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

2022
ANNUAL REPORT

CONTENT




CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Minfeng
(Chairman and Chief Executive)
Mr. Wu Bichao *(Vice-chairman)*

Non-executive Directors

Ms. Lai Cairong
Mr. Wang Yuming
Mr. Guan Xin
Mr. Yu Zhuoping

Independent non-executive Directors

Mr. Wong Luen Cheung Andrew *(Vice-chairman)*
Mr. Yu Shuli
Mr. Xu Jiali

AUDIT COMMITTEE

Mr. Yu Shuli *(Chairman)*
Mr. Wong Luen Cheung Andrew
Mr. Xu Jiali

REMUNERATION COMMITTEE

Mr. Yu Shuli *(Chairman)*
Mr. Zhou Minfeng
Mr. Xu Jiali

NOMINATION COMMITTEE

Mr. Zhou Minfeng *(Chairman)*
Mr. Yu Shuli
Mr. Xu Jiali

COMPANY SECRETARY

Ms. Ho Wing Yan *(ACG, HKACG(PE))*

AUTHORISED REPRESENTATIVES

Mr. Zhou Minfeng
Ms. Ho Wing Yan *(ACG, HKACG(PE))*

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 907B, 9th Floor
Empire Centre
68 Mody Road
Tsim Sha Tsui, Kowloon
Hong Kong

PRINCIPAL BANKERS

Bank of China
Agricultural Bank of China

LEGAL ADVISER AS TO HONG KONG LAW

Long An & Lam LLP

AUDITOR

Ernst & Young

SHARE REGISTRARS

Principal Share Registrar and Transfer Office in the Cayman Islands

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3,
Building D, P.O. Box 1586,
Gardenia Court, Camana Bay,
Grand Cayman, KY1-1110,
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Suites 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

LISTING EXCHANGE INFORMATION

The Stock Exchange of Hong Kong Limited
Main Board

STOCK CODE

6830

COMPANY WEBSITE

www.cn-huazhong.com

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 factories operating in different regions in China to cover major automakers in China.

CHAIRMAN'S STATEMENT

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 2022 (the "**Year**").

Given the complex global economic conditions, 2022 has been a challenging year for the Group. The Group's total revenue increased 1.6% to approximately RMB1,924.92 million billion from approximately RMB1,894.98 million. Gross profit increased by approximately 9.4% year-on-year to approximately RMB466.92 million (2021: approximately RMB426.90 million). Profit attributable to the owners of the parent increased by approximately 113.7% year-on-year to approximately RMB108.30 million (2021: approximately RMB50.67 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 on the information technology market.

At the same time, active actions were also taken to identify favorable acquisition opportunities, so as to increase market share, enhance business expansion capabilities and diversify revenue streams.

In addition, on 30 November 2021, the Group has been included in the MSCI China Small Cap Index, representing the capital market's recognition of the Group's value and performance. As always, the Group will maintain robust financial position to provide flexibility for future development opportunities, business sustainability and profitability and seize the industrial development opportunities ahead, so as to deliver better and sustainable returns for the Shareholders.

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 and Chief Executive

Hong Kong, 30 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During 2022, the automobile industry production and sales level had increased slightly. According to the statistics from China Association of Automobile Manufacturers, over 27.02 million vehicles were manufactured and over 26.86 million vehicles were sold in 2022, representing an increase of approximately 3.4% and approximately 2.1%, respectively, from the previous year. In terms of sales and manufacturing volumes, China has again ranked number one in the world for another year.

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 the leading players in the market. 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.

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.

During the Year, 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 RMB1,924.92 million, representing an increase of approximately 1.6% as compared to approximately RMB1,894.98 million in 2021. Profit attributable to the owners of the parent for the Year was approximately RMB108.3 million, representing an increase of approximately 113.7% as compared to approximately RMB50.7 million in 2021.

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.

	2022		2021	
	Revenue RMB'000	**Gross profit Margin %**	Revenue RMB'000	Gross profit Margin %
Automotive interior and exterior structural and decorative parts	**1,576,295**	**24.9**	1,575,822	23.1
Moulds and tooling	**137,775**	**17.8**	80,465	11.2
Casings and liquid tanks of air conditioners and heaters	**125,647**	**17.7**	148,595	18.3
Non-automobile products	**56,672**	**41.0**	50,699	47.3
Sale of raw materials	**28,528**	**13.7**	39,402	5.7
Total	**1,924,917**	**24.3**	1,894,983	22.5

For the Year, the total revenue generated from automotive interior and exterior structural and decorative parts was approximately RMB1,576,295,000 (2021: approximately RMB1,575,822,000), accounting for approximately 81.9% of the Group's total revenue for the Year (2021: approximately 83.2%). Gross profit margin increased from approximately 23.1% in 2021 to approximately 24.9% in 2022.

For the Year, revenue from moulds and tooling was approximately RMB137,775,000 (2021: approximately RMB80,465,000), accounting for approximately 7.2% of the Group's total revenue for the Year (2021: approximately 4.2%). Gross profit margin increased from 11.2% in 2021 to 17.8% in the Year.

For the Year, revenue from casings and liquid tanks of air conditioners and heaters was approximately RMB125,647,000 (2021: approximately RMB148,595,000), accounting for approximately 6.5% of the Group's total revenue for the Year (2021: approximately 7.8%). Gross profit margin decreased from 18.3% in 2021 to 17.7% in the Year.

For the Year, revenue from non-automobile products was approximately RMB56,672,000 (2021: approximately RMB50,699,000), accounting for approximately 2.9% of the Group's total revenue for the Year (2021: approximately 2.7%). Gross profit margin decreased from approximately 47.3% in 2021 to approximately 41.0% in the Year.

For the Year, revenue from sale of raw materials was approximately RMB28,528,000 (2021: approximately RMB39,402,000), accounting for approximately 1.5% of the Group's total revenue for the Year (2021: approximately 2.1%). Gross profit margin increased to approximately 13.7% (2021: approximately 5.7%) during the Year.

Other Income and Gains

Other income and gains of the Group for the Year amounted to approximately RMB105,247,000 (2021: approximately RMB90,468,000), representing an increase of approximately 16.3% from last year. The increase was mainly attributable to one of the subsidiaries receiving government grants for demolition and another subsidiary disposing assets, which resulted in a total gain of RMB67,385,000.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the Year amounted to approximately RMB120,671,000 (2021: approximately RMB125,417,000). The proportion of selling and distribution expenses in sales revenue for the Year was approximately 6.3% (2021: approximately 6.6%).

Administrative Expenses

The Group's administrative expenses for the Year amounted to approximately RMB270,758,000, representing an increase of approximately 1.3% as compared to approximately RMB267,213,000 in 2021.

Share of Profits of Joint Ventures

During the Year, the Group recorded approximately RMB12,976,000 of the share of profits of joint ventures as compared to the share of profits of approximately RMB30,228,000 for 2021.

Finance Income

The Group's finance income decreased by approximately 33.2% from approximately RMB9,332,000 in 2021 to approximately RMB6,230,000 in the Year.

Finance Costs

The Group's finance costs decreased from approximately RMB36,090,000 in 2021 to approximately RMB27,976,000 in the Year, representing a decrease of approximately 22.5%, which was attributable to a decrease of borrowing cost during the Year.

Taxes

The Group's tax expenses decreased by approximately 8.8% from approximately RMB28,117,000 in 2021 to approximately RMB25,648,000 in the Year.

Capital Commitments

As at 31 December 2022, the Group had capital commitments amounting to approximately RMB16,569,000 (31 December 2021: approximately RMB122,960,000) mainly including commitment for purchasing property, plant, and equipment.

Foreign Exchange Exposure

The sales and purchases of the Group were mainly denominated in RMB. The cash and cash equivalents of the Group were mainly denominated in RMB and Hong Kong dollars. The borrowings are denominated in RMB. 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

The total number of issued and fully paid ordinary shares of the Company as at 31 December 2022 was 1,769,193,800.

Contingent Liabilities

As at 31 December 2022, the Group had no significant contingent liabilities (31 December 2021: Nil).

Pledge of Assets

As at 31 December 2022, the Group's assets of approximately RMB118,680,000 (2021: approximately RMB168,080,000) were pledged to secure some of the Group's interest-bearing bank borrowings. The book value of the pledged assets is set out below:

	2022 **RMB'000**	2021 RMB'000
Property, plant and equipment	**25,213**	25,556
Investment properties	**—**	785
Right-of-use assets — prepaid land lease payments	**37,467**	32,739
Pledged deposits	**56,000**	109,000
Total	**118,680**	168,080

As at 31 December 2022, pledged deposits with a carrying value of RMB56,000,000 (2021: RMB109,000,000) were pledged to secure the bank loans granted to the Group.

Certain notes payables were secured by pledged deposits of the Group with a carrying value of RMB91,182,000 as at 31 December 2022 (2021: RMB46,306,000) and notes receivables with a carrying value of RMB65,570,000 as at 31 December 2022 (2021: nil).

Gearing Ratio

As at 31 December 2022, the Group's gearing ratio was approximately 55.5%, representing a decrease of about 6.5% as compared with the gearing ratio of approximately 62.0% as at 31 December 2021. 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, Associates and Joint Ventures and Future Plans for Material Investments or Capital Assets

On 3 March 2022, Ningbo Huazhong Plastic Products Co., Ltd.*(寧波華眾塑料製品有限公司) (the "**Transferee**"), a wholly-owned subsidiary of the Company, entered into an equity purchase agreement with zwissTEX Germany GmbH (the "**Transferor**"), pursuant to which the Transferor has agreed to sell, and the Transferee has agreed to purchase, 15% equity interest of Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd.* (寧波華樂特汽車裝飾布有限公司) (the "**Target Company**") at the cash consideration of RMB29.6 million (the "**Equity Purchase**").

The Target Company is a company incorporated in the PRC with limited liability, the equity interest of which was owned as to 25% by the Transferor and Roekona Textilwerk GmbH & Co. KG (a third party independent of the Company and its connected persons (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited)) respectively and as to 50% by the Transferee before the completion of the Equity Purchase. The Company completed the Equity Purchase on 6 May 2022. Upon completion of the Equity Purchase, the Company indirectly holds 65% equity interest in the Target Company and the financial results of the Target Company were consolidated into the consolidated financial statements of the Group. The Target Company is principally engaged in the manufacture and sale of auto parts, design and manufacture of high-grade textiles.

The Board is of the view that, following the completion of the Equity Purchase, the Target Company will enhance the cooperation between the Group and the Target Company and reduce the operating costs.

Save as disclosed herein, during the Year, the Group did not have any significant investments or acquisition or disposal of subsidiaries, associates and joint ventures. There was no plan authorised by the Board for any material investments or additions of capital assets as at the date of this report.

Employees and Remuneration Policies

The Group had a total of 3,144 (2021: 3,127) employees as at 31 December 2022. Total staff costs of the Group (excluding the Directors' and chief executive's remuneration) for the Year was approximately RMB275,727,000 (2021: approximately RMB261,286,000). The increase in staff cost was mainly attributable to the increase in average salary of employees. The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of our employees. Share options would be granted to certain eligible persons with outstanding performance and contributions to the Group.

Events after the Year

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

PROSPECTS

At the beginning of 2023, the sales volume of passenger vehicles in China has significantly dropped to 1.294 million in January due to Chinese New Year holiday. The sales volume, however, rebounded to 1.350 million in February. As the Ministry of Commerce has emphasized that policies supporting the purchase of new energy automotives, as well as the financial subsidies for the purchase of new vehicles in different regions, will be introduced, it is generally believed that the significant improvement of the industry will be seen from the second quarter of this year. China Association of Automobile Manufacturers expects that the total sales volume of vehicles in China will reach 9 million in 2023, representing a growth of about 35% as compared with last year, while the penetration rate of new energy automotives will also reach approximately 35%.

The Group will actively facilitate its work regarding the deployment of aspects including customers, products and manufacturing to promote overall development. Firstly, we will continue to strive for expanding our cooperation with traditional automotive brands. As we pursue top quality craftsmanship and innovative manufacturing constantly, we will also endeavor to extend the scope of cooperation from traditional automotives to new energy automotives and aim to develop new lightweight products made of new and high-performance plastics together, in substitution for metal automotive parts. Secondly, we will continue to improve our deployment in the new energy market and strengthen our connection with new energy automotive brands. We have successful exploration in the new energy market and has worked with industry leaders in the past. We will fight for more orders and customers on that basis and seek to expand scale of economic effect. Lastly, we will strengthen our manufacturing deployment comprehensively. We plan to set up new manufacturing facilities in Mexico in order to achieve global business development and compete for orders from overseas manufacturers.

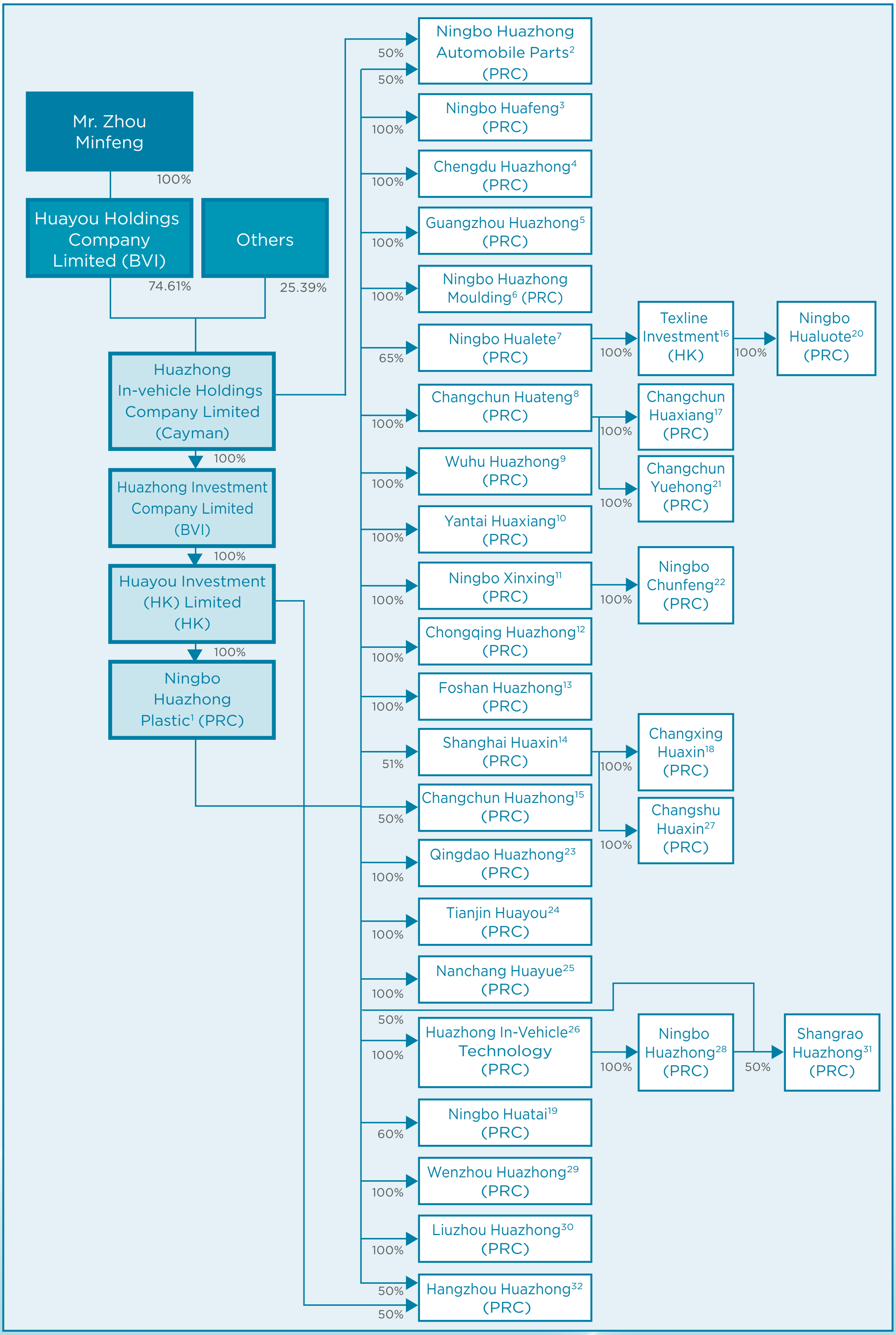
During the coming year, Huazhong In-Vehicle will focus on the improvement of its product mix, to better meet the demand of its automotive brand customers and enhance the cooperation with its customers. We will continue to increase the utilisation rate of our production capacity to maximise the efficiency of mass production; meanwhile, we will strengthen our management on business expenses and take revenue generating and cost control measure, striving for remarkable results of profits during the recovery of the industry.

Forward Looking Statements

This management discussion and analysis contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Forward looking statements involve inherent risks and uncertainties. Readers including shareholders and investors should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward looking statement.

COMPANY STRUCTURE



Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15. Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd. (iii)
(長春華眾延鋒彼歐汽車外飾有限公司)

16. Texline Investment Co., Limited
(華樂特投資有限公司)

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

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

19. Ningbo Huatai Telematics Technology Co., Ltd. (iii)
(寧波華太車載技術有限公司)

20. Ningbo Tex Line Automotive Textiles Co.,Ltd (i)
(寧波華絡特汽車內飾有限公司)

21. Changchun Yuehong Investment Co., Ltd. (iii)
(長春閱宏投資有限公司)

22. Ningbo Chunfeng Investment Co., Ltd. (iii)
(寧波春峰投資有限公司)

23. Qingdao Huazhong Automotive Parts Co., Ltd. (iii)
(青島華眾汽車零部件有限公司)

24. Tianjin Huayou Automotive Parts Co., Ltd. (iii)
(天津華友汽車零部件有限公司)

25. Nanchang Huayue Plastic Products Company Co., Ltd. (iii)
(南昌華越塑料製品有限公司)

26. Ningbo Huazhong In-Vehicle Technology Co., Ltd. (iii)
(寧波華眾車載技術有限公司)

27. Changshu Huaxin Automobile Latex and Plastic Co., Ltd. (iii)
(常熟華新汽車零部件有限公司)

28. Ningbo Huazhong Holdings Co., Ltd. (iii)
(寧波華眾控股有限公司)

29. Wenzhou Huazhong Plastic Parts Co., Ltd. (iii)
(溫洲華眾塑料有限公司)

30. Liuzhou Huazhong Automotive Parts Manufacturing Co., Ltd. (iii)
(柳州華眾汽車零部件制造有限公司)

31. Shangrao Huazhong Automotive Parts Co., Ltd. (iii)
(上饒市華眾汽車零部件有限公司)

32. Hangzhou Huaxiang Automotive Parts Co., Ltd. (ii)
(杭州華翔汽車零部件有限公司)

These companies are:

(i) registered as wholly-foreign-owned enterprises under PRC law.

(ii) registered as foreign equity joint venture enterprises under PRC law.

(iii) incorporated in the PRC as domestic companies.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as 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 Provision C.2.1

Code provision C.2.1 of the CG Code stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Please refer to the paragraph under "Chairman and Chief Executive" below for details.

THE BOARD

During the Year, the Board consists of eleven Directors, comprising two executive Directors, four non-executive Directors and five independent non-executive Directors. During the Year, four Board meetings and an annual general meeting was held. Details of the attendance of the Directors are as follows:

Names of Directors	Attendance/Number of Board Meetings	Shareholders' Meetings
Executive Directors		
Mr. Zhou Minfeng *(Chairman and Chief Executive)*	4/4	1/1
Mr. Wu Bichao *(Vice-chairman)*	4/4	1/1
Non-Executive Directors		
Ms. Lai Cairong	4/4	1/1
Mr. Wang Yuming	4/4	1/1
Mr. Guan Xin	4/4	1/1
Mr. Yu Zhuoping	4/4	1/1
Independent Non-Executive Directors		
Mr. Wong Luen Cheung Andrew *(Vice-chairman)*	4/4	1/1
Mr. Yu Shuli	4/4	1/1
Mr. Tian Yushi *(resigned on 1 April 2022)*	2/2	N/A
Mr. Xu Jiali	4/4	1/1
Ms. Mu Wen *(appointed on 1 April 2022 and subsequently resigned on 8 September 2022)*	1/1	1/1

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

All Directors have separate and independent access to the Company's senior management to fulfill their duties and, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense. All Directors also have access to the company secretary of the Company (the "**Company Secretary**") who is responsible for ensuring that the Board's 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 Company Secretary 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.

Appointment and Re-election of Directors

Each non-executive Director, whether independent or not, is appointed for a specific term and is subject to retirement by rotation at least once every 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.

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 and Mr. Xu Jiali will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

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/her 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.

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' Training

According to the code provision C.1.4 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.

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 and Chief Executive)*	✓
Mr. Wu Bichao *(Vice-chairman)*	✓
Non-Executive Directors	
Ms. Lai Cairong	✓
Mr. Wang Yuming	✓
Mr. Guan Xin	✓
Mr. Yu Zhuoping	✓
Independent Non-Executive Directors	
Mr. Wong Luen Cheung Andrew *(Vice-chairman)*	✓
Mr. Yu Shuli	✓
Mr. Tian Yushi *(resigned on 1 April 2022)*	✓
Mr. Xu Jiali	✓
Ms. Mu Wen *(appointed on 1 April 2022 and subsequently resigned on 8 September 2022)*	✓

CHAIRMAN AND CHIEF EXECUTIVE

Code provision C.2.1 of the CG Code stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual. With the support of the Company Secretary, the chairman of the Board (the "**Chairman**") seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and received adequate and reliable information on a timely basis.

Since Mr. Zhou Minfeng now serves as both the Chairman and the chief executive the Company (the "**Chief Executive**"), such practice deviates from code provision C.2.1 of the CG Code. The Board believes that vesting the roles of both the Chairman and the Chief Executive in the same person can facilitate the effective execution of the Group's business strategies and operation. Furthermore, there are various experienced individuals in charge of the daily business operation and the Board comprises two executive Directors, four non-executive Directors and three independent non-executive Directors, with a balance of skill and experience appropriate for the Group's further development. The Board will review such deviation from time to time to enhance the best interest of the Group as a whole.

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.

Each of the non-executive Directors and the independent non-executive Directors has entered into an appointment letter with the Company, pursuant to which each of them is appointed for service with the Company for a term of three years, except Mr. Yu Zhouping is appointed for service with the Company for a term of two years. Their terms of appointment shall be subject to the rotational retirement provision of the Companies Act (As Revised).

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. As at the date of this annual report, the Audit Committee comprises three members, namely Mr. Yu Shuli, Mr. Wong Luen Cheung Andrew 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 2021 and the unaudited interim results for the six months ended 30 June 2022, met with the external auditor 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:

Names of members	Attendance/Number of Meetings
Mr. Yu Shuli *(Chairman)*	2/2
Mr. Wong Luen Cheung Andrew *(appointed as a member of the Audit Committee with effect from 8 September 2022)*	N/A
Mr. Xu Jiali	2/2
Mr. Tian Yushi *(resigned as an independent non-executive Director and a member of the Audit Committee, with effect from 1 April 2022)*	1/1
Ms. Mu Wen *(appointed with effect from 1 April 2022 and subsequently resigned with effect from 8 September 2022 as an independent non-executive Director and a member of the Audit Committee)*	1/1

Remuneration Committee

The Company established a remuneration committee (the "**Remuneration Committee**") on 7 December 2011 with written terms of reference. The primary duties of the Remuneration Committee are to determine the specific remuneration packages of all executive Directors and senior management of the Group, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), make recommendations to the Board on the remuneration of non-executive Directors and review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules. As at the date of this annual report, the Remuneration Committee comprises 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. Xu Jiali, 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 (i.e. the Model described in the Code provision E.1.2(c)(ii) is adopted) and on the establishment of a formal and transparent procedure for developing remuneration policy.

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

Names of members	Attendance/Number of Meeting
Mr. Yu Shuli *(Chairman)*	2/2
Mr. Zhou Minfeng	2/2
Mr. Xu Jiali *(appointed as a member of the Remuneration Committee with effect from 8 September 2022)*	N/A
Mr. Tian Yushi *(resigned as an independent non-executive Director and a member of the Remuneration Committee with effect from 1 April 2022)*	1/1
Ms. Mu Wen *(appointed with effect from 1 April 2022 and subsequently resigned with effect from 8 September 2022 as an independent non-executive Director and a member of the Remuneration Committee)*	N/A

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 2022 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 2022 fell within the following band is as follows:

	Number of senior management
RMB1,000,001 to RMB1,500,000	1
Nil to RMB1,000,000	2

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. As at the date of this annual report, the Nomination Committee comprises three members, namely, Mr. Zhou Minfeng, an executive Director as the chairman of the Nomination Committee, and Mr. Yu Shuli and Mr. Xu Jiali, 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 2022; and

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

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

Names of members	Attendance/Number of Meeting
Mr. Zhou Minfeng *(Chairman)*	2/2
Mr. Yu Shuli	2/2
Mr. Xu Jiali *(appointed as a member of the Nomination Committee with effect from 8 September 2022)*	N/A
Mr. Tian Yushi *(resigned as an independent non-executive Director and a member of the Nomination Committee with effect from 1 April 2022)*	1/1
Ms. Mu Wen *(appointed with effect from 1 April 2022 and subsequently resigned with effect from 8 September 2022 as an independent non-executive Director and a member of the Nomination Committee)*	N/A

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 A.2.1 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.

COMPANY SECRETARY

The Company has engaged Ms. Ho Wing Yan ("**Ms. Ho**") as the Company Secretary. Mr. Zhou Minfeng, the Chairman and an executive Director, is the primary corporate contact person of the Company with Ms. Ho.

Ms. Ho is responsible for facilitating the Board process, as well as communications among Board members, with the Shareholders and management. Ms. Ho has complied with the requirements to undertake over 15 hours of professional training under Rule 3.29 of the Listing Rules for the Year.

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.

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.

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, 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 45 to 48 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 2022, the Group was required to pay an aggregate of approximately RMB2.7 million (2021: approximately RMB2.5 million) to the external auditor for their audit services relating to financial information and no non-audit services were provided.

DIVERSITY POLICY

The Nomination Committee adopted the board diversity policy on 30 August 2013. The Company recognizes and embraces the benefits of having a diverse Board and sees diversity at Board level as an essential element in achieving a sustainable and balanced development of the Company. A truly diverse Board will include and make good use of differences in the talents, skills, regional and industrial experience, background, gender and other qualities of the members of the Board. These differences will be considered in determining the optimum composition of the Board and when possible, should be balanced appropriately. All appointments of the members of the Board are made on merit, in the content of the talents, skills and experience the Board as a whole in order for the Board to be effective. The selection process of the Board members will include but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

In respect of the gender diversity of the Board, as at the date of this report, 8 Directors are male and 1 Director is female. The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance, and sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. It is expected that the ratio of female Directors will reach more than 10% in the following years. The Company will achieve this goal through active nomination of suitable candidates with no gender limitation to be newly appointed Directors in the next few years.

Moreover, the current gender ratio of the company workforce (including senior management) is 100 males per 100 females, which has increased from 100 males per 70 females of past year. Hence, the Company has already achieved gender diversity and will continue focusing on the area because workforce gender diversity is associated with resources that can provide a sustained competitive advantage to the company, which include market insight, creativity and innovation, and improved problemsolving. Men's and women's different experiences may provide insights into the different needs of male and female customers. Further, men and women may have different cognitive abilities, such as men's proficiency in mathematics and women's proficiency in verbal and interpersonal skills. Therefore, a mix of cognitive abilities in a gender diverse team may enhance the team's overall creativity and innovation as proved by research. Moreover, a gender diverse team produces high quality decisions. Although there may be some mitigating circumstances where gender diversity can be very hard to achieve (for instance, male workers are more commonly seen regarding physical labour and female workers are more often seen during psychological consultation), the Company will keep focusing on the workforce gender diversity to maintain its current strength as well as to further improve its competitiveness in the future.

NOMINATION POLICY

The Board has adopted the nomination policy (the "**Nomination Policy**") on 29 August 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

(3) reviewing the profiles of the shortlisted candidates and interview them; and

(4) making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

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 Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail at Room 907B, 9th Floor, Empire Centre, 68 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong. The Company Secretary 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.

INVESTOR RELATIONS

Constitutional documents

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

Communication with Shareholders

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

Voting at general meetings of the Company are conducted by way of poll in accordance with the Listing Rules. The poll results will be announced at general meetings and published on the websites of the Stock Exchange and the Company, respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media to keep them informed of the Group's strategies, 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.

Shareholders' Communication Policy

Purpose

The Company recognises the importance of providing current and relevant information to its shareholders (the "**Shareholders**"). This shareholders' communication policy (the "**Shareholders' Communication Policy**") aims to set out the provisions with the objective to ensure that the Shareholders and potential investors are provided with equal and timely access to balanced and understandable information about the Company, in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and potential investors to engage actively with the Company.

General Policy

The Board shall maintain an on-going dialogue with Shareholders and will regularly review the Shareholders' Communication Policy to ensure its effectiveness.

Information is communicated to the Shareholders as well as the stakeholders through periodic disclosure through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Stock Exchange and other corporate publications on the website of the Stock Exchange and corporate communications, on the website of the Stock Exchange (www.hkex.com.hk) and the Company's website (www.cn-huazhong.com).

Effective and timely dissemination of information to Shareholders shall be ensured at all times. Any questions, requests and comments can be addressed to the Company by mail to Room 907B, 9th Floor, Empire Centre, 68 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong or through the Company's share registrar.

The Company believes that communication with Shareholders by electronic means, particularly through its website, is an efficient way to distribute information in a timely and convenient manner. Shareholders are encouraged to access to the corporate communications posted on the Company's website to help reduce the quantity of printed copies and hence reduce the impact on the environment.

The Company's website will be updated with material posted to the website of the Stock Exchange immediately thereafter. Such material includes but not limited to financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

Shareholders shall be provided with designated contacts, email addresses and enquiry lines of the Company in order to enable them to make any query in respect of the Company.

The Company has reviewed the Shareholders' Communication Policy conducted for the year ended 31 December 2022 and considered that the Shareholders' Communication Policy has been well implemented and effective.

DIVIDEND POLICY

The Board has adopted the dividend policy (the "**Dividend Policy**") on 29 August 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends of approximately 10% to 15% of the profit for each year in cash and shares its profits with the Shareholders. The dividend distribution decision of the Company is subject to the decision of the Board and will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhou Minfeng (周敏峰), aged 56, was appointed as an executive Director on 3 December 2010. He is the chairman of the Board and an executive Director. He was appointed as the chief executive of the Company on 31 July 2019. He is also a member of the Remuneration Committee and the chairman of the Nomination Committee. Mr. Zhou has over 25 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. Wu Bichao, aged 50, was appointed as an independent non-executive Director on 12 September 2018, the vice-chairman of the Company on 27 January 2021 and has been re-designated as an executive Director on 1 March 2021. Mr. Wu is responsible for the investment project and financing. Mr. Wu graduated from Heriot-Watt University with a master's degree in business administration. He entered the real estate industry in 1993, engaging in real estate development and operation. Mr. Wu entered the financial market in 1998 and commenced his engagement in foreign currency investment. In 2000, Mr. Wu shifted his career focus from real estate to overseas and Hong Kong financial markets. His investment fields included securities, equity investment and the initiation and management of funds. Mr. Wu was also involved in several merger, acquisition and reorganization projects in recent years.

Non-executive Directors

Ms. Lai Cairong (賴彩絨), aged 78, 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 Minfeng, an executive Director, the chairman and the chief executive of the Company. Ms. Lai graduated from Xizhou Middle School (西周中學) in July 1961.

Mr. Wang Yuming (王玉明), aged 66, 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 61, 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. Yu Zhuoping (余卓平), aged 63, was appointed as a non-executive Director on 5 August 2019. He obtained his bachelor's and master's degrees in mechanical engineering from Tongji University in 1982 and 1985, respectively, and his doctor's degree in automotive design and manufacturing from Tsing Hua University in 1996.

Since 1985, Mr. Yu had been a professor in Tongji University, engaging in teaching and scientific research in automotive engineering. Currently, he is the head of the Collaborative Innovation Center for Intelligent New Energy Vehicle at Tongji University (同濟大學智能型新能源汽車協同創新中心), the counselor of Shanghai Municipal People's Government, the chairman of Tongji Automotive Design and Research Institute Co., Ltd. (同濟汽車設計研究院有限公司), a member of the general expert panel of the national "New Energy Vehicle" pilot special project, a member of Academic Sub-Committee of the Science and Technology Committee of the Ministry of Education (教育部科技委學部委員) of the State, a member of the Academic Committee of the State's Key Labs of Automotive Safety and Energy-saving, a member of the Academic Committee of the State's Key Labs of Automobile Simulation and Control, a member of the State Key Laboratory of Advanced Design and Manufacturing of Vehicle Body and the vice president of executive council of Shanghai SAE.

Mr. Yu has led and engaged in projects including fuel cell automotive power system integration and control technology, key technologies of fuel cell automotive power platform, key technologies and applications for the integration and control of vehicles powered by multiple energy sources, and high-performance fuel cell extended-range four-wheel drive electric vehicles, which earned him the related prizes. Mr. Yu also received a number of awards, including the 2017 Outstanding Contribution Award of China SAE and the Person of the Year in the event Commemorating the 40th Anniversary of the Reform and Opening by China Automotive Industry in 2018. Currently, he is an independent Director of each of Weichai Power Co., Ltd. (Stock Code: 000338), Ningbo Shenglong Automotive Powertrain System Co., Ltd. (Stock Code: 603178), Jiangling Motors Co., Ltd. (Stock Code: 000550, 200550), HUAYU Automotive Systems Company Limited (Stock Code: 600741), and Shanghai Highly (Group) Co., Ltd. (Stock Code: 600619). Mr. Yu had been an external Director of SAIC Motor, and an independent Director of each of Shanghai Aerospace Automobile Electromechanical Co., Ltd. and Guangdong Dazhi Environmental Protection Technology Co., Ltd.

Independent non-executive Directors

Mr. Wong Luen Cheung Andrew (王聯章), aged 65, 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 also a member of the Audit Committee. Mr. Wong is currently 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 Chubb Life Insurance Co., Ltd. (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 previously listed on the Stock Exchange, from 31 May 2013 to 5 September 2014 and an independent non-executive Director of China CITIC Bank Corporation Limited (中信銀行股份有限公司), a company listed on the Stock Exchange, the chairman of its nomination and remuneration committees and a member of its audit and related party transactions control committee, from 7 November 2012 to 18 September 2018.

Mr. Yu Shuli (於樹立), aged 74, was appointed as an independent non-executive Director on 7 December 2011. Mr. Yu is also the chairman of each of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee. 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. Xu Jiali (徐家力), aged 62, was appointed as an independent non-executive Director on 31 July 2013. Mr. Xu is also a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. 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 76, 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. He Hongbing (賀紅兵), aged 49, joined the Company in February 2020 and was appointed as the chief financial officer of the Company on 31 May 2020. Mr. He graduated with a bachelor degree in science from Geology Department of Peking University in 1996 and a master degree of Civil and Commercial Law from the Law School of Yantai University in 2003. Mr. He is a CFA Charter holder and a member of The Hong Kong Society of Financial Analysts, and he holds Chinese lawyer qualification and Chinese Certified Public Accountant qualification. He has over 18 years of working experience in financial management, corporate finance, investor relations and merger and acquisition projects. He was the investor relation manager of China Gas Holdings Limited (a company listed on the Stock Exchange (stock code: 0384)), the investment analyst of Singapore UOB Kay Hian Research Pte Ltd., the vice president of Sino Oil and Gas Holdings Limited (a company listed on the Stock Exchange (stock code: 0702)), the vice president of 山東力諾集團股份有限公司, chief financial officer of Sound Global Ltd. (a company listed on the Stock Exchange (stock code: 0967)) and the chief financial officer of Million Stars Holdings Limited (a company listed on the Stock Exchange (stock code: 8093)).

Mr. Cui Jihong (崔繼宏), aged 57, is the assistant to general manager of the Company and is primarily responsible for sales. From February 2001 to October 2004, Mr. Cui served various positions in Ningbo Huazhong Plastic, including the department head for sales, production and technology. Mr. Cui was then delegated to join Nanchang Jiangling Huaxiang Automobile Parts Co., Ltd. (南昌江鈴華翔汽車零部件有限公司), a private company which is principally engaged in automobile body parts manufacturing in October 2004 and worked as the vice general manager until November 2007. Mr. Cui then joined Ningbo Huazhong Plastic and worked as the assistant of the general manager since April 2008. Mr. Cui became an engineer in September 1993. Mr. Cui obtained the bachelor's degree from Dalian University of Technology (大連理工大學) in July 1988.

COMPANY SECRETARY

Ms. Ho Wing Yan (何詠欣) was appointed as the 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 Chartered Governance Institute ("**HKCGI**") and The Chartered Governance Institute. She is also a holder of the Practitioner's Endorsement issued by HKCGI.

* *For identification purpose only*

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements of the Group for the year ended 31 December 2022.

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 approximately 57.46% (2021: approximately 58.05%) 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.

Our major suppliers are generally manufacturers for the production of polycarbonate/acrylonitrile butadiene styrene and polypropylene, accessories (such as metal clamps and screws) and fabric, and had business relationship with the Group for over 10 years on average. The credit period from the major suppliers is 30 to 90 days. The payables were usually settled within the credit period. Details of the trade and notes payables of the Group as at 31 December 2022 are set out in note 25 to the financial statements.

During the Year, the Group did not have any significant disputes with our major suppliers.

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.

Our major customers include automakers and automobile body parts manufacturers companies, and had business relationship with the Group for over 11 years in general and the credit terms granted to the major customers ranged from 30 to 90 days. Details of the trade and notes receivables of the Group as at 31 December 2022 are set out in note 22 to the financial statements.

The Group will also continue to review competitive edges of the Group in the industry and market trend.

During the Year, the Group has not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties. We did not have any material dispute with our customers.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales to the Group's largest and five largest customers accounted for approximately 32.31% (2021: approximately 34.72%) and approximately 57.46% (2021: approximately 58.05%), respectively, of the Group's total revenue from operations.

Aggregate purchases from the Group's largest and five largest suppliers accounted for approximately 4.92% (2021: approximately 8.07%) and approximately 15.68% (2021: approximately 22.31%), 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, has an interest in any of the Group's five largest customers and suppliers.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2022 are set out in note 1 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2022 and the state of the Group's affairs as at that date are set out in the financial statements on pages 49 to 52 of this annual report.

DIVIDEND

The Board recommends the payment of a final dividend of RMB0.7346 cent (equivalent to HK0.8389 cent at an exchange rate of HK$1 equals to RMB0.8756) per ordinary share for the Year (2021: RMB0.4296 cent (equivalent to HK0.5276 cent at an exchange rate of HK$1 equals to RMB0.8312). During the Year, no interim dividend was declared.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 41 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2022, 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 approximately RMB15,530,000. 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 2022 are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in issued share capital of the Company during the year ended 31 December 2022 are set out in note 30 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 146.

DIRECTORS

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

Executive Directors
Mr. Zhou Minfeng
(Chairman and Chief Executive)
Mr. Wu Bichao *(Vice-chairman)*

Non-Executive Directors
Ms. Lai Cairong
Mr. Wang Yuming
Mr. Guan Xin
Mr. Yu Zhuoping

Independent Non-Executive Directors
Mr. Wong Luen Cheung Andrew *(Vice-chairman)*
Mr. Yu Shuli
Mr. Tian Yushi *(resigned on 1 April 2022)*
Mr. Xu Jiali
Ms. Mu Wen *(appointed on 1 April 2022 and subsequently resigned on 8 September 2022)*

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.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Company are set out on pages 28 to 31 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.

CONTRACT OF SIGNIFICANCE

During the Year, neither the Company or any of its subsidiaries had entered into any contract of significance with the controlling shareholder or any of its subsidiaries, nor had any contract of significance been entered into for the services provided by the controlling shareholder or any of its subsidiaries to the Company or any of its subsidiaries.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2022, the Directors and the Chief Executive 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 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

Names of Directors	Capacity/ Nature of interest	Number of Shares	Approximate percentage of the issued Shares
Mr. Zhou Minfeng	Interests of controlled corporation [1]	1,320,000,000	74.61%
	Spouse's interest	1,100,000[2]	0.06%
Mr. Wong Luen Cheung Andrew	Beneficial owner	1,000,000	0.06%

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 2022, none of the Directors or the Chief Executive had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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.

There were no outstanding options pursuant to the Pre-IPO Share Option Scheme during the Year and as at the date of this report.

2011 Share Option Scheme

The Company adopted a share option scheme (the "**2011 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 2011 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 2011 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 2011 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 2011 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 2011 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 2011 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 2011 Share Option Scheme. The 2011 Share Option Scheme was terminated by the Shareholders at the annual general meeting of the Company held on 2 June 2021 and no further options shall be granted under the 2011 Share Option Scheme upon its termination. There were no outstanding options, and there were no options granted, exercised, lapsed or cancelled pursuant to the 2011 Share Option Scheme during the Year and as at the date of this report. As at the date of this annual report, no Shares shall be available for issue under the 2011 Share Option Scheme.

2021 Share Option Scheme

The adoption of a new share option scheme (the "**2021 Share Option Scheme**") was approved by the Shareholders at the annual general meeting of the Company held on 2 June 2021. The purpose of the 2021 Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group and to encourage participants to work towards enhancing value of the Company and its shares for the benefits of the Company and the Shareholders as a whole. The 2021 Share Option Scheme was adopted for a period of 10 years commencing from 2 June 2021.

The Directors (which expression shall, for the purpose of this report, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(a) directors and employees of the Group (including persons who are granted options under the 2021 Share Option Scheme as an inducement to enter into employment contracts with these companies) (**employee participants**);

(b) directors and employees of the holding companies, fellow subsidiaries or associated companies of the Company (**related entity participants**); and

(c) persons who provide services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long term growth of the Group (**service providers**).

The initial total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the 2021 Share Option Scheme and any other share option scheme of the Group) to be granted under the 2021 Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue at the day on which the 2021 Share Option Scheme is approved, i.e. 176,919,380 Shares. The total number of Shares issued and which may fall to be allotted and issued upon exercise of the options granted under the 2021 Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each eligible participant in any 12-month period shall not exceed 1% of the issued Shares for the time being.

An option may be exercised in accordance with the terms of the 2021 Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

The vesting period for options granted under the 2021 Share Option Scheme shall not be less than 12 months. Participants of the 2021 Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant within 21 days from the date of the offer of grant of the option.

The subscription price for Shares under the 2021 Share Option Scheme will be a price determined by the Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

The remaining life of the 2021 Share Option Scheme is 8 years. There were no outstanding options, and there were no options granted, exercised, lapsed or cancelled pursuant to the 2021 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 2021 Share Option Scheme was 176,919,380, representing 10% of the issued shares of the Company.

The number of share options available for grant under the scheme mandate of the 2021 Share Option Scheme as at 1 January 2022 and 31 December 2022 is 176,919,380.

The number of shares that may be issued in respect of options granted under all schemes of the Company during the Year is nil, representing 0% of the weighted average number of shares of the relevant class in issue of the Company for the Year.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES OF THE COMPANY

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 OF THE COMPANY

So far as is known to any Director or chief executive of the Company, as at 31 December 2022, the persons or corporations (other than Director or chief executive of the Company) who had interests or short positions in the Shares and underlying Shares 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	1,320,000,000	74.61%
Ms. Chen Chun'er [2]	Beneficial owner	1,100,000	0.06%
	Spouse's interest	1,320,000,000[3]	74.61%

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 Minfeng 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 2022, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

Name	Shareholder	Approximate percentage of shareholding
Shanghai Huaxin*	Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠)	30%
Shanghai Huaxin*	Shanghai Beicai Industrial Co., Ltd. (上海北蔡工業有限公司)	19%
Changxing Huaxin [1]	Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠)	30%
Changxing Huaxin [1]	Shanghai Beicai Industrial Co., Ltd. (上海北蔡工業有限公司)	19%
Ningbo Hualete*	Roekona Textilwerk GmbH & Co. KG (“**Roekona Textilwerk**”)	25%
Ningbo Hualete*	zwissTEX Germany GmbH (“**zwissTEX Germany**”)	10%
Texline Investment Co., Limited (“**Texline Investment**”) [2]	Roekona Textilwerk	25%
Texline Investment [2]	zwissTEX Germany	10%
Ningbo Hualuote [2]	Roekona Textilwerk	25%
Ningbo Hualuote [2]	zwissTEX Germany	10%

Notes:

(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.

(2) Roekona Textilwerk and zwissTEX Germany directly hold 25% and 10% interests in Ningbo Hualete, respectively. Texline Investment is wholly-owned by Ningbo Hualete and Ningbo Hualuote is wholly-owned by Texline Investment. As a result, Roekona Textilwerk indirectly holds 25% interests in Texline Investment and Ningbo Hualuote respectively, while zwissTEX Germany indirectly holds 10% interests in Texline Investment and Ningbo Hualuote respectively.

* *For identification purposes only*

Save as disclosed above, as at 31 December 2022, the Directors and the chief executive of the Company are not aware of any other person or corporation who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

The related party transactions as disclosed in note 36 to the financial statements in respect of items denoted with "Δ" and item disclosed in note 36b 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 2022. 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.

PENSION SCHEME

The employees of the Group's subsidiaries which operates in Mainland China are required to participate in a central pension scheme (the "**Central Pension Scheme**") operated by the local municipal government, which the Group is required to contribute a certain percentage, which was pre-determined by the local municipal government, of the sum of basic salary and allowance of employees to the Central Pension Scheme. The contributions by the Group for the Central Pension Scheme are charged to the statements of profit or loss as they become payable in accordance with the relevant rules of the respective schemes.

The Group's contributions to the Central Pension Scheme vest fully and immediately with the employees. Accordingly, (i) for each of the two years ended 31 December 2021 and 31 December 2022, there was no forfeiture of contributions under the Central Pension Scheme; and (ii) there were no forfeited contributions available for the Group to reduce its existing level of contributions to the Central Pension Scheme as at 31 December 2021 and 31 December 2022.

For each of the two years ended 31 December 2021 and 31 December 2022, the Group did not have any defined benefit plan.

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

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 2022 are set out in note 27 to the financial statements.

On behalf of the Board
Zhou Minfeng
Chairman and Chief Executive

30 March 2023

Ernst & Young
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Quarry Bay, Hong Kong

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Independent auditor's report
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 49 to 145, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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 Hong Kong Institute of Certified Public Accountants ("**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
Net realisable value of inventories	
As at 31 December 2022, the Group had inventories of approximately RMB418,152,000 at the lower of the cost and net realisable value. We identified the determination of the net realisable value of inventories as a key audit matter because the carrying amount of the inventories is significant and the calculation of inventories' net realisable value requires significant management estimation based on future market demands and estimated selling prices. Related disclosures are included in Note 4 *Significant accounting judgements and estimates* and Note 21 *Inventories* to the financial statements.	We performed the following procedures in relation to the provision assessment for inventories: 1) Obtaining an understanding of the Group's policy on inventory provision and checking 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; and 2) Testing slow-moving and obsolete inventory items during the stocktaking 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. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- 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, actions taken to eliminate threats or safeguards applied.

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.

Certified Public Accountants
Hong Kong

30 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	6	**1,924,917**	1,894,983
Cost of sales		**(1,458,002)**	(1,468,079)
Gross profit		**466,915**	426,904
Other income and gains, net	6	**105,247**	90,486
Selling and distribution expenses		**(120,671)**	(125,417)
Administrative expenses		**(270,758)**	(267,213)
Impairment losses on financial assets, net		**(27,770)**	(12,632)
Other expenses		**(894)**	(12,383)
Share of profits of joint ventures	19	**12,976**	30,228
Finance income	7	**6,230**	9,332
Finance costs	8	**(27,976)**	(36,090)
PROFIT BEFORE TAX	9	**143,299**	103,197
Income tax expense	12	**(25,648)**	(28,117)
PROFIT FOR THE YEAR		**117,651**	75,080
Attributable to:			
Owners of the parent		**108,297**	50,673
Non-controlling interests		**9,354**	24,407
		117,651	75,080
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic			
— For profit for the year		**RMB0.0612**	RMB0.0286
Diluted			
— For profit for the year		**RMB0.0612**	RMB0.0286

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
PROFIT FOR THE YEAR	**117,651**	75,080
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**(1,643)**	(7,452)
Income tax effect	**411**	1,863
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**(1,232)**	(5,589)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(1,232)**	(5,589)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**116,419**	69,491
Attributable to:		
Owners of the parent	**107,065**	45,084
Non-controlling interests	**9,354**	24,407
	116,419	69,491

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**936,244**	961,376
Investment properties	16	**31,302**	32,473
Right-of-use assets	17(a)	**207,882**	222,153
Intangible assets	18	**5,489**	5,091
Investments in joint ventures	19	**106,278**	220,929
Prepayments for acquiring property, plant and equipment		**16,812**	37,671
Equity investments designated at fair value through other comprehensive income	20	**60,703**	62,345
Pledged deposits	24	**–**	56,000
Deferred tax assets	29	**21,719**	16,938
Total non-current assets		**1,386,429**	1,614,976
CURRENT ASSETS			
Inventories	21	**418,152**	322,951
Trade and notes receivables	22	**706,686**	815,353
Prepayments and other receivables	23	**355,981**	350,532
Amounts due from related parties	36	**118,414**	44,513
Pledged deposits	24	**147,182**	99,306
Cash and cash equivalents	24	**114,845**	61,676
Total current assets		**1,861,260**	1,694,331
CURRENT LIABILITIES			
Trade and notes payables	25	**832,747**	955,726
Other payables and accruals	26	**269,313**	249,920
Interest-bearing bank and other borrowings	27	**309,511**	551,971
Amounts due to related parties	36	**8,426**	58,636
Amount due to the ultimate controlling shareholder	36	**75**	231
Income tax payable		**72,338**	56,657
Total current liabilities		**1,492,410**	1,873,141
NET CURRENT ASSETS/(LIABILITIES)		**368,850**	(178,810)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,755,279**	1,436,166

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	27	**297,047**	167,692
Government grants	28	**17,194**	17,903
Deferred tax liabilities	29	**11,081**	13,723
Total non-current liabilities		**325,322**	199,318
Net assets		**1,429,957**	1,236,848
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	**142,956**	142,956
Reserves	31	**1,134,305**	1,034,841
		1,277,261	1,177,797
Non-controlling interests		**152,696**	59,051
Total equity		**1,429,957**	1,236,848

Zhou Minfeng
Director

Wu Bichao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to owners of the parent								
	Share capital RMB'000	Share premium* RMB'000	Statutory reserve funds* RMB'000	Merger reserve* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Retained earnings* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2022	**142,956**	**8,157**	**106,895**	**88,278**	**19,253**	**812,258**	**1,177,797**	**59,051**	**1,236,848**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**108,297**	**108,297**	**9,354**	**117,651**
Other comprehensive income for the year:									
Change in fair value of equity investments designated at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**(1,232)**	**–**	**(1,232)**	**–**	**(1,232)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,232)**	**108,297**	**107,065**	**9,354**	**116,419**
Acquisition of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**89,889**	**89,889**
Final dividends	**–**	**–**	**–**	**–**	**–**	**(7,601)**	**(7,601)**	**–**	**(7,601)**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,598)**	**(5,598)**
Transfer to statutory reserve funds and discretionary surplus reserve	**–**	**–**	**5,950**	**–**	**–**	**(5,950)**	**–**	**–**	**–**
As at 31 December 2022	**142,956**	**8,157**	**112,845**	**88,278**	**18,021**	**907,004**	**1,277,261**	**152,696**	**1,429,957**
As at 1 January 2021	142,956	8,157	102,754	88,278	24,842	776,483	1,143,470	40,746	1,184,216
Profit for the year	–	–	–	–	–	50,673	50,673	24,407	75,080
Other comprehensive income for the year:									
Change in fair value of equity investments designated at fair value through other comprehensive income, net of tax	–	–	–	–	(5,589)	–	(5,589)	–	(5,589)
Total comprehensive income for the year	–	–	–	–	(5,589)	50,673	45,084	24,407	69,491
Final dividends	–	–	–	–	–	(10,757)	(10,757)	–	(10,757)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	(6,102)	(6,102)
Transfer to statutory reserve funds and discretionary surplus reserve	–	–	4,141	–	–	(4,141)	–	–	–
As at 31 December 2021	142,956	8,157	106,895	88,278	19,253	812,258	1,177,797	59,051	1,236,848

* These reserve accounts comprise the consolidated reserves of RMB1,134,305,000 (2021: RMB1,034,841,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**143,299**	103,197
Adjustments for:			
Net foreign exchange (gain)/loss		**(500)**	6,130
Finance costs	8	**27,976**	36,090
Share of profits of joint ventures	19	**(12,976)**	(30,228)
Revaluation gain on previously held equity interest		**(785)**	—
Interest income	7	**(6,230)**	(9,332)
Dividend income from equity investments at fair value through other comprehensive income		**(1,509)**	(1,811)
Gain on disposal of items of property, plant and equipment and right-of-use assets	6	**(67,385)**	(51,409)
Gain on bargain purchase	33	**(8,915)**	—
Release of government grants	28	**(1,215)**	(1,251)
Depreciation of property, plant and equipment	15	**129,074**	105,899
Depreciation of investment properties	16	**4,125**	2,951
Amortisation of right-of-use assets	17(a), 17(c)	**12,985**	10,889
Amortisation of intangible assets	18	**1,749**	1,224
Impairment losses on financial assets, net		**27,770**	12,632
Increase in inventories		**(61,794)**	(30,791)
Decrease/(Increase) in trade and notes receivables		**267,255**	(8,307)
Decrease/(Increase) in prepayments and other receivables		**29,551**	(60,064)
(Increase)/Decrease in amounts due from related parties		**(73,901)**	19,025
Decrease in trade and notes payables		**(137,599)**	(9,815)
(Decrease)/Increase in other payables and accruals		**(7,802)**	38,111
(Decrease)/Increase in amounts due to related parties		**(50,210)**	19,048
(Decrease)/Increase in amounts due from the ultimate shareholder		**(156)**	231
(Increase)/Decrease in pledged deposits		**(44,876)**	17,914
Cash generated from operations		**167,931**	170,333
Income tax paid		**(15,676)**	(21,698)
Net cash flows generated from operating activities		**152,255**	148,635

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**6,230**	9,332
Purchases of items of property, plant and equipment		**(53,821)**	(160,451)
Purchases of items of intangible assets		**(277)**	(531)
Dividends received from equity investment designated at fair value through other comprehensive income		**1,509**	1,811
Proceeds from disposal of items of property, plant and equipment and right-of-use assets		**105,988**	36,250
Receipt of government grants for property, plant and equipment	28	**420**	—
Acquisition of a subsidiary, net of cash	33	**(16,416)**	—
Advances of loans to a supplier		**(30,000)**	—
Net cash flows generated from/(used in) investing activities		**13,633**	(113,589)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans	34	**1,154,500**	1,211,500
Principal portion of lease payments		**(6,891)**	(5,397)
Repayment of bank loans	34	**(1,272,982)**	(1,221,112)
Interest paid		**(27,647)**	(35,931)
Dividends paid	34	**(7,601)**	(10,757)
Decrease in pledged deposits		**53,000**	—
Dividends paid to non-controlling shareholders		**(5,598)**	(6,102)
Net cash flows used in financing activities		**(113,219)**	(67,799)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**52,669**	(32,753)
Effect of foreign exchange rate changes, net		**500**	—
Cash and cash equivalents at beginning of year		**61,676**	94,429
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	**114,845**	61,676
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of cash flows		**114,845**	61,676
Cash and bank balances	24	**114,845**	61,676
Cash and cash equivalents as stated in the consolidated statement of financial position		**114,845**	61,676
Cash and cash equivalents as stated in the statement of cash flows		**114,845**	61,676

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 3 December 2010. The registered 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 internal and external structural and decorative parts of automobiles, moulds and tooling of automobiles, 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		Issued ordinary/ registered share capital	Principal activities
		Direct	Indirect		
Subsidiaries					
Huazhong Investment Company Limited ("**Huazhong Investment**")	BVI	100%	–	US$1	Investment holding
Huayou Investment (Hong Kong) Limited ("**Huayou Investment**")	Hong Kong, China	–	100%	HK$1	Investment holding
Ningbo Huazhong Plastic Products Co., Ltd. ("**Ningbo Huazhong Plastic**")	PRC/Mainland China	–	100%	US$12,000,000	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
Changchun Huateng Automobile Parts Co., Ltd. ("**Changchun Huateng**")	PRC/Mainland China	–	100%	RMB1,000,000	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		Issued ordinary/ registered share capital	Principal activities
		Direct	Indirect		
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%	RMB126,000,000	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
Yantai Huaxiang Automotive Parts Co., Ltd. ("**Yantai Huaxiang**")	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		Issued ordinary/ registered share capital	Principal activities
		Direct	Indirect		
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%	RMB6,000,000	Manufacture and sale of plastic automotive products
Changshu Huaxin Automobile Latex and Plastic Co., Ltd. ("**Changshu Huaxin**")	PRC/Mainland China	–	51%	RMB35,000,000	Manufacture and sale of plastic automotive products
Wuhan Huateng Auto Parts Co., Ltd. ("**Wuhan Huateng**")	PRC/Mainland China	–	51%	RMB1,000,000	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
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
Ningbo Huadun New Energy Technology Co., Ltd.* ("**Ningbo Huadun**")	PRC/Mainland China	–	60%	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%	RMB10,000,000	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		Issued ordinary/ registered share capital	Principal activities
		Direct	Indirect		
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%	RMB5,000,000	Investment, consulting, manufacture, design and sale of automotive parts
Ningbo Chunfeng Investment Co., Ltd. ("**Ningbo Chunfeng**")	PRC/Mainland China	–	100%	RMB5,000,000	Investment, consulting, manufacture, design and sale of automotive parts
Wenzhou Huazhong Plastic Products Co., Ltd. ("**WenZhou Huazhong**")	PRC/Mainland China	–	100%	RMB5,000,000	Manufacture and sale of plastic parts and automotive parts
Liuzhou Huazhong Automotive Parts Co., Ltd. ("**Liuzhou Huazhong**")	PRC/Mainland China	–	100%	RMB5,000,000	Manufacture and sale of plastic parts and automotive parts
Hangzhou Huaxiang Automotive Parts Co., Ltd. ("**Hangzhou Huaxiang**")	PRC/Mainland China	–	100%	USD20,000,000	Manufacture and sale of plastic parts and automotive parts
Shangrao Huazhong Automotive Parts Co., Ltd. ("**Shangrao Huazhong**")	PRC/Mainland China	–	100%	RMB30,000,000	Manufacture and sale of plastic parts and automotive parts
Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd. ("**Ningbo Hualete**")**	PRC/Mainland China	–	65%	RMB15,233,641	Manufacture and sale of auto parts, design and manufacture of high-grade textiles

The table above lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

* On 19 September 2022, the name of Ningbo Huatai In-Vehicle Technology Co., Ltd. has been renamed to Ningbo Huadun New Energy Technology Co., Ltd..

** On 6 May 2022, the Group acquired additional 15% interest in Ningbo Hualete. Before this transaction, the Group has already held 50% of equity interests in Ningbo Hualete, and the Group's equity interests in Ningbo Hualete increased to 65% upon the completion of the acquisition (Note 33). Since then, Ningbo Hualete became an indirect non-wholly-owned subsidiary of the Company.

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, except for certain equity investments which have been measured at fair value. The financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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 IFRS 3	*Reference to the Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*
Annual Improvements to IFRS standards 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "**Conceptual Framework**") issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to IFRS standards 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendment that is applicable to the Group are as follows

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

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 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1, 5]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 — Comparative Information*[6]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* (the "**2020 Amendments**")[2, 4]
Amendments to IAS 1	*Non-current Liabilities with Covenants* (the "**2022 Amendments**")[2]
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023.

2 Effective for annual periods beginning on or after 1 January 2024.

3 No mandatory effective date yet determined but available for adoption.

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024.

5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023.

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17.

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

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 resulting from a downstream transaction 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 in December 2015 by the HKICPA 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)*

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to IFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IAS 12 narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

The amendments are not expected to have any significant impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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 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 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 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 joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

When an investment in 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*.

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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.

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 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.

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

Business combinations and goodwill *(continued)*

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

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

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

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.

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs 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. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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 consistent 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.

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

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

Related parties *(continued)*

(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.

Property, plant and equipment and depreciation

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

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

Plant and buildings	20 to 30 years
Machinery	5 to 15 years
Motor vehicles	4 to 6 years
Furniture and fixtures	3 to 10 years
Tooling	3 to 10 years

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

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

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 sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and machinery under construction or 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.

Investment properties

Investment properties are interests in self-owned buildings 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. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of buildings 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 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.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" for owned property up to the date of change in use and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value 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 on the straight-line basis over its estimated useful lives of 3 to 10 years.

Research and development costs

All research costs are charged to the statement of 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 not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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

Leases *(continued)*

Group as a lessee *(continued)*

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	30 to 50 years
Warehouse and office	2 to 4 years
Accommodation	2 to 3 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

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

Leases *(continued)*

Group as a lessee *(continued)*

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery, motor vehicles and buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of warehouses and equipment that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as other income in the period in which they are earned.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through other comprehensive income.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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

Investments and other financial assets *(continued)*

Initial recognition and measurement *(continued)*

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

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

Investments and other financial assets *(continued)*

Financial assets designated at fair value through other comprehensive income (equity investments) *(continued)*

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

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 recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

Impairment of financial assets *(continued)*

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

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

Impairment of financial assets *(continued)*

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or as payables.

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

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

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing 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 the statement of 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)*

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 the statement of 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.

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, and assets similar in nature to cash, which are not restricted as to use.

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

Provisions

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

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

The Group provides for warranties in relation to the sale of certain automobile body parts products for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

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 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 the 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 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.

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

Income tax *(continued)*

Deferred tax assets are recognised for all deductible temporary differences, and the carry-forward 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, and the carry-forward 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 and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the 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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be receive 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, for which it is intended to compensate, are expensed.

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

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

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Revenue from the sale of automobile body parts products is recognised at the point in time when control of the asset is transferred to the customer, generally upon the use of the industrial products.

Some contracts for the sale of automobile body parts products provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

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

Revenue recognition *(continued)*

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised 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.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their 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 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 the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining the timing of the sale of industrial products

The Group provides industrial products to customers. The Group transports industrial products to the automobile manufacturing company. After using these products, the automobile manufacturing company will notify the Group to issue invoices in the next month. The time point of revenue recognition is when these products are used.

Property lease classification — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as 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 AND ESTIMATES *(continued)*

Estimation uncertainty

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

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

Management reviews the ageing analysis of inventories of the Group at the end of the 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.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 22 to the financial statements.

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

Estimation uncertainty *(continued)*

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Fair value of certain of the unlisted equity investments

Certain of the Group's unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 37 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of the investments as Level 3. The fair value of the unlisted equity investments at 31 December 2022 was RMB60,703,000 (2021: RMB62,345,000). Further details are included in note 20 to the financial statements.

Comparatives

Certain prior period amounts have been reclassified to conform to the current period presentation.

5. OPERATING 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 monitors the consolidated results for the purpose of making decisions about resource allocation and the Group's performance assessment. Accordingly, no segment analysis is presented.

Geographical information

(a) Revenue from external customers

	2022 RMB'000	2021 RMB'000
Mainland China	**1,847,943**	1,823,417
Overseas	**76,974**	71,566
	1,924,917	1,894,983

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2022 RMB'000	2021 RMB'000
Mainland China	**1,304,007**	1,535,693

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

Information about a major customer

Revenue of approximately RMB621,949,000 (2021: RMB658,002,000) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

6. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers		
Sales of plastic parts and automotive parts	**1,787,142**	1,814,518
Sales of moulds and tooling	**137,775**	80,465
	1,924,917	1,894,983

Revenue from contracts with customers

(i) Disaggregated revenue information

All the revenue from contracts with customers is derived from the one single segment as defined in note 5. And the category of revenue from contracts with customers based on geographical region is the same with the geographical information in note 5(a).

The recognition timing of all the revenue from contracts with customers is the goods transferred at a point in time when control of the asset is transferred to the customer, generally on the use of the industrial products.

The revenue recognised during the year ended 31 December 2022 that was included in contract liabilities at the beginning of the year was RMB27,023,000 (2021: RMB18,318,000).

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of products and materials: The performance obligation is satisfied upon delivery of the products and materials and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

All the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2022 were expected to be recognised within one year as the performance obligations are part of contracts that have an original expected duration of one year or less.

6. REVENUE, OTHER INCOME AND GAINS, NET *(continued)*

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

	2022 RMB'000	2021 RMB'000
Other income		
Government grants	**7,968**	11,154
Dividend income from equity investments designated at fair value through other comprehensive income	**1,509**	1,811
Management fee	**3,897**	3,781
Net rental income from investment property operating leases, net-fixed payments	**7,970**	11,192
Others	**1,073**	905
	22,417	28,843
Other gain, net		
Gain on sales of scrap materials	**967**	1,397
Gain on disposal of items of property, plant and equipment and right-of-use assets	**67,385**	51,409
Foreign exchange gain, net	**4,093**	—
Gain on disposal of long-term trade payables	**—**	8,480
Gain on bargain purchase	**8,915**	—
Revaluation gain on previously held equity interest	**785**	—
Others	**685**	339
	82,830	61,625
	105,247	90,468

7. FINANCE INCOME

	2022 RMB'000	2021 RMB'000
Interest income on loans and receivables	**497**	2,989
Interest income on bank deposits	**5,733**	6,343
	6,230	9,332

8. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest expense on bank borrowings	**27,243**	35,492
Interest expense on lease liabilities	**733**	598
	27,976	36,090

9. PROFIT BEFORE TAX

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

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold		**1,458,002**	1,468,079
Depreciation of property, plant and equipment	15	**129,074**	105,899
Depreciation of investment properties	16	**4,125**	2,951
Amortisation of right-of-use assets	17(a),17(c)	**12,985**	10,889
Amortisation of intangible assets	18	**1,749**	1,224
Research and development costs		**71,476**	75,632
Lease payments not included in the measurement of lease liabilities	17(c)	**9,447**	12,850
Auditors' remuneration		**2,680**	2,500
Employee benefit expense (excluding directors' and chief executive's remuneration (Note 10):			
Wages and salaries		**258,931**	249,906
Pension scheme costs		**16,796**	11,380
		275,727	261,286
Gross rental income		**(14,109)**	(16,672)
Direct expenses for generating rental income		**6,139**	5,480
Rental income, net		**(7,970)**	(11,192)
Foreign exchange differences, net		**(4,093)**	9,813
Gain on bargain purchase		**(8,915)**	—
Impairment losses on financial assets, net		**27,770**	12,632
Gain on disposal of items of property, plant, and equipment and right-of-use assets		**(67,385)**	(51,409)
Dividend income from equity investments designated at at fair value through other comprehensive income		**(1,509)**	(1,811)
Government grants		**(7,970)**	(11,154)
Interest income on bank deposits		**(5,733)**	(6,343)

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:

	2022 **RMB'000**	2021 RMB'000
Fees	**2,920**	2,684
Other emoluments:		
Salaries, allowances and benefits in kind	**1,353**	1,226
Pension scheme contributions	**12**	4
	1,365	1,230
	4,285	3,914

(a) Independent non-executive directors

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

	2022 **RMB'000**	2021 RMB'000
Mr. Wong Luen Cheung Andrew	**360**	330
Mr. Xu Jiali	**214**	196
Mr. Yu Shuli	**214**	196
Ms. Mu Wen**	**94**	—
Mr. Tian Yushi*	**54**	196
	936	918

There were no other emoluments payable to the independent non-executive directors during the year (2021: Nil).

* In March 2022, Mr. Tian Yushi resigned as an independent non-executive director.

** In April 2022, Ms. Mu Wen was appointed as an independent non-executive director and resigned in September 2022.

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
2022					
Executive director and chief executive:					
Mr. Zhou Minfeng	**536**	**1,353**	**–**	**12**	**1,901**
Executive director:					
Mr. Bichao Wu*	**536**	**–**	**–**	**–**	**536**
	1,072	**1,353**	**–**	**12**	**2,437**
Non-executive directors:					
Mr. Yu Zhuoping	**268**	**–**	**–**	**–**	**268**
Ms. Lai Cairong	**215**	**–**	**–**	**–**	**215**
Mr. Guan Xin	**215**	**–**	**–**	**–**	**215**
Mr. Wang Yuming	**214**	**–**	**–**	**–**	**214**
	912	**–**	**–**	**–**	**912**

	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
2021					
Executive director and chief executive:					
Mr. Zhou Minfeng	491	1,226	–	4	1,721
Executive director:					
Mr. Bichao Wu*	442	–	–	–	442
	933	1,226	–	4	2,163
Non-executive directors:					
Mr. Yu Zhuoping	245	–	–	–	245
Ms. Lai Cairong	196	–	–	–	196
Mr. Guan Xin	196	–	–	–	196
Mr. Wang Yuming	196	–	–	–	196
	833	–	–	–	833

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

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

* In March 2021, Mr. Bichao Wu, an independent non-executive director of the Company, was redesignated as the 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 two directors one of which is also the chief executive (2021: one director including the chief executive), details of whose remuneration are set out in Note 10 above. Details of the remuneration for the year of the remaining three (2021: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022	2021
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,778**	3,664
Pension scheme contributions	**40**	48
	2,818	3,712

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

	Number of employees	
	2022	2021
Nil to RMB1,000,000	**1**	3
RMB1,000,001 to RMB1,500,000	**2**	1
	3	4

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 ended 31 December 2022 (2021: Nil).

All of the Group's subsidiaries established 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 except the entities stated as follows:

Pursuant to the relevant tax rules in the PRC, Chengdu Huazhong was qualified as a Western China development enterprise, and was entitled to a preferential rate of 15% during the year ended 31 December 2022 (2021: 15%).

Pursuant to the relevant tax rules in the PRC, Chongqing Huazhong was qualified as a Western China development enterprise, and was entitled to a preferential rate of 15% during the year ended 31 December 2022 (2021: 15%).

In December 2022, Ningbo Huazhong Plastic was accredited as a "High and New Technology Enterprise". It is entitled to a preferential rate of 15% for the three years ended 31 December 2022, 2023 and 2024.

In December 2022, Nanchang Huayue was accredited as a "High and New Technology Enterprise". It is entitled to a preferential rate of 15% for the three years ended 31 December 2022, 2023 and 2024.

In November 2022, Changchun Huateng was accredited as a "High and New Technology Enterprise". It is entitled to a preferential rate of 15% for the three years ended 31 December 2022, 2023 and 2024.

In December 2021, Foshan Huazhong was accredited as a "High and New Technology Enterprise". It is entitled to a preferential rate of 15% for the three years ended 31 December 2021, 2022 and 2023.

In December 2021, Qingdao Huazhong was accredited as a "High and New Technology Enterprise". It is entitled to a preferential rate of 15% for the three years ended 31 December 2021, 2022 and 2023.

In December 2020, Ningbo Huazhong Moulding was accredited as a "High and New Technology Enterprise". It is entitled to a preferential rate of 15% for the three years ended 31 December 2020, 2021 and 2022.

In December 2020, Tianjin Huayou was accredited as a "High and New Technology Enterprise". It is entitled to a preferential rate of 15% for the three years ended 31 December 2020, 2021 and 2022.

In December 2020, Ningbo Hualete was accredited as a "High and New Technology Enterprise". It is entitled to a preferential rate of 15% for the three years ended 31 December 2020, 2021 and 2022.

12. INCOME TAX *(continued)*

During the year of 2022 and 2021, the portion of annual taxable income amount of Wuhu Huazhong (as small low-profit enterprises) which did not exceed RMB1,000,000 shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20% tax rate; the portion of annual taxable income amount which exceeds RMB1,000,000 but does not exceed RMB3,000,000 shall be computed at a reduced rate of 50% as taxable income amount, and be subject to enterprise income tax at 20% tax rate.

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

	2022 **RMB'000**	2021 RMB'000
Current income tax		
Charge for the year	**28,603**	36,090
Provision/(Overprovision) in prior years	**1,470**	(357)
Deferred income tax (note 29)	**(4,425)**	(7,616)
Total tax charge for the year	**25,648**	28,117

A reconciliation of the tax expense applicable to profit before tax at the statutory rate of 25% for Mainland China in which the majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	2022 **RMB'000**	2021 RMB'000
Profit before tax	**143,299**	103,197
Tax at the statutory tax rate	**35,825**	25,799
Tax rate differences for specific provincial or local tax authority	**(6,866)**	(118)
Tax losses not recognised	**21,062**	24,357
Profits attributable to joint ventures	**(3,244)**	(7,557)
Adjustments in respect of current tax of previous periods	**1,470**	(357)
Non-taxable income	**(261)**	(2,186)
Expenses not deductible for tax	**4,850**	1,952
Utilisation of tax losses in previous years	**(6,059)**	(1,709)
Tax incentives on eligible expenditures	**(18,232)**	(15,097)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries rates	**(2,897)**	3,033
Tax charge for the year at the effective rate	**25,648**	28,117

13. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Interim — 2022: Nil (2021: Nil) per ordinary share	**—**	—
Proposed final — 2022: HK0.8389 cents (2021: HK0.5276 cents) per ordinary share	**12,996**	7,601
	12,996	7,601

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements have not reflected this proposed dividend.

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

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,769,193,800 (2021: 1,769,193,800) in issue during the year.

During the year ended 31 December 2022, 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. 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 at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2022 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(continued)*

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

	2022 RMB'000	2021 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**108,297**	50,673

	Numbers of ordinary shares 2022	2021
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,769,193,800**	1,769,193,800
Effect of dilution — weighted average number of ordinary shares	**—**	—
	1,769,193,800	1,769,193,800

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 2022							
At 31 December 2021 and 1 January 2022:							
Cost	598,212	686,987	18,527	24,218	183,743	140,002	1,651,689
Accumulated depreciation	(177,085)	(372,048)	(15,203)	(17,252)	(108,725)	–	(690,313)
Net carrying amount	421,127	314,939	3,324	6,966	75,018	140,002	961,376
At 1 January 2022, net of accumulated depreciation and impairment	421,127	314,939	3,324	6,966	75,018	140,002	961,376
Additions	18,878	27,891	2,019	1,436	21,067	21,132	92,423
Acquisition of a subsidiary (Note 33)	12,336	30,990	32	509	–	655	44,522
Transfers	25,149	14,065	–	–	1,661	(40,875)	–
Transfers from investment properties	14,205	–	–	–	–	–	14,205
Transfers to investment properties	(17,159)	–	–	–	–	–	(17,159)
Disposals	(13,344)	(3,339)	(43)	(128)	(1,170)	(12,025)	(30,049)
Depreciation provided during the year	(27,594)	(55,724)	(755)	(2,652)	(42,349)	–	(129,074)
At 31 December 2022, net of accumulated depreciation and impairment	433,598	328,822	4,577	6,131	54,227	108,889	936,244
At 31 December 2022:							
Cost	628,506	746,800	19,817	24,733	199,650	108,889	1,728,395
Accumulated depreciation	(194,908)	(417,978)	(15,240)	(18,602)	(145,423)	–	(792,151)
Net carrying amount	433,598	328,822	4,577	6,131	54,227	108,889	936,244

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 2021							
At 31 December 2020 and 1 January 2021:							
Cost	564,154	640,310	18,527	22,459	154,989	118,971	1,519,410
Accumulated depreciation and impairment	(167,741)	(320,581)	(14,667)	(15,309)	(92,114)	–	(610,412)
Net carrying amount	396,413	319,729	3,860	7,150	62,875	118,971	908,998
At 1 January 2021, net of accumulated depreciation and impairment	396,413	319,729	3,860	7,150	62,875	118,971	908,998
Additions	17,025	27,060	671	1,815	35,083	89,526	171,180
Transfers	39,843	24,796	–	–	822	(65,461)	–
Transfers to investment properties	(647)	–	–	–	–	–	(647)
Disposals	(6,285)	(2,694)	(98)	(12)	(133)	(3,034)	(12,256)
Depreciation provided during the year	(25,222)	(53,952)	(1,109)	(1,987)	(23,629)	–	(105,899)
At 31 December 2021, net of accumulated depreciation and impairment	421,127	314,939	3,324	6,966	75,018	140,002	961,376
At 31 December 2021:							
Cost	598,212	686,987	18,527	24,218	183,743	140,002	1,651,689
Accumulated depreciation	(177,085)	(372,048)	(15,203)	(17,252)	(108,725)	–	(690,313)
Net carrying amount	421,127	314,939	3,324	6,966	75,018	140,002	961,376

Included in the property, plant and equipment as at 31 December 2022 were certain buildings with a net carrying value of RMB77,997,000 (2021: RMB71,910,000), of which the property certificates have not been obtained.

As at 31 December 2022, certain of the Group's buildings with a net carrying value of approximately RMB25,213,000 (2021: RMB25,556,000) were pledged to secure bank loans granted to the Group (Note 27).

16. INVESTMENT PROPERTIES

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	**32,473**	34,777
Transfer from owner-occupied property	**17,159**	647
Transfer to owner-occupied property	**(14,205)**	—
Depreciation during the year	**(4,125)**	(2,951)
Carrying amount at 31 December	**31,302**	32,473

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 one and three industrial properties in China as at 31 December 2022 and 2021, respectively. The Group transferred investment properties to owner-occupied property due to the business combination with a net carrying value of RMB14,205,000 as at December 2022 (2021: nil). The directors of the Company have determined that the investment properties consist of one class of assets based on the nature, characteristics and risk of each property. The fair value of the Group's investment properties was RMB72,379,000 as at 31 December 2022 (2021: RMB93,151,000) 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 36.

Included in the investment properties as at 31 December 2022 were certain industrial properties with a net carrying value of RMB18,115,000 (2021: RMB17,600,000), 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 industrial properties. 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 2022.

The Group's investment properties with a net carrying value of nil as at 31 December 2022 (2021: RMB785,000) were pledged to secure bank loans of the Group (Note 27).

17. LEASES

The Group as a lessee

The Group has lease contracts for various items of warehouse, office and accommodation used in its operations. Leases of warehouse and office generally have lease terms between 2 and 4 years. Other items generally have lease terms of 12 months or less and/or is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Warehouse and office RMB'000	Accommodation RMB'000	Total RMB'000
As at 1 January 2021	229,339	3,598	1,053	233,990
Additions	524	7,364	158	8,046
Depreciation charge	(5,446)	(4,803)	(640)	(10,889)
Disposal	(7,904)	(1,090)	—	(8,994)
As at 31 December 2021	216,513	5,069	571	222,153
As at 1 January 2022	216,513	5,069	571	222,153
Additions	—	11,919	349	12,268
Depreciation charge	(5,820)	(6,472)	(693)	(12,985)
Disposal	(13,554)	—	—	(13,554)
As at 31 December 2022	197,139	10,516	227	207,882

17. LEASES *(continued)*

The Group as a lessee *(continued)*

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2022 Lease liabilities RMB'000	2021 Lease liabilities RMB'000
Carrying amount at 1 January	**6,290**	4,791
New leases	**12,268**	7,522
Accretion of interest recognised during the year	**733**	598
Payments	**(7,624)**	(5,471)
Disposal	**—**	(1,150)
Carrying amount at 31 December	**11,667**	6,290
Analysed into:		
Current portion	**4,519**	2,698
Non-current portion	**7,148**	3,592

The maturity analysis of lease liabilities is disclosed in note 40 to the financial statements.

17. LEASES *(continued)*

The Group as a lessee *(continued)*

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2022 RMB'000
Interest on lease liabilities	**733**
Depreciation charge of right-of-use assets	**12,985**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2022 (included in cost of sales or administrative expenses)	**9,424**
Expense relating to leases of low-value assets (included in cost of sales or administrative expenses)	**23**
Total amount recognised in the statement of profit or loss	**23,165**

	2021 RMB'000
Interest on lease liabilities	598
Depreciation charge of right-of-use assets	10,889
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2021 (included in cost of sales or administrative expenses)	12,778
Expense relating to leases of low-value assets (included in cost of sales or administrative expenses)	72
Total amount recognised in the statement of profit or loss	24,337

(d) The total cash outflow for leases is disclosed in note 34(c) to the financial statements.

The Group as a lessor

The Group leases its investment properties (note 16) consisting of one and three industrial properties in Mainland China under operating lease arrangements as at 31 December 2022 and 2021, respectively. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Gross rental income recognised by the Group during the year was RMB14,109,000 (2021: RMB16,672,000), details of which are included in note 9 to the financial statements.

18. INTANGIBLE ASSETS

	Software RMB'000	Total RMB'000
31 December 2022		
Cost at 1 January 2022, net of accumulated amortisation	**5,091**	**5,091**
Addition	**277**	**277**
Acquisitions of a subsidiary (Note 33)	**1,870**	**1,870**
Amortisation provided during the year	**(1,749)**	**(1,749)**
At 31 December 2022	**5,489**	**5,489**
At 31 December 2022:		
Cost	**14,042**	**14,042**
Accumulated amortisation and impairment	**(8,553)**	**(8,553)**
Net carrying amount	**5,489**	**5,489**

	Software RMB'000	Total RMB'000
31 December 2021		
Cost at 1 January 2021, net of accumulated amortisation	5,784	5,784
Addition	531	531
Amortisation provided during the year	(1,224)	(1,224)
At 31 December 2021	5,091	5,091
At 31 December 2021:		
Cost	11,895	11,895
Accumulated amortisation and impairment	(6,804)	(6,804)
Net carrying amount	5,091	5,091

19. INVESTMENTS IN JOINT VENTURES

	2022 RMB'000	2021 RMB'000
Share of net assets	**106,278**	220,929

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
Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd. ("**Changchun Huazhong Yanfeng**") (Note (i))	PRC/Mainland China	50%	50%	50%	Manufacture and sale of auto parts, provision of after-sales services, and technical consultations
Ningbo Huatai New Material Technology ("**Ningbo Huatai**") (Note (ii))	PRC/Mainland China	40%	40%	40%	Manufacture and sale of new materials

Notes:

(i) On 3 June 2011, Changchun Huazhong Yanfeng (formerly known as Changchun Huaxiang Faurecia) was established in Jilin Province, the PRC, with a 50% equity interest held by the Group. The other investor of Changchun Huazhong Yanfeng changed 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 would hold 50% of the equity interests in Changchun Huazhong Yanfeng. The name of the company has also changed to Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd. The registration was authorised on 23 May 2017.

(ii) On 29 September 2021, Ningbo Huatai New Material Technology was established in Zhejiang Province, the PRC, with a 40% equity interest held by the Group. The other investor of Ningbo Huatai New Material was Ningbo Fangze Technology Co., Ltd.

(iii) 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. On 6 May 2022, the Group acquired additional 15% interest in Ningbo Hualete from Before this transaction, the Group has already held 50% of equity interests in Ningbo Hualete, and the Group's equity interests in Ningbo Hualete increased to 65% upon the completion of the acquisition (Note 33). Since then, Ningbo Hualete became an indirect non-wholly-owned subsidiary of the Company.

The above investments are directly or indirectly held by Ningbo Huazhong.

19. 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:

	2022 RMB'000	2021 RMB'000
Cash and cash equivalents	**209,322**	105,768
Other current assets	**339,403**	289,501
Current assets	**548,725**	395,269
Non-current assets	**121,845**	115,649
Other current liabilities	**(445,989)**	(316,791)
Non-current liabilities	**(12,153)**	(1,635)
Net assets	**212,428**	192,492
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	**106,214**	96,246
Carrying amount of the investment	**106,214**	96,246
Revenue	**604,914**	549,689
Interest income	**1,729**	1,975
Depreciation and amortisation	**(20,077)**	(26,192)
Profit and total comprehensive income for the year	**19,936**	27,020
Group's share of profit and total comprehensive income for the year	**9,968**	13,510

19. INVESTMENTS IN JOINT VENTURES *(continued)*

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

	2022 **RMB'000**	2021 RMB'000
Cash and cash equivalents	**1,448**	—
Other current assets	**(650)**	—
Current assets	**798**	—
Non-current assets	**—**	—
Other current liabilities	**(638)**	—
Non-current liabilities	**—**	—
Net assets	**160**	—
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**40%**	40%
Group's share of net assets of the joint venture	**64**	—
Carrying amount of the investment	**64**	—
Revenue	**6,194**	—
Interest income	**3**	—
Depreciation and amortisation	**—**	—
Profit and total comprehensive income for the year	**160**	—
Group's share of profit and total comprehensive income for the year	**64**	—

20. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments		
Investment A	**57,003**	56,745
Investment B	**3,700**	5,600
	60,703	62,345

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

21. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**88,715**	61,592
Work in progress	**36,412**	33,138
Finished goods	**293,025**	228,221
	418,152	322,951

22. TRADE AND NOTES RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**587,172**	717,195
Notes receivables	**142,561**	109,046
	729,733	826,241
Impairment of trade receivables	**(23,047)**	(10,888)
	706,686	815,353

22. TRADE AND NOTES RECEIVABLES *(continued)*

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to three months for major customers. 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. 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 receivables are all aged within six months, for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

A subsidiary has pledged notes receivables of approximately RMB65,570,000 (2021: nil) to secure notes payable granted to some major suppliers.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022 **RMB'000**	2021 RMB'000
Within 3 months	**520,623**	630,097
3 to 6 months	**17,746**	36,322
6 months to 1 year	**23,031**	21,147
Over 1 year	**2,725**	18,741
	564,125	706,307

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 **RMB'000**	2021 RMB'000
At beginning of year	**10,888**	10,788
Impairment losses	**27,770**	12,632
Acquisitions of a subsidiary	**7,380**	—
Amount written off as uncollectible	**(22,991)**	(12,532)
At end of year	**23,047**	10,888

22. TRADE AND NOTES RECEIVABLES *(continued)*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on aging for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than two years and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2022

	Expected loss rate	Gross carrying amount RMB'000	Impairment RMB'000
General item:			
Current and within 1 year	**0.80%**	**565,909**	**4,509**
More than one year but within 2 years	**87.18%**	**21,263**	**18,538**
		587,172	**23,047**

As at 31 December 2021

	Expected loss rate	Gross carrying amount RMB'000	Impairment RMB'000
General item:			
Current and within 1 year	0.55%	686,334	3,769
More than one year but within 2 years	23.07%	30,861	7,119
		717,195	10,888

23. PREPAYMENTS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Other receivables	**96,158**	90,427
Prepayments	**259,823**	260,105
	355,981	350,532

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	**132,927**	79,262
Time deposits	**129,100**	137,720
	262,027	216,982
Less: Pledged deposits	**(147,182)**	(155,306)
Cash and cash equivalents in the consolidated statement of financial position	**114,845**	61,676
Cash and cash equivalents in the consolidated statement of cash flows	**114,845**	61,676

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 RMB91,182,000 as at 31 December 2022 (2021 RMB46,306,000) were pledged to secure notes payables (Note 25).

Pledged deposits with a carrying value of RMB56,000,000 as at 31 December 2022 (2021: RMB109,000,000) were pledged to secure the bank loans granted to the Group (Note 27).

25. TRADE AND NOTES PAYABLES

An ageing analysis of the trade and notes payables of the Group as at 31 December 2022, based on the invoice date, is as follows:

	2022 RMB'000	2021 RMB'000
Within 3 months	**626,147**	729,980
3 to 12 months	**193,790**	192,896
1 to 2 years	**4,674**	18,172
2 to 3 years	**8,136**	14,678
	832,747	955,726

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

Certain notes payables were secured by pledged deposits of the Group with a carrying value of RMB91,182,000 as at 31 December 2022 (2021: RMB46,306,000) (Note 24) and notes receivables with a carrying value of RMB65,570,000 as at 31 December 2022 (2021: nil) (Note 22).

26. OTHER PAYABLES AND ACCRUALS

	Notes	2022 RMB'000	2021 RMB'000
Other payables	(a)	**213,187**	201,873
Contract liabilities	(b)	**34,881**	27,023
Accruals		**20,096**	19,789
Government grants — current portion		**1,130**	1,216
Dividends payable		**19**	19
		269,313	249,920

Notes:

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

(b) Contract liabilities are all short-term advances received to deliver products of automobile body parts. The amount of contract liabilities in 2022 increased compared to 2021.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2022			2021		
	Effective interest rate %	**Maturity**	**RMB'000**	Effective interest rate %	Maturity	RMB'000
Current						
Bank loans – secured	**3.95-4.55**	**2023**	**51,000**	4.35-4.55	2022	37,000
Bank loans – unsecured	**2.750-4.498**	**2023**	**191,002**	2.750-4.498	2022	509,673
Current portion of long term bank loans						
– unsecured	**3.70-3.95**	**2023**	**11,990**	4.000-4.400	2022	2,600
– secured	**3.70-3.95**	**2023**	**51,000**			–
Lease liability	**3.75**	**2023**	**4,519**	5.13	2022	2,698
			309,511			551,971
Non-current						
Bank loans – secured	**3.90**	**2023-2024**	**29,000**			–
Bank loans – unsecured	**3.70-3.95**	**2023-2024**	**260,899**	4.000-6.306	2022-2023	164,100
Lease liability	**3.44-9.30**	**2023-2024**	**7,148**	5.13-9.30	2022-2023	3,592
			297,047			167,692
			606,558			719,663

	2022 RMB'000	2021 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**304,992**	549,273
In the second year	**289,899**	164,100
	594,891	713,373
Lease liabilities:		
Within one year	**4,519**	2,698
More than one year	**7,148**	3,592
	11,667	6,290
	606,558	719,663

All bank borrowings were obtained from third party financial institutions.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

As at 31 December 2022, the Group's bank facilities of RMB 279,620,000 (2021: RMB202,620,000) were secured by the pledges of the Group's assets. Pledged bank facilities of RMB 45,000,000 (2021: RMB21,000,000) were utilised by the Group as at 31 December 2022. The carrying values of the pledged assets are as follows:

	Notes	**2022** **RMB'000**	2021 RMB'000
Property, plant and equipment	15	**25,213**	25,556
Investment properties	16	**—**	785
Right-of-use assets — prepaid land lease payments		**37,467**	32,739
Pledged deposits	24	**56,000**	109,000
		118,680	168,080

28. GOVERNMENT GRANTS

	2022 **RMB'000**	2021 RMB'000
Carrying amount at beginning of the year	**19,119**	20,370
Received during the year	**420**	—
Released to the statement of profit or loss	**(1,215)**	(1,251)
Carrying amount at end of the year	**18,324**	19,119
Current portion, classified under other payables and accruals (Note 26)	**1,130**	1,216
Non-current portion	**17,194**	17,903
	18,324	19,119

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

29. DEFERRED TAX

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

	2022 RMB'000	2021 RMB'000
Deferred tax assets arising from:		
— Provision for impairment of receivables	**9,861**	4,238
— Bad debt provision for inventories	**2,976**	1,740
— Accruals	**5,471**	9,420
— Unrealised profits	**3,609**	3,558
	21,917	18,956
Deferred tax liabilities arising from:		
— Valuation surplus	**612**	831
— Withholding taxes	**4,661**	8,493
— Fair value adjustments of equity investments at fair value through other comprehensive income	**6,006**	6,417
	11,279	15,741

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 2020 and 1 January 2021	2,052	957	7,243	2,698	12,950
Charged to the statement of profit or loss (Note 12)	2,186	783	2,177	860	6,006
As at 31 December 2021 and 1 January 2022	4,238	1,740	9,420	3,558	18,956
Acquisition of a subsidiary (Note 33)	1,857	992	15	—	2,864
Charged/(Credited) to the statement of profit or loss (Note 12)	3,766	244	(3,964)	51	97
As at 31 December 2022	9,861	2,976	5,471	3,609	21,917

29. DEFERRED TAX *(continued)*

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

	Valuation surplus RMB'000	Withholding taxes RMB'000	Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000	Total RMB'000
As at 1 January 2021	2,734	8,200	8,280	19,214
(Credited)/Charged to the statement of profit or loss (Note 12)	(1,903)	293	—	(1,610)
Charged to other comprehensive income	—	—	(1,863)	(1,863)
As at 31 December 2021 and 1 January 2022	831	8,493	6,417	15,741
Acquisition of a subsidiary (Note 33)	277	—	—	277
Credited to the statement of profit or loss (Note 12)	(496)	(3,832)	—	(4,328)
Credited to other comprehensive income	—	—	(411)	(411)
As at 31 December 2022	612	4,661	6,006	11,279

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 2022, 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 RMB1,022,479,000 at 31 December 2022 (2021: RMB607,373,000).

29. DEFERRED TAX *(continued)*

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

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

	2022 RMB'000	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**21,719**	16,938
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(11,081)**	(13,723)

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

	2022 RMB'000	2021 RMB'000
Unused tax losses	**188,760**	175,466

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.

30. ISSUED CAPITAL

Ordinary shares

	2022 RMB'000	2021 RMB'000
Issued and fully paid:		
1,769,193,800 (2021: 1,769,193,800) ordinary shares of HK$0.10 each	**142,956**	142,956

31. 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.

32. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2022 **RMB'000**	2021 RMB'000
Percentage of equity interest held by non-controlling interests:		
Shanghai Huaxin	**49%**	49%
Ningbo Hualete (Note (i))	**35%**	—
Profit for the year attributable to non-controlling interests:		
Shanghai Huaxin	**4,497**	27,464
Ningbo Hualete	**6,172**	—
Dividends paid to non-controlling interests of Shanghai Huaxin	**—**	(6,102)
Dividends paid to non-controlling interests of Ningbo Hualete	**(5,598)**	—
Accumulated balances of non-controlling interests at the reporting dates:		
Shanghai Huaxin	**65,565**	61,068
Ningbo Hualete	**89,531**	—

Notes:

(i) Ningbo Hualete became an indirect non-wholly-owned subsidiary of the Company after the Group acquired additional 15% equity interest of Ningbo Hualete (Note 33).

32. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

The following tables illustrate the summarised financial information of Shanghai Huaxin and Ningbo Hualete. The amounts disclosed are before any inter-company eliminations:

	Shanghai Huaxin RMB'000	Ningbo Hualete RMB'000
2022		
Revenue	**148,129**	**151,631**
Profit and total comprehensive income for the year	**9,178**	**17,633**
Current assets	**120,994**	**253,505**
Non-current assets	**85,234**	**45,895**
Current liabilities	**(71,559)**	**(43,599)**
Non-current liabilities	**(863)**	**—**
Net cash flows generated from operating activities	**31,063**	**7,283**
Net cash flows used in investing activities	**(13,215)**	**(1,897)**
Net cash flows generated from/(used in) financing activities	**3,999**	**(3,722)**
Net increase in cash and cash equivalents	**21,847**	**1,664**

	Shanghai Huaxin RMB'000	Ningbo Hualete RMB'000
2021		
Revenue	151,510	169,657
Profit and total comprehensive income for the year	56,049	33,435
Current assets	86,392	226,652
Non-current assets	89,733	50,528
Current liabilities	(51,497)	(27,813)
Non-current liabilities	—	—
Net cash flows (used in)/generated from operating activities	(12,602)	23,281
Net cash flows used in investing activities	(6,648)	(4,043)
Net cash flows generated from/(used in) financing activities	19,485	(15,004)
Net increase in cash and cash equivalents	235	4,234

33. BUSINESS COMBINATION

On 17 March 2004, Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd. ("**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. Prior to 6 May 2022, Ningbo Hualete was a joint venture which was owned as to 50% by the Group.

On 6 May 2022 ("**Acquisition date**"), the Group acquired an additional 15% interest in Ningbo Hualete from zwissTEX Germany GmbH, an independent third party. The purchase consideration for the acquisition was in the form of cash, with RMB29,609,000 paid in 2022. Upon the completion of the acquisition, Hualete was an indirect non-wholly-owned subsidiary of the Company and was consolidated into the consolidated financial statements of the Group.

The Group recognised the gain of bargain purchase RMB8,951,000 considering the negotiation with zwissTEX Germany GmbH. The Group considers that upon completion, the equity interest in Ningbo Hualete held by the Group will enhance the cooperation between the Group and Ningbo Hualete and reduce the operating costs.

The Group has measured the non-controlling interests in the acquiree at fair value.

33. BUSINESS COMBINATION *(continued)*

Assets acquired and liabilities assumed

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

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	15	44,522
Intangible assets	18	1,870
Deferred tax assets		2,864
Inventories		33,407
Trade and notes receivables		186,358
Cash and cash equivalents		13,193
Trade and notes payables		(14,620)
Other payables and accruals		(9,208)
Income tax payable		(1,283)
Deferred tax liability		(277)
Total identifiable net assets at fair value		256,826
Non-controlling interest measured at fair value		(89,889)
Gain on bargain purchase recognised in other income and gains in the consolidated statement of profit or loss		(8,915)
Purchase consideration transferred		158,022
Satisfied by:		
Cash		29,609
Investments in joint ventures measured at fair value		128,413

The Group incurred transaction costs of RMB17,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the interim condensed consolidated statement of profit or loss.

33. BUSINESS COMBINATION *(continued)*

Assets acquired and liabilities assumed *(continued)*

An analysis of the cash flows in respect of the acquisition of a subsidiary as of 31 December, 2022 is as follows:

	RMB'000 (Audited)
Cash consideration	(29,609)
Cash and bank balances acquired	13,193
Net outflow of cash and cash equivalents included in cash flows from investing activities	(16,416)
Transaction costs of the acquisition included in cash flows from operating activities	(17)
	(16,433)

From the date of acquisition, Ningbo Hualete Limited contributed RMB70,917,000 to the Group's revenue and RMB5,974,000 to the consolidated profit for the twelve months ended 31 December 2022.

If the combination had taken place at the beginning of the period, revenue from continuing operations of the Group and profit of the Group for the period would have been RMB1,946,374,000 and RMB123,443,000, respectively.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB12,268,000 (2021: RMB8,046,000) and RMB12,268,000 (2021: RMB7,522,000), respectively, in respect of lease arrangements for prepaid and leave payments, warehouse and office and accommodation.

(b) Changes in liabilities arising from financing activities

2022

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000	Dividends payable RMB'000
At 1 January 2022	713,373	6,290	19
Changes from financing cash flows	(118,482)	(7,624)	(13,199)
New leases	–	12,268	–
Disposal	–	–	–
Final dividend	–	–	7,601
Dividends to non-controlling shareholders	–	–	5,598
Interest expense	–	733	–
At 31 December 2022	594,891	11,667	19

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(b) Changes in liabilities arising from financing activities *(continued)*

2021

	Interest-bearing bank and other borrowings RMB'000	Lease liabilities RMB'000	Dividends payable RMB'000
At 1 January 2021	716,855	4,791	19
Changes from financing cash flows	(9,612)	(5,471)	(16,859)
Exchange realignment	6,130	—	—
New leases	—	7,522	—
Disposal	—	(1,150)	—
Final dividend	—	—	10,757
Dividends to non-controlling shareholders	—	—	6,102
Interest expense	—	598	—
At 31 December 2021	713,373	6,290	19

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2022 RMB'000	2021 RMB'000
Within operating activities	**9,447**	12,850
Within financing activities	**7,624**	5,471
	17,071	18,321

35. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**16,569**	122,960

36. 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
南昌江鈴華翔汽車零部件有限公司 ("**Nanchang Jiangling**")	Joint venture of Ningbo Huaxiang Electronics
Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd. ("**Ningbo Hualete**")	Joint venture of the Group*
Ningbo Tex Line Automotive Textiles Co., Ltd. ("**Ningbo Hualuote**")	Subsidiary of a joint venture of the Group*
象山華翔國際酒店有限公司 ("**Huaxiang Resort**")	Collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong
Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd. ("**Changchun Huazhong Yanfeng**")	Joint venture 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

* The entities are the joint venture and subsidiary of a joint venture of the Group before the acquisition of Ningbo Hualete (Note 33). After the acquisition on 6 May 2022, the entities became the indirect non-wholly-owned subsidiaries of the Company.

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

(a) Name and relationship *(continued)*

Name of related party	Relationship with the Group
長春華翔汽車金屬零部件有限責任公司 (原長春華翔轎車消聲器有限責任公司) (“**Changchun Huaxiang Car**”)	Subsidiary of Ningbo Huaxiang Electronics
佛山華翔汽車金屬零部件有限公司 (“**Foshan Huaxiang Automotive**”)	Subsidiary of Changchun Huaxiang Car
寧波華翔汽車車門系統有限公司 (“**Ningbo Antolin Huaxiang**”)	Subsidiary of Ningbo Huaxiang Electronics
寧波勞倫斯電子有限公司 (“**Ningbo Irce Electronics**”)	Significant influenced by a director of the Group
長春華友酒店管理有限公司 (“**Changchun Huayou Hotel**”)	Controlled by a director of the Group
象山瑞馳塑料製品有限公司 (“**Xiangshan Ruichi**”)	Controlled by a director of the Group
長春華翔車頂系統有限公司 (原公主嶺華翔汽車頂棚系統有限公司) (“**Changchun Huaxiang Roof System**”)	Significantly influenced by Mr. Zhou Xiaofeng
寧波華翔汽車車門系統有限公司 (“**Ningbo Huaxiang Automotive Door Systems**”)	Significantly influenced by Mr. Zhou Xiaofeng
青島華翔汽車頂棚系統有限公司 (“**Qingdao Huaxiang Roof System**”)	Significantly influenced by Mr. Zhou Xiaofeng
寧波華友置業有限公司 (“**Ningbo Huayou Real Estate**”)	Controlled by a director of the Group
安泰環境工程技術有限公司 (“**AT&M Environmental Engineering Technology**”)	Significant influenced by a director of the Group

36. 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	2022 RMB'000	2021 RMB'000
Sales of raw materials and goods to related parties:	(i)		
Changchun Huazhong Yanfeng		**66,346**	71,912
Changchun Huaxiang Roof System		**45,886**	—
Ningbo Hualete		**—**	1,675
		112,232	73,587
Purchases of raw materials, goods and services from related parties:	(ii)		
Ningbo Hualete		**16,478**	62,534
Xiangshan Ruichi		**5,417**	4,635
Changchun Huaxiang Car		**3,937**	4,106
Foshan Huaxiang Automotive		**719**	803
Changchun Huazhong Yanfeng		**706**	1,693
Nanchang Jiangling		**610**	1,758
Huaxiang Resort		**504**	375
Ningbo Huaxiang Automotive Door Systems		**166**	—
Qingdao Huaxiang Roof System		**42**	—
Ningbo Hualuote		**34**	72
Ningbo Antolin Huaxiang		**—**	2,694
Huaxiang Export		**—**	262
Ningbo Irce Electronics		**—**	5
Changchun Huayou Hotel		**—**	4
		28,613	78,941
Gross rental income from related parties:	(iii)		
Changchun Huazhong Yanfeng		**9,986**	10,975
Ningbo Hualuote		**2,981**	5,950
Ningbo Hualete		**406**	917
		13,373	17,842
Management fee from a related party:	(iv)		
Changchun Huazhong Yanfeng		**3,897**	3,791
Rental expense from a related party:	(v)		
Ningbo Huayou Real Estate		**352**	—

36. 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 Group and 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 related parties were in accordance with the terms and conditions agreed between the Group and the related parties through lease agreements.

Note (iv): The management fee from the related party was in accordance with the terms agreed between the Group and the related party through management fee agreements.

Note (v): The rental expense charged by related parties was in accordance with the terms agreed between the Group and the related party through lease agreements.

The related party transactions in respect of items disclosed in Note 36(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(c) Outstanding balances with related parties

	2022 RMB'000	2021 RMB'000
Amounts due from related parties:		
Changchun Huazhong Yanfeng	**72,708**	41,037
Changchun Huaxiang Roof System	**39,706**	—
AT&M Environmental Engineering Technology	**6,000**	—
Ningbo Hualuote	**—**	3,476
	118,414	44,513
Amount due to the ultimate controlling shareholder:		
Mr. Zhou	**75**	231

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

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

	2022 RMB'000	2021 RMB'000
Amounts due to related parties:		
Xiangshan Ruichi	**2,941**	2,169
Huayou Holdings	**2,297**	973
Changchun Huaxiang Car	**1,827**	1,680
Huaying Moulding	**745**	745
Ningbo Huayou Real Estate	**369**	—
Foshan Huaxiang Automotive	**187**	600
Nanchang Jiangling	**35**	1,172
Qingdao Huaxiang Roof System	**17**	—
Huaxiang Resort	**8**	15
Ningbo Hualete	**—**	50,964
Ningbo Antolin Huaxiang	**—**	312
Ningbo Irce Electronics	**—**	6
	8,426	58,636

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

(d) Compensation of key management personnel of the Group

	2022 RMB'000	2021 RMB'000
Short term employee benefits	**6,707**	6,093
Post-employment benefits	**53**	32
Total compensation paid to key management personnel	**6,760**	6,125

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

37. 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

2022	Financial assets at amortised cost RMB'000
Trade receivables	**564,125**
Financial assets included in prepayments and other receivables (Note 23)	**96,158**
Due from related parties	**118,414**
Pledged deposits	**147,182**
Cash and cash equivalents	**114,845**
	1,040,724

	Debt investments at fair value through other comprehensive income RMB'000
Notes receivables at fair value through other comprehensive income	**142,561**

	Equity investments at fair value through other comprehensive income RMB'000
Equity investments at fair value through other comprehensive income	**60,703**

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial assets *(continued)*

2021	Financial assets at amortised cost RMB'000
Trade receivables	706,307
Financial assets included in prepayments and other receivables (Note 23)	90,427
Due from related parties	44,513
Pledged deposits	155,306
Cash and cash equivalents	61,676
	1,058,229

	Debt investments at fair value through other comprehensive income RMB'000
Notes receivables at fair value through other comprehensive income	109,046

	Equity investments at fair value through other comprehensive income RMB'000
Equity investments at fair value through other comprehensive income	62,345

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial liabilities

2022	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals (Note 26)	**233,302**
Trade and notes payables	**832,747**
Interest-bearing bank borrowings	**606,558**
Due to the ultimate controlling shareholder	**75**
Due to related parties	**8,426**
	1,681,108

2021	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals (Note 26)	221,681
Trade and notes payables	955,726
Interest-bearing bank borrowings	719,663
Due to the ultimate controlling shareholder	231
Due to related parties	58,636
	1,955,937

38. 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	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
Financial assets				
Notes receivables at fair value through other comprehensive income	**142,561**	109,046	**142,561**	109,046
Equity investments designated at fair value through other comprehensive income	**60,703**	62,345	**60,703**	62,345

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade and notes payables, financial assets included in prepayments and other receivables, financial liabilities included in other payables and accruals, amounts due from/to related parties, amounts 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.

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.

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 methods and assumptions 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 cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The change in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2022 was assessed to be insignificant.

The fair values of certain unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes, depreciation and amortisation ("**EV/EBITDA**") multiple and price to earnings ("**P/E**") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Below is a summary of significant unobservable inputs to the valuation of the financial instruments together with a quantitative sensitivity analysis as at 31 December 2022 and 2021:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input (RMB'000)
Unlisted equity investment				
Investment A	Valuation multiples	Forward average P/E multiple of peers	2022: 8.32 to 59.51	10% increase/decrease in multiple would result in increase/decrease in fair value by 5,468
		Discount for lack of marketability	2022: 0.00% to 91.30%	10% increase/decrease in discount rate would result in decrease/ increase in fair value by 1,059
Investment B	Valuation multiples	Forward average P/E multiple of peers	2022:9.72 to 37.68	10% increase/decrease in multiple would result in increase/decrease in fair value by 417
		Discount for lack of marketability	2022: 0.00% to 91.30%	10% increase/decrease in discount rate would result in decrease/ increase in fair value by 112

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input (RMB'000)
Unlisted equity investment				
Investment A	Valuation multiples	Forward average P/E multiple of peers	2021: 10.33 to 37.51	10% increase/decrease in multiple would result in increase/decrease in fair value by 5,411
		Discount for lack of marketability	2021: 0.00% to 91.30%	10% increase/decrease in discount rate would result in decrease/ increase in fair value by 1,059
Investment B	Valuation multiples	Forward average P/E multiple of peers	2021: 9.33 to 18.95	10% increase/decrease in multiple would result in increase/decrease in fair value by 226
		Discount for lack of marketability	2021: 0.00% to 91.30%	10% increase/decrease in discount rate would result in decrease/ increase in fair value by 97

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

Assets measured at fair value

As at 31 December 2022

		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**
Equity investments designated at fair value through other comprehensive income	**60,703**	**–**	**–**	**60,703**
Notes receivables at fair value through other comprehensive income	**142,561**	**–**	**142,561**	**–**

As at 31 December 2021

		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
Equity investments designated at fair value through other comprehensive income	62,345	–	–	62,345
Notes receivables at fair value through other comprehensive income	109,046	–	109,046	–

39. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2022, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Endorsed Bills**") with a carrying amount of RMB2,088,000 (2021: RMB3,712,000) 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 RMB2,088,000 (2021: RMB3,712,000) as at 31 December 2022.

Transferred financial assets that are derecognised in their entirety

At 31 December 2022, the Group 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 RMB195,961,000 (2021: RMB41,430,000). 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 2022, 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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise interest-bearing bank and other 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 amounts due from related parties, which arise directly from its operations.

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

40. 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 interest-bearing bank borrowings with floating interest rates. The interest rate and terms of repayment of borrowings are disclosed in Note 27.

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 the 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 2022		
RMB	**100**	**(3,969)**
RMB	**(100)**	**3,969**
Year ended 31 December 2021		
RMB	100	(3,623)
RMB	(100)	3,623

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.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

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

Credit risk *(continued)*

Maximum exposure and year-end staging *(continued)*

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	–	–	–	587,172	587,172
Notes receivables	142,561	–	–	–	142,561
Financial assets included in prepayments, and other receivables					
— Normal**	96,158	–	–	–	96,158
Pledged deposits					
— Not yet past due	147,182	–	–	–	147,182
Cash and cash equivalents					
— Not yet past due	114,845	–	–	–	114,845
	500,746	–	–	587,172	1,087,918

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

Credit risk *(continued)*

Maximum exposure and year-end staging *(continued)*

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables*	—	—	—	717,195	717,195
Notes receivables	109,046	—	—	—	109,046
Financial assets included in prepayments, and other receivables					
— Normal**	90,427	—	—	—	90,427
Pledged deposits					
— Not yet past due	155,306	—	—	—	155,306
Cash and cash equivalents					
— Not yet past due	61,676	—	—	—	61,676
	416,455	—	—	717,195	1,133,650

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

** The credit quality of the financial assets included in prepayments and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. 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 39% (2021: 45%) of the total trade and notes receivables as at 31 December 2022.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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

Liquidity risk *(continued)*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of lease liabilities and interest-bearing bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	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 2022					
Interest-bearing bank and other borrowings	**—**	**86,459**	**239,475**	**301,804**	**627,738**
Trade and notes payables	**—**	**626,147**	**193,790**	**12,810**	**832,747**
Other payables (Note 26)	**233,283**	**—**	**—**	**—**	**233,283**
Amounts due to related parties	**8,426**	**—**	**—**	**—**	**8,426**
Amount due to the ultimate controlling shareholder	**75**	**—**	**—**	**—**	**75**
	241,784	**712,606**	**433,265**	**314,614**	**1,702,269**
31 December 2021					
Interest-bearing bank and other borrowings	—	212,550	378,611	167,813	758,974
Trade and notes payables	—	729,980	192,896	32,850	955,726
Other payables (Note 26)	221,681	—	—	—	221,681
Amounts due to related parties	58,636	—	—	—	58,636
Amount due to the ultimate controlling shareholder	231	—	—	—	231
	280,548	942,530	571,507	200,663	1,995,248

40. 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 and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2022.

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 and other 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:

	2022 **RMB'000**	2021 RMB'000
Trade and notes payables	**832,747**	955,726
Other payables and accruals	**269,313**	249,920
Interest-bearing bank and other borrowings	**606,558**	719,663
Amounts due to related parties	**8,426**	58,636
Amount due to the ultimate controlling shareholder	**75**	231
Less: Cash and cash equivalents	**(114,845)**	(61,676)
Net debt	**1,602,274**	1,922,500
Equity attributable to owners of the parent	**1,277,261**	1,177,797
Capital and net debt	**2,879,535**	3,100,297
Gearing ratio	**56%**	62%

41. 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:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**30**	30
Investments in subsidiaries	**6,043**	6,043
Right-of-use assets	**—**	622
Investment in a joint venture	**42,613**	48,114
Total non-current assets	**48,686**	54,809
CURRENT ASSETS		
Prepayments and other receivables	**14,095**	4,235
Amounts due from subsidiaries	**100,527**	64,375
Cash and cash equivalents	**803**	2,898
Total current assets	**115,425**	71,508
CURRENT LIABILITIES		
Interest-bearing bank borrowings	**—**	260
Other payables and accruals	**3,296**	2,730
Amount due to a shareholder	**2,316**	992
Amount due to subsidiaries	**13**	—
Total current liabilities	**5,625**	3,982
Net current assets	**109,800**	67,526
TOTAL ASSETS LESS CURRENT LIABILITIES	**158,486**	122,335
Interest-bearing bank borrowings	**—**	380
TOTAL NON CURRENT LIABILITIES	**—**	380
Net assets	**158,486**	121,955
EQUITY		
Issued capital	**142,956**	142,956
Reserves (Note 31)	**15,530**	(21,001)
Total equity	**158,486**	121,955

41. 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	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 31 December 2020 and 1 January 2021	1,027	179	—	(12,154)	(10,948)
Dividends	—	—	—	(10,757)	(10,757)
Profit for the year	—	—	—	704	704
At 31 December 2021	1,027	179	—	(22,207)	(21,001)
At 31 December 2021 and 1 January 2022	1,027	179	—	(22,207)	(21,001)
Dividends	—	—	—	(7,601)	(7,601)
Profit for the year	—	—	—	44,132	44,132
At 31 December 2022	**1,027**	**179**	**—**	**14,324**	**15,530**

42. EVENT AFTER THE REPORTING PERIOD

There was no significant event after the reporting period.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2023.

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, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
RESULTS					
REVENUE	**1,924,917**	1,894,983	2,004,817	2,173,549	1,979,147
Cost of sales	**(1,458,002)**	(1,468,079)	(1,519,759)	(1,687,672)	(1,477,390)
Gross profit	**466,915**	426,904	485,058	485,877	501,757
Other income and gains	**105,247**	90,468	40,933	39,900	29,350
Selling and distribution expenses	**(120,671)**	(125,417)	(137,251)	(131,432)	(133,123)
Administrative expenses	**(270,758)**	(267,213)	(246,459)	(248,000)	(214,468)
Other expenses	**(894)**	(12,383)	(1,053)	(6,760)	(5,262)
Impairment losses on financial assets, net	**(27,770)**	(12,632)	(3,686)	(2,177)	11,336
Finance income	**6,230**	9,332	5,091	4,979	4,576
Finance costs	**(27,976)**	(36,090)	(37,728)	(43,818)	(38,227)
Share of profits and losses of:					
Joint ventures	**12,976**	30,228	29,590	13,220	21,388
Associates	**—**	—	—	—	—
PROFIT BEFORE TAX	**143,299**	103,197	134,495	111,789	177,327
Income tax expense	**(25,648)**	(28,117)	(24,034)	(24,157)	(36,285)
PROFIT FOR THE YEAR	**117,651**	75,080	110,461	87,632	141,042
Attributable to:					
Owners of the parent	**108,297**	50,673	107,574	84,087	138,742
Non-controlling interests	**9,354**	24,407	2,887	3,545	2,300
	117,651	75,080	110,461	87,632	141,042

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
TOTAL ASSETS	**3,247,689**	3,309,307	3,246,778	3,305,861	3,042,040
TOTAL LIABILITIES	**(1,817,732)**	(2,072,459)	(2,062,562)	(2,230,937)	(2,059,650)
NON-CONTROLLING INTERESTS	**(152,696)**	(59,051)	(40,746)	(37,859)	(39,214)
	1,277,261	1,177,797	1,143,470	1, 037,065	943,176