in prepayments and other receivables (Note 24)	80,101
Due from related parties	137,122
Pledged deposits	87,516
Cash and cash equivalents	187,987
	1,061,003

Financial liabilities

As at 31 December 2017	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables, advances from customers and accruals (Note 27)	134,748
Trade and notes payables	621,519
Interest-bearing bank borrowings	722,791
Due to the ultimate controlling shareholder	2,150
Due to related parties	74,531
	1,555,739

39. Financial Instruments By Category *(continued)*

Financial liabilities *(continued)*

As at 31 December 2016	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables, advances from customers and accruals (Note 27)	140,386
Trade and notes payables	590,648
Interest-bearing bank borrowings	791,720
Due to the ultimate controlling shareholder	3,603
Due to related parties	51,085
	1,577,442

40. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Financial liabilities				
Interest-bearing bank borrowings, non-current portion	**118,470**	282,332	**118,470**	282,332

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and notes receivables, trade and notes payables, financial assets included in prepayments and other receivables, financial liabilities included in other payables, advances from customers and accruals, amounts due from/to related parties, an amount due to the ultimate controlling shareholder and the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

As at 31 December 2017, the unlisted equity investments were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them is the near future.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved.

40. Fair Value and Fair Value Hierarchy of Financial Instruments *(continued)*

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumption were used to estimate the fair value:

The fair value of the non-current portion of interest-bearing bank borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments within similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2017 was assessed to be insignificant.

Fair value hierarchy

Financial liabilities for which fair values are disclosed

As at 31 December 2017

	Fair value measurement using			
	Total RMB'000	Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000
Interest-bearing bank borrowings	**118,470**	—	—	**118,470**

As at 31 December 2016

	Fair value measurement using			
	Total RMB'000	Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000
Interest-bearing bank borrowings	282,332	—	—	282,332

41. Transfers of Financial Assets

Transferred financial assets that are not derecognised in their entirety

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of nil (2016: RMB6,045,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was nil (2016: RMB6,045,000) as at 31 December 2017.

Transferred financial assets that are derecognised in their entirety

At 31 December 2017, endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB17,557,000 (2016: RMB60,407,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

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 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.

42. Financial Risk Management Objectives and Policies *(continued)*

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 28.

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 2017		
RMB	**100**	**(1,200)**
RMB	**(100)**	**1,200**
Year ended 31 December 2016		
RMB	100	(1,341)
RMB	(100)	1,341

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 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 the reporting period, except for the trade and notes receivables, there was no significant concentration of credit risk within the Group. The trade and notes receivables arising from the five largest customers accounted for 50% (2016: 62%) of the total trade and notes receivables as at 31 December 2017.

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 the 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 2017					
Interest-bearing bank borrowings	—	156,110	474,538	123,669	754,317
Trade and notes payables	231,865	236,479	151,632	1,543	621,519
Other payables (Note 27)	134,748	—	—	—	134,748
Amount due to the ultimate controlling shareholder	2,150	—	—	—	2,150
Amounts due to related parties	74,531	—	—	—	74,531
	443,294	392,589	626,170	125,212	1,587,265

	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 2016					
Interest-bearing bank borrowings	—	213,181	303,414	288,560	805,155
Trade and notes payables	205,469	262,336	121,976	867	590,648
Other payables (Note 27)	140,386	—	—	—	140,386
Amount due to the ultimate controlling shareholder	3,603	—	—	—	3,603
Amounts due to related parties	51,085	—	—	—	51,085
	400,543	475,517	425,390	289,427	1,590,877

42. Financial Risk Management Objectives and Policies *(continued)*

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit profile and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The net debt includes interest-bearing bank borrowings, trade and notes payables, other payables 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:

	2017 **RMB'000**	2016 RMB'000
Trade and notes payables	**621,519**	590,648
Other payables and accruals	**213,261**	190,752
Interest-bearing bank borrowings	**722,791**	791,720
Amount due to the ultimate controlling shareholder	**2,150**	3,603
Amounts due to related parties	**74,531**	51,085
Less: Cash and cash equivalents	**(96,799)**	(187,987)
Net debt	**1,537,453**	1,439,821
Equity attributable to owners of the parent	**817,660**	681,850
Capital and net debt	**2,355,113**	2,121,671
Gearing ratio	**65%**	68%

43. Statement of Financial Position of the Company

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

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**30**	30
Investments in subsidiaries	**60,942**	53,158
Investment in a joint venture	**69,157**	72,349
Total non-current assets	**130,129**	125,537
CURRENT ASSETS		
Prepayments and other receivables	**91**	91
Due from subsidiaries	**37,915**	18,290
Cash and cash equivalents	**2,796**	3,738
Total current assets	**40,802**	22,119
CURRENT LIABILITIES		
Other payables, advances from customers and accruals	**1,657**	960
Due to a shareholder	**165**	158
Due to subsidiaries	**6,468**	68,278
Total current liabilities	**8,290**	69,396
Net current assets/(liabilities)	**32,512**	(47,277)
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS	**162,641**	78,260
EQUITY		
Issued capital	**142,956**	128,587
Reserves (Note)	**19,685**	(50,327)
Total equity	**162,641**	78,260

43. Statement of Financial Position of the Company *(continued)*

Note:

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

	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2015 and 1 January 2016	20,030	—	9,504	(72,707)	(43,173)
Loss for the year	—	—	—	(7,154)	(7,154)
At 31 December 2016 and 1 January 2017	20,030	—	9,504	(79,861)	(50,327)
Exercise of share option	2,196	—	(816)	—	1,380
Bonus issue	(14,069)	—	—	—	(14,069)
Lapse of share option	—	8,688	(8,688)	—	—
Profit for the year	—	—	—	82,701	82,701
At 31 December 2017	8,157	8,688	—	2,840	19,685

44. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

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

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**1,761,736**	1,738,891	1,635,565	1,683,204	1,470,893
Cost of sales	**(1,247,313)**	(1,260,153)	(1,239,432)	(1,278,993)	(1,123,488)
Gross profit	**514,423**	478,738	396,133	404,211	347,405
Other income and gains	**28,805**	22,847	12,254	12,485	16,840
Selling and distribution costs	**(120,242)**	(117,418)	(94,348)	(93,873)	(99,087)
Administrative expenses	**(192,341)**	(198,454)	(177,006)	(159,755)	(142,562)
Other expenses	**(16,382)**	(10,668)	(91)	(4,298)	(6,218)
Finance income	**6,050**	10,345	7,824	7,659	7,037
Finance costs	**(40,398)**	(47,296)	(41,731)	(44,683)	(48,238)
Share of profits and losses of:					
Joint ventures	**13,348**	14,377	1,785	(1,703)	7,434
Associates	**1,733**	(12)	(199)	(295)	245
PROFIT BEFORE TAX	**194,996**	152,459	104,621	119,748	82,856
Income tax expense	**(51,724)**	(41,957)	(29,745)	(28,526)	(30,758)
PROFIT FOR THE YEAR	**143,272**	110,502	74,876	91,222	52,098
Attributable to:					
Owners of the parent	**138,151**	104,907	69,404	86,583	47,620
Non-controlling interests	**5,121**	5,595	5,472	4,639	4,478
	143,272	110,502	74,876	91,222	52,098

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**2,597,031**	2,436,364	2,237,702	2,022,979	1,809,195
TOTAL LIABILITIES	**(1,742,457)**	(1,720,718)	(1,629,769)	(1,485,957)	(1,342,847)
NON-CONTROLLING INTERESTS	**(36,914)**	(33,796)	(31,316)	(28,912)	(26,723)
	817,660	681,850	576,617	508,110	439,625

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Zhou Minfeng *(Chairman)*
Mr. Li Xuejun *(Chief Executive Officer)*
Mr. Chang Jingzhou

Non-executive Directors

Ms. Lai Cairong
Mr. Wang Yuming
Mr. Guan Xin
Mr. Liu Genyu

Independent non-executive Directors

Mr. Wong Luen Cheung Andrew *(Vice-chairman)*
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. Cheung Wah Lung Warren (AICPA, ACS)
Ms. Ho Wing Yan ACIS, ACS(PE)

Authorised Representatives

Mr. Zhou Minfeng
Mr. Cheung Wah Lung Warren

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Hong Kong

Principal Bankers

Bank of China
Agricultural Bank of China

Legal Adviser as to Hong Kong Law

Hui & Lam Solicitors LLP

Auditor

Ernst & Young

Share Registrars

Principal Share Registrar and Transfer Office in the Cayman Islands

SMP Partners (Cayman) Limited
Royal Bank House - 3rd Floor,
24 Shedden Road, P.O. Box 1586,
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