Huazhong In-Vehicle Holdings Company Limited
華眾車載控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 6830

Annual Report **2019**

CONTENT

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhou Minfeng
(Chairman and Chief Executive)
Mr. Chang Jingzhou

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
Mr. Xu Jiali
Mr. Wu Bichao

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

JOINT COMPANY SECRETARIES

Mr. Cheung Wah Lung Warren *(AICPA, ACS)*
Ms. Ho Wing Yan *(ACIS, ACS(PE))*

AUTHORISED REPRESENTATIVES

Mr. Zhou Minfeng
Mr. Cheung Wah Lung Warren *(AICPA, ACS)*

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

Unit 19, 36th Floor, China Merchants Tower
Shun Tak Centre
Nos. 168-200 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Bank of China
Agricultural Bank of China

LEGAL ADVISER AS TO HONG KONG LAW

Hui & Lam Solicitors LLP

AUDITOR

Ernst & Young

SHARE REGISTRARS

Principal Share Registrar and Transfer Office in the Cayman Islands

SMP Partners (Cayman) Limited
Royal Bank House - 3rd Floor,
24 Shedden Road, P.O. Box 1586,
Grand Cayman, KY1-1110,
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

LISTING EXCHANGE INFORMATION

The Stock Exchange of Hong Kong Limited
Main Board

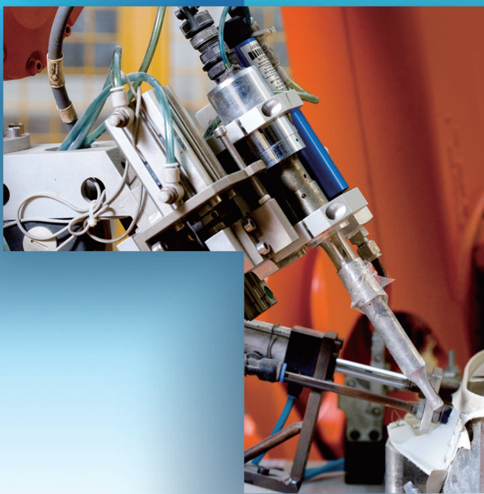
STOCK CODE

6830

COMPANY WEBSITE

www.cn-huazhong.com

COMPANY PROFILE



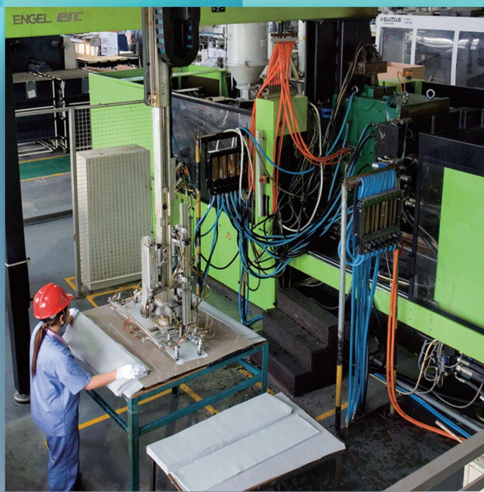
Huazhong In-Vehicle Holdings Company Limited (the "**Company**" or "**Huazhong Holdings**") and its subsidiaries (together the "**Group**") are one of the principal suppliers of automobile body parts in China.

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 2019 (the "**Year**").

Given the complex global economic conditions, 2019 has been a challenging year for the Company. Total revenue increased to RMB2.17 billion from RMB1.98 billion in 2018. Gross profit decreased by 3.2% year-on-year to RMB485.9 million (2018: RMB501.8 million). Profit attributable to the owners of the parent decreased by 39.4% year-on-year to RMB84.1 million (2018: RMB138.7 million).

The Group adhered to the strategy of striving for progress while maintaining stability, expedited the transformation and upgrading of industrial structure, and overcame obstacles through effective measures. With the unremitting efforts of all the staff and the new production plants which were completed and put into operation by the Group, productivity was effectively enhanced. In addition to various measures to increase market share and uplift profitability, the Group vigorously implemented stringent costs control, fortified the overall business competitiveness, strengthened research and development capabilities and kept track of the latest trend of technology. At the same time, actions were also taken to identify favorable acquisition opportunities, so as to increase market share, enhance business expansion capabilities and diversify revenue streams.

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

Zhou Minfeng
Chairman and Chief Executive

Hong Kong, 27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

During 2019, the automobile industry production and sales level had declined slightly as a result of a slowing global economy. According to the statistics from China Association of Automobile Manufacturers, over 25.7 million vehicles were manufactured and over 25.8 million vehicles were sold in 2019, representing a decrease of 7.5% and 8.2%, 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. We also manufacture fabric used for ABCD-pillar and headliner for automobile through one of our jointly controlled entities.

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

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 RMB2.17 billion, representing an increase of approximately 9.8% as compared to approximately RMB1.98 billion in 2018. Profit attributable to the owners of the parent for the Year was approximately RMB84.1 million, representing a decrease of approximately 39.4% as compared to approximately RMB138.7 million in 2018.

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.

	2019		2018	
		Gross profit		Gross profit
	Revenue	Margin	Revenue	Margin
	RMB'000	%	RMB'000	%
Automotive interior and exterior structural and decorative parts	**1,532,396**	**29.8**	1,468,895	30.2
Moulds and tooling	**273,779**	**-6.5**	217,988	5.9
Casings and liquid tanks of air conditioners and heaters	**107,192**	**13.5**	131,381	13.2
Non-automobile products	**51,582**	**40.5**	60,511	40.0
Sale of raw materials	**208,600**	**5.7**	100,372	4.3
Total	**2,173,549**	**22.4**	1,979,147	25.4

For the Year, the total revenue generated from automotive interior and exterior structural and decorative parts was approximately RMB1,532,396,000 (2018: RMB1,468,895,000), accounting for 70.5% of the Group's total revenue for the Year (2018: 74.2%). The increase was primarily because of the expansion of new markets and new customers during the Year. Gross profit margin decreased slightly from approximately 30.2% in 2018 to approximately 29.8% in 2019.

For the Year, revenue from moulds and tooling was approximately RMB273,779,000 (2018: RMB217,988,000), accounting for approximately 12.6% of the Group's total revenue for the Year (2018: 11.0%). Gross profit margin decreased from 5.9% in 2018 to -6.5% in the Year. The decrease in gross profit margin was mainly attribute to the disappointed performance of the subsidiary located in Germany. The subsidiary was suffered from sluggish European market and continuing increased cost. Therefore, its unsatisfactory results had led to a reduction in the overall margin for this segment.

For the Year, revenue from casings and liquid tanks of air conditioners and heaters was approximately RMB107,192,000 (2018: RMB131,381,000), accounting for approximately 4.9% of the Group's total revenue for the Year (2018: 6.6%). Gross profit margin increased slightly from approximately 13.2% in 2018 to approximately 13.5% in the Year.

For the Year, revenue from non-automobile products was approximately RMB51,582,000 (2018: RMB60,511,000), accounting for approximately 2.4% of the Group's total revenue for the Year (2018: 3.1%). Gross profit margin increased slightly from approximately 40.0% in 2018 to approximately 40.5% in the Year.

For the Year, revenue from sale of raw materials was approximately RMB208,600,000 (2018: RMB100,372,000), accounting for approximately 9.6% of the Group's total revenue for the Year (2018: 5.1%). Gross profit margin increased to approximately 5.7% (2018: 4.3%) during the Year.

Other Income and Gains

Other income and gains of the Group for the Year amounted to approximately RMB39,900,000 (2018: RMB29,350,000), representing an increase of 35.9% from last year. The increase was mainly attributable to the compensation of demolition amounting to RMB7,686,000 of a factory during the year, while there was no such other income in the prior year.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the Year amounted to approximately RMB131,432,000 (2018: RMB133,123,000). The proportion of selling and distribution expenses in sales revenue for the Year was around 6.0% (2018: 6.7%).

Administrative Expenses

The Group's administrative expenses for the Year amounted to approximately RMB248,000,000, representing an increase of approximately 15.6% as compared to approximately RMB214,468,000 in 2018. The increase was mainly attributable to the increase of salary and welfare, R&D expense and office expense during the year.

Share of Profits of Joint Ventures

During the Year, the Group recorded approximately RMB13,220,000 of the share of profits of joint ventures as compared to the share of profits of approximately RMB21,388,000 for 2018.

Finance Income

The Group's finance income increased by approximately 8.8% from approximately RMB4,576,000 in 2018 to approximately RMB4,979,000 in the Year. The increase was mainly due to increase in cash and bank balance.

Finance Costs

The Group's finance costs increased from approximately RMB38,227,000 in 2018 to approximately RMB43,818,000 in the Year, representing an increase of approximately 14.6%, which was attributable to an increase of bank borrowing balance during the Year.

Taxes

The Group's tax expenses decreased by approximately 33.4% from approximately RMB36,285,000 in 2018 to approximately RMB24,157,000 in the Year. The decrease was mainly attributable to the decrease in taxable profits during the Year.

Liquidity and Financial Resources

For the Year, the net cash generated from operating activities was approximately RMB275,899,000 (2018: RMB204,417,000). The cash generated from operating activities was mainly from the profits during the Year.

The net cash used in investing activities was approximately RMB204,771,000 (2018: RMB165,104,000). The net cash generated from financing activities was approximately RMB38,370,000 (2018: used in RMB11,675,000). The net cash used in investing activities was mainly for the purchase of property, plant and equipment. The net cash generated from financing activities was mainly due to the net increase in bank loans.

As a result of the above-mentioned comprehensive factors, the net cash inflow of the Group was approximately RMB109,498,000 (2018: net cash inflow RMB50,988,000).

As at 31 December 2019, the cash and cash equivalents of the Group (including cash and bank deposits) was approximately RMB188,250,000 (31 December 2018: RMB78,752,000).

As at 31 December 2019, the interest-bearing bank borrowings of the Group were approximately RMB845,986,000 (31 December 2018: RMB797,800,000) of which approximately RMB161,753,000 (equivalent to HKD180,572,000) were borrowed in HKD, and approximately RMB808,642,000 were due within one year. Amongst the bank borrowings, RMB453,003,000 were borrowed at floating interest rate, representing 53.5% of total borrowings (46.5% of total borrowings at fixed interest rate).

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

Capital Commitments

As at 31 December 2019, the Group had capital commitments amounting to approximately RMB160,011,000 (31 December 2018: RMB156,941,000) mainly including commitment for purchasing property, plant, and equipment.

Foreign Exchange Exposure

The sales and purchases of the Group were mainly denominated in RMB and Euro. The cash and cash equivalents of the Group were mainly denominated in RMB and Hong Kong dollars. The borrowings are denominated in RMB and Hong Kong dollars. 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 2019 was 1,769,193,800.

Contingent Liabilities

As at 31 December 2019, the Group had no significant contingent liabilities (31 December 2018: Nil).

Pledge of Assets

As at 31 December 2019, the Group's assets of approximately RMB182,770,000 (2018: RMB213,489,000) were pledged to secure some of the Group's interest-bearing bank borrowings. The book value of the pledged assets is set out below:

	2019	2018
	RMB'000	RMB'000
Property, plant and equipment	**16,649**	16,643
Investment properties	**1,884**	2,133
Prepaid land lease payments	**—**	47,796
Right-of-use assets — prepaid land lease payments	**46,803**	—
Pledged deposits	**117,434**	146,917
Total	**182,770**	213,489

As at 31 December 2019, deposits with book value of approximately RMB88,938,000 (2018: RMB68,087,000) were used as security to provide guarantee for the issue of notes payable.

Gearing Ratio

As at 31 December 2019, the Group's gearing ratio was approximately 65.3%, which was decreased slightly as compared with the gearing ratio of approximately 66.6% as at 31 December 2018. 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

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 3,300 (2018: 3,316) employees as at 31 December 2019. Total staff costs of the Group (excluding the Directors' and chief executive's remuneration) for the Year was approximately RMB264,716,000 (2018: approximately RMB239,862,000). The increase was mainly attributable to the increase in average number of employees and compensation paid to employees of a factory due to demolition of that factory during the year. The Group's remuneration policies were in line with relevant legislation, market conditions and the performance of our employees.

Events after the Year

There has been an outbreak of the novel coronavirus that was first reported from Wuhan, China in December 2019. To prevent or control the epidemic, the Chinese government has adopted a series of measures nationwide, including among others, restrictions on enterprises from resuming work, traffic control and travel bans.

As of the date of this financial statements, the assessment is still in progress, the Group will continue to closely monitor the development of the novel coronavirus, assess and actively respond to its impact on the financial condition, operating results and other aspects of the Group.

PROSPECTS

In the first quarter of 2020, the outbreak of COVID-19 has substantially dented China's economy and suppressed the local demand for auto. In February 2020, the Chinese government adopted a series of policies including implementing traffic controls between provinces and suspending businesses to contain the spread of the epidemic. These measures affected the supply chain and almost all industries in China. In staunch support of the Chinese government, the Group's production bases were temporarily suspended after the Lunar New Year but had all resumed operation by the end of February. We are positive that the short-term suspension will not have a significant impact on the Group's annual production capacity.

With effective measures taken by the government, the number of locally transmitted cases in China has dropped dramatically by the end of March, showing signs of stabilization. The market is expecting a mild recovery in the coming months alongside the Chinese government's policies and incentives to promote the local auto consumption, such as vehicle licence quota increase and subsidies for electric vehicles ("**EV**"), releasing of the suppressed demand in the first quarter. The Group will work closely with its customers of the leading high-end and joint-venture auto brands and EV brands to capture the recovery of the market. Meanwhile, the disruption of the global supply chain outside China due to the epidemic has accelerated the domestic sourcing in China. This has presented new opportunities to China-based auto components suppliers that have high-standard quality, cost advantages, and ongoing research and development capacity. As one of the leading auto body parts manufacturers in China, the Group is well positioned to seize the opportunities and garner greater marker share.

With the ongoing global trend of energy conservation and better environmental efficiency, weight reduction vehicle continues to be a major development direction for auto industry. Car manufacturers have been seeking auto parts solution that are durable yet light in weight. The Group will keep leveraging on its expertise in plastic product design and manufacturing technology, offering customized and value-added solutions lightweight solutions to its auto brand customers to match consumers' ever-changing needs and desire for high quality, comfortable and functional car interior design. The Group will also explore the new opportunities brought by the rapid growth of 5G network and Internet of Things, which constantly demands for new auto interior parts for smart vehicles.

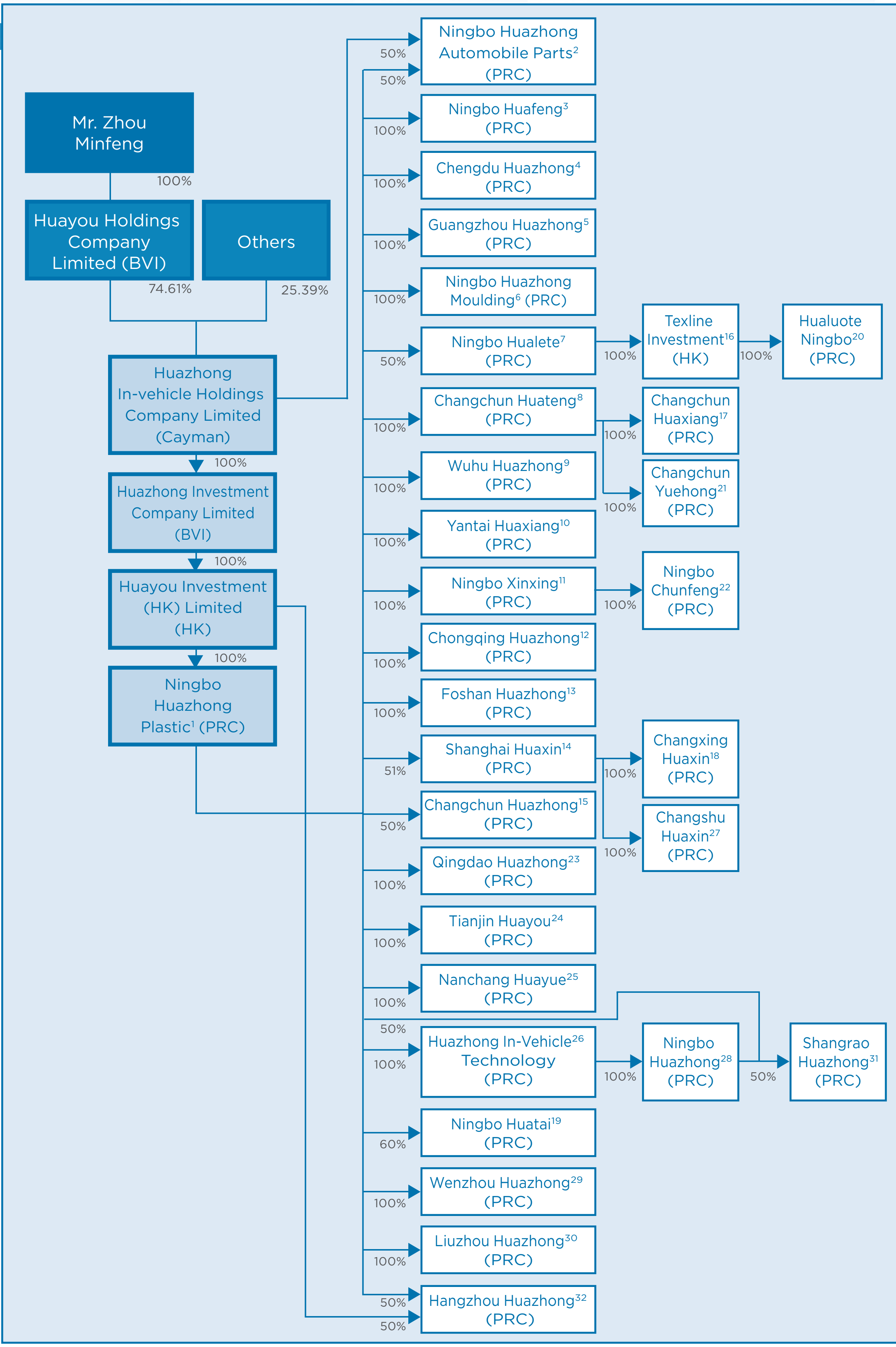
Looking ahead to the remainder of 2020, the business environment is expected to be challenging and volatile. The Group is determined in self-enhancement and internal optimization that it will never stop investing in research and development to stay at the forefront of plastic lightweight technology and stay competitive. On the other hand, the Group will streamline its production to reduce operating costs and expenses to stay financially healthy for the economic cycle. The Group will thoughtfully monitor and react fast to the market dynamics to maintain its business sustainability and profitability.

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)

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) incorpopraated in the PRC as domestic companies.

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 A.2.1

Code provision A.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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**") as the code of conduct governing dealings by all the Directors in the securities of the Company. Specific enquiries have been made with all Directors, who have confirmed that, during the Year, they were in compliance with the required provisions set out in the Model Code. All of the Directors declared that they have complied with the required standard of dealings as set out in the Model Code throughout the Year.

THE BOARD

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

	Attendance/Number of	
Names of Directors	**Board Meetings**	**Shareholders' Meetings**
Executive Directors		
Mr. Zhou Minfeng *(Chairman and Chief Executive Officer)*	4/4	1/1
Mr. Li Xuejun *(Chief Executive Officer)** (resigned on 31 July 2019)	0/4	0/1
Mr. Chang Jingzhou	4/4	0/1
Non-Executive Directors		
Ms. Lai Cairong	0/4	0/1
Mr. Wang Yuming	2/4	0/1
Mr. Guan Xin	2/4	1/1
Mr. Yu Zhuoping (appointed on 5 August 2019)	2/2	0/0
Independent Non-Executive Directors		
Mr. Wong Luen Cheung Andrew *(Vice-chairman)*	4/4	0/1
Mr. Yu Shuli	4/4	0/1
Mr. Tian Yushi	2/4	1/1
Mr. Xu Jiali	2/4	1/1
Mr. Wu Bichao	4/4	1/1

* Mr. Li Xuejun resigned as an executive Director due to other business commitments with effect from 31 July 2019.

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

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

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

Directors' Training

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

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

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. Li Xuejun *(Chief Executive)** (resigned on 31 July 2019)	✓
Mr. Chang Jingzhou	✓
Non-Executive Directors	
Ms. Lai Cairong	✓
Mr. Wang Yuming	✓
Mr. Guan Xin	✓
Mr. Yu Zhuoping (appointed on 5 August 2019)	✓
Independent Non-Executive Directors	
Mr. Wong Luen Cheung Andrew *(Vice-chairman)*	✓
Mr. Yu Shuli	✓
Mr. Tian Yushi	✓
Mr. Xu Jiali	✓
Mr. Wu Bichao	✓

* Mr. Li Xuejun resigned as an executive Director due to other business commitments with effect from 31 July 2019.

CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.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 Joint Company Secretaries, 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**") after the resignation of Mr. Li Xuejun on 31 July 2019, such practice deviates from code provision A.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 five 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.

Appointment and Re-election of Directors

Each of the non-executive Directors has entered into a letter of appointment with the Company and was appointed for a specific term ranging from approximately two to three years. Ms. Lai Cairong and Mr. Wang Yuming were re-appointed at the annual general meeting of the Company on 27 May 2019 for three years. Mr. Guan Xin was re-appointed at the annual general meeting of the Company on 7 June 2017 for three years. Mr. Yu Zhuoping has entered into a letter of appointment on 5 August 2019 for a term of two years.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company and was appointed for an initial term ranging from approximately one to three years. Mr. Wong Luen Cheung Andrew, Mr. Xu Jiali, Mr. Tian Yushi and Mr. Xu Jiali were re-appointed at the annual general meeting of the Company on 7 June 2018 for three years and Mr. Wu Bichao was re-appointed at the annual general meeting on 27 May 2019 for one year.

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 article 83(3) of the Articles, any Director appointed by the Board to fill a causal vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Therefore, Mr. Yu Zhuoping will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offers himself for re-election.

According to articles 84(1) and 84(2) of the Articles, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Therefore, Mr. Guan Xin, Mr. Yu Shuli, Mr. Tian Yushi and Mr. Xu Jiali will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

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.

Independent Non-Executive Directors

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

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

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

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

JOINT COMPANY SECRETARIES

The Joint Company Secretaries are responsible for facilitating the Board process, as well as communications among Board members, with the Shareholders and management. Mr. Cheung Wah Lung Warren and Ms. Ho Wing Yan, the Joint Company Secretaries, have complied with the requirements to undertake over 15 hours of professional training under Rule 3.29 of the Listing Rules for the Year.

BOARD COMMITTEES

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

Audit Committee

The Company has established an audit committee (the "**Audit Committee**") pursuant to a resolution of the Directors passed on 7 December 2011 in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of external auditors, review the financial statements and give material advice in respect of financial reporting, and oversee the risk management and internal control systems of the Company. The Audit Committee consists of three members, namely Mr. Yu Shuli, Mr. Tian Yushi and Mr. Xu Jiali, all of whom are independent non-executive Directors. Mr. Yu Shuli, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

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

— reviewed the Group's audited annual results for the year ended 31 December 2018 and the unaudited interim results for the six months ended 30 June 2019, 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. Tian Yushi	1/2
Mr. Xu Jiali	1/2

Remuneration Committee

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

The Remuneration Committee reviewed and made recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remunerations (i.e. the Model described in the Code provision B.1.2(c)(ii) is adopted) and on the establishment of a formal and transparent procedure for developing remuneration policy.

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

Names of members	Attendance/Number of Meeting
Mr. Yu Shuli *(Chairman)*	1/1
Mr. Zhou Minfeng	1/1
Mr. Tian Yushi	0/1

The remuneration of Directors is determined with reference to their duties and responsibilities in the Company as well as the prevailing market conditions. Details of emoluments of Directors for the year ended 31 December 2019 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 2019 fell within the following band is as follows:

	Number of senior management
Nil to RMB1,000,000	3

Nomination Committee

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

The Nomination Committee mainly performed the following duties:

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

— reviewed the structure, size and composition of the Board during the year of 2019; and

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

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

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

Names of members	Attendance/Number of Meeting
Mr. Zhou Minfeng *(Chairman)*	1/1
Mr. Yu Shuli	1/1
Mr. Tian Yushi	0/1

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.

Corporate Governance Functions

The Company's corporate governance functions are carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

Financial Reporting

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group for each financial period in accordance with the requirements of the laws and regulations and applicable accounting standards to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2019, 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 73 to 76 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 2019, the Group was required to pay an aggregate of approximately RMB2.5 million (2018: RMB2.6 million) to the external auditor for their audit services relating to financial information and no non-audit services were provided.

SHAREHOLDERS' RIGHTS

To convene an extraordinary general meeting

Pursuant to article 50 of the Articles, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Joint Company Secretaries, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Joint Company Secretaries by mail at Unit 19, 36th Floor, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong. The Joint Company Secretaries forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the Directors.

Procedures for putting forward proposals at general meeting

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

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

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

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

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

Constitutional documents

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

Risk Management and Internal Control

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

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

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

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

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

Communication with Shareholders

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

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

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% of the profit for each year in cash and shares its profits with the shareholders of the Company. 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

This is the 2019 Environmental, Social and Governance ("ESG") Report ("the Report") published by Huazhong In-Vehicle Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group" or "we" or "us"). The Report expounds the Group's sustainable development principle and summarises the implementation and concludes the year's performance and achievement.

REPORTING STANDARD

The Report is prepared based on the reporting principles of materiality, quantitative, balance and consistency in "Environmental, Social and Governance Reporting Guidance" under Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited issued by the Stock Exchange of Hong Kong Limited. The Report contains a content index to facilitate easy reading for various stakeholders. For the Group's corporate governance, please refer to the chapter "Corporate Governance Report" included in the Annual Report.

SCOPE OF THE REPORT

This Report sets out our environmental, social and governance management policies and measures in various aspects, and discloses its relevant performance results with an aim to strengthen our relationships with the stakeholders. This Report covers the period from 1 January 2019 to 31 December 2019 (the "Reporting Period" or the "Year"), and the performance data from the previous year is also listed in this Report as reference for comparison. Unless otherwise stated, this Report only covers our key business – Ningbo Huazhong Plastic Products Co., Ltd. ("Ningbo Huazhong Plastics"), the main subsidiary of the Group. We will continue to fulfill our social responsibility, strengthen corporate governance system, and optimise data collection process in order to gradually expand the scope of disclosure and have a broader coverage of our business.

INFORMATION AND CONTENT OF THE REPORT

The information, data and cases set out herein was mainly derived from the statistical reports and other related documents of the Group. The Report was endorsed by the management and approved by the Board of Directors. The Company guarantees that the information contained in this Report does not contain any false representations, misleading statements or material omissions, and accepts responsibility for the truthfulness, accuracy and completeness of the content of this Report.

FEEDBACK

We hope that this Report can facilitate the Group's communication with its stakeholders, and hereby sincerely invites you to leave us a comment. Should there be any questions or suggestions on the Report or our sustainable development works, please contact us through the following means:

Principal Place of Business in Hong Kong Address: Unit 19, 36th Floor, China Merchants Tower, Shun Tak Centre, Nos. 168-200 Connaught Road Central, Hong Kong

Headquarters in China: No. 104 Zhenan Road, Xizhou Town, Xiangshan County, Zhejiang Province, China

Email: warren.cheung@cn-huazhong.com

SUSTAINABILITY CONCEPT

The Group has three major business missions: (1) Provide customers with high value products and services; (2) Let employees work happily and develop healthily, as well as create value for shareholders; (3) Endeavour in sustainable development and proactive in assuming social responsibility. We undertake these three missions and manage our business using the four core concepts of "Integrity, Responsibility, Creation and Sharing" to work towards the vision in "becoming a world-leading automotive parts manufacturing company with core competitiveness".

The Group believes that sustainability is of great importance for the long-term business development. Thereby, we manage our business in a responsible manner by incorporating environmental and social considerations into our decision-making process and daily operation. Through implementing sustainable development strategy, the Group creates values for its stakeholders, minimizes its impact on the environment and assumes the social responsibility as a good corporate citizen. We also regularly review the Group's sustainability policy to address the concerns of stakeholders.

Adhering to the above visions, concepts and missions, we have the following sustainability policies:

INTERNAL CONTROL AND RISK MANAGEMENT

The Group understands the importance of risk management and internal control. The sustainable development of an enterprise builds on the basis of a suitable and effective risk management and internal control system. Thereby, the Group has established an internal control system headed by the Board to assess and manage risks, and to continuously identify existing or potential risks during operation management and corporate governance, so as to plan risk control measures accordingly.

The Board's Audit Committee is responsible for the regular inspection on the Group's risk management and internal auditing works to ensure the internal control system is running effectively. The Group has also established an internal audit function for the analysis and assessment of the effectiveness of the risk management and internal control system, so as to adopt corresponding improvement measures if necessary, ensuring the sustainability of our business. Through our continuous monitoring and improvement of our internal control and risk management system, the Group's sustainable development policies can be further implemented.

STAKEHOLDERS ENGAGEMENT

The Group maintains close communication with its stakeholders on the basis of trust and respect, so that all stakeholders can voice out their valuable opinions on the past performance and the future strategy of our sustainable development. Based upon their opinions, we formulate and adjust our sustainable development policies accordingly to respond to their needs and expectations and to assist us in handling risks. In response to different stakeholders group, the Group understands their topics of concern through the various communication channels as shown below:

Stakeholders Group	Communication Channels
Employees	• Employees performance appraisal • Internal meetings • Diversified trainings • Team building activities • Recreational games
Customers	• Meetings • WeChat/Weibo/Telephone • Factory field inspection • Customer satisfaction survey
Suppliers	• Suppliers assessment process • Meetings • Field inspection • Questionnaire survey
Investors and shareholders	• Annual general meetings • Other general meetings • Corporate communications • Annual reports and interim reports • Company website
Government and authorities	• Communication during daily operations • Visits and inspection • Regular statutory reporting
Community	• Social public welfare activities • Face-to-face communications
Other business partners	• Communication during daily operations • Meetings

PROCESS OF MATERIALITY ASSESSMENT

IDENTIFY ISSUES

When making materiality assessment, we mainly refer to the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange of Hong Kong Limited to identify important issues related to the industry and the Group's business development, and make relevant disclosures in the Report.

PRIORITISE

Through various approaches, including inviting our stakeholders to participate in online surveys to give advices on the Group's sustainable development policies and to understand their degree of concern about every sustainability issues. The results of the communication with stakeholders are consolidated to define the overall materiality of the issues.

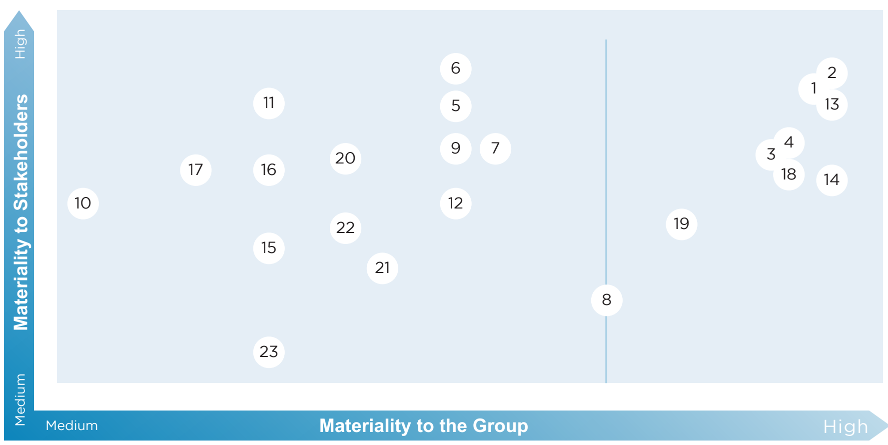
ANALYSE ASSESSMENT RESULTS

The conclusions of the above two steps are submitted to the management of the Group for discussion and confirmation of the finalised material issues in the Report.

ANALYSIS OF MATERIALITY

The Group has sorted its sustainability trends and strategies. Based on the understanding of every issue, and combined with the communication with its stakeholders over the past year and the results of questionnaires, the Group has identified 23 related issues and arranged them accordingly on the two axes of "Materiality to the Group" and "Materiality to Stakeholders", thereby acting as a basis for strengthening sustainability management and the focused contents of the Report. The analysis shows that product safety and product and service quality remain as the most material issues for the Group and its stakeholders. The detailed results are set out below:

MATERIALITY MATRIX



Product and Service Responsibility	Operation Practices	Working Environment	Environmental Protection and Green Operation	Contribution to the Community
1) Product and service quality 2) Product safety and health 3) Customer communication and satisfaction 4) Complaint handling 5) Customer information and privacy protection 6) Intellectual property rights protection 7) Research and development 8) Advertising and labelling management (e.g. contents comply with regulations and make no false claims)	9) Supply chain management 10) Anti-corruption 11) Crisis and contingency response and management	12) Diversity, anti-discrimination and equality in workplace 13) Occupational safety and health 14) Employee Training and development 15) Prevention of child and forced labour 16) Employment relations and communication with employees 17) Recruitment of talent and retention of employees 18) Employee benefits	19) Exhaust and greenhouse gas emission and control 20) Sewage and waste management 21) Use of resources 22) Green procurement and packaging	23) Participation in public welfare activities and charity donations

The material issues as identified in the above assessment will be elaborated in their corresponding sections in the Report. We have derived the following five material issues as key areas for future sustainability strategies of the Group from the above assessment. The following issues will also be explained in detail in their corresponding sections in the Report.

We will maintain close communication with stakeholders and continue to review our sustainability policies so as to constantly improve our operation.

QUALITY CONTROL

Product and Service Quality

As a member of the automobile manufacturing industry chain, safeguarding product quality and safety is the top responsibility of the Group. The Group strictly complies with applicable laws and regulations such as the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) and sets a stringent product quality standard. The Group has control on the whole product life cycle in aspects such as project planning, product design and research & development, raw material procurement, manufacturing process and finished product inspection, monitoring the passing rate of sample products. We have obtained ISO 14001:2015 environmental management system certification and ISO 9001-based IATF 16949:2016 – the automotive quality management system external certification, which is recognized by international automotive industry. The relevant data and documents are audited and saved in accordance to these standards to ensure that products go through the Production Part Approval Process (PPAP) with shortened PPAP cycle.

Product Safety and Health

We implement various management workflows and measures, incorporating relevant safety standards into the design concept, to build a well-established automotive industry management system and assessment guidelines, which assess and analyse factory operation and quality control from three quantitative aspects, namely system, process and product. We analyse the status quo of the production line and feedback from the market as well as customers to formulate an annual specialised quality improvement and guideline. We also conduct a periodic product quality assessment, the results of which correlate with the production performance. The department that contributes in ensuring product quality will receive a recognition and the Outstanding Team Award from the Group.

By comparing internal and industry standards, we examine every department in multiple dimensions to discover loopholes and understand existing issues, providing a basis for improvement and correction. Furthermore, through guiding and training its employees, the Group's overall skills and technology standards constantly increase to guarantee that product quality is up-to-standard and reliable. We also establish an independent quality control department which has its own laboratory. Random samples of raw materials and products are tested using professional equipment and instruments. These tests include physical and chemical tests such as robust performance, flame resistant, thermal aging and formaldehyde tests, to ensure that product quality is up to standard. In addition, we also engage independent testing institutions to conduct testing on our products.

Customer Communication and Satisfaction

The Group provides professional and quality services for our customers, and is meticulous and careful about details. The Group also strengthens its regulations on service procedure, and continuously listen to customers' opinions on product quality. Our responsible attitude to customers has gained trusts from many well-known vehicle manufacturers in the PRC, allowing us to maintain long-term partnerships.

We will directly communicate with the customers' quality control department to discuss and investigate methods of quality improvement. The Group has a leading technological advantage and an experienced knowledge in "replacing steels with plastics" in the industry. Following the deeper and broader application of this technology in the automobile industry, in pursuant of customers' requirements, we will look for the best solution to satisfy our customers and together discover and develop the future of automobile manufacturing.

In addition, we also seek for customers' opinions by means of questionnaires, and understand their assessments on product quality, service procedure, service attitude, delivery time and product pricing, and further evaluate the effectiveness of the quality management system. We analyse the discrepancy between our service and customers' needs in accordance to the investigation results, and formulate improvement measures accordingly to consistently improve service experience.

To the best knowledge of the Directors, the Group has not received any complaints from any person regarding safety and health, products and services, and advertising and labelling during the Reporting Period.

Correction and Prevention

The Group has established the "Control Procedures for Corrective and Preventive Measures" (《糾正和預防措施控制程序》), under which we trace, recall and handle, as well as conduct investigations on substandard products. By collecting information from multiple sources, including customer complaints, incident environments, on-site inspections, internal audit reports and questionnaires feedbacks, we analyse the reasons for substandard products and carry out corresponding rectification measures to prevent recurrence of the same problem, continuously improve quality and reduce related risks. During the Reporting Period, the Group has not recalled products due to safety or health reasons.

OCCUPATIONAL SAFETY AND HEALTH

As a responsible employer, the Group incorporates the concept of safety production into every aspect to create and maintain a safe and healthy working environment, so that employees can work safely, thereby increasing corporate operation efficiency. The Group regularly inspects, examines and continuously improves management system to strengthen risk control. We have already been granted the OHSAS 18001 certification (for occupational health and safety) and the Safe Production Standardization Certificate awarded by The State Administration of Work Safety. The following five major policies have been implemented in our workplace to achieve safe production:

INVOLVEMENT OF ALL EMPLOYEES

- Senior management promises to adhere to our occupational health and safety policies
- All employees participate in the implementation of our occupational health and safety management measures

FOCUS ON PREVENTION

- Prior to the launch of every process, position, workplace, equipment, facilities, and projects are subject to risks identification and assessments, so that corresponding risks prevention measures can be implemented in advance.
- Potential safety hazards are inspected, corrective and preventive measures are adopted to prevent any potential accidents.

HEALTH AND SAFETY

- Priorities are given to employees' lives and health, ensuring the conditions for safe production, and providing safety education and training
- Comprehensive safety and health regulations are formulated
- Employees are provided with trainings with respect to safety, health and hygiene knowledge
- Regular medical checks are arranged for employees

LAW-ABIDING

- We promise to abide to relevant laws and regulations, rules, systems and standards of occupational safety and health

CONTINUOUS IMPROVEMENT

- Our occupational health and safety management is constantly reviewed, adjusted and improved in order to comply with the newest and higher laws and regulations standards
- The Plan-Do-Check-Action Management Model is implemented
- Regular internal and external occupational safety and health audits are conducted

The Group strictly complies with the occupational safety and health regulations and industry standards including the "Safety Production Act of People's Republic of China" (《中華人民共和國安全生產法》), the "Prevention and Control of Occupational Diseases of the PRC" (《中華人民共和國職業病防治法》), "Special Equipment Safety Act of the PRC" (《中華人民共和國特種設備安全法》) and "Fire Safety Law of the PRC" (《中華人民共和國消防法》). During the Reporting Period, to the best knowledge of the Directors, the Group received no major administrative sanctions or penalties for violating any laws and regulations related to the provision of safe working environment and the protection of employees against occupational hazards. Furthermore, the Group received no complaints nor notices from regulatory bodies in relation to the violation of safety laws and regulations.

CREATING A SAFE AND HEALTHY WORKING ENVIRONMENT

The Group endeavours to provide its employees with a safe and healthy working environment. We developed occupational safety and health policies which are compliant with relevant laws and regulations, and continuously enhanced the safety management of production lines by regulating working environment, establishing an occupational safety and health management system and production safety goals, as well as by defining the rights and responsibilities of each post. Through identifying and assessing safety risks, we then formulate improvement management measures accordingly to eliminate potential hazards and prevent accidents from happening by continuous monitoring of measures implementation.

We have established an automated safety production system which allows real-time monitoring and raises the alarm for abnormal situations to ensure that workplace conforms to the relevant laws and regulations on occupational health standards. Due to these efforts, we have already been granted the OHSAS 18001 certification for occupational health and safety, as well as the Safe Production Standardization Certificate awarded by The State Administration of Work Safety.

Employees must have good physique in order to participate and implement the Group's sustainable development. Thus, we extremely care about the health of our employees and arrange annual occupational disease check-ups for them. In addition, we continue to implement the following measures to prevent our staffs suffering from heat strokes in heated environment during summer:

- Install air coolers to lower temperature at work sites
- Periodically acquire proper supplies for temperature reduction and heat stroke prevention during hot period in summer

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

- Smoking is forbidden in all enclosed areas in offices and factory premises with no exception.
- A first-aid kit is provided at every workplace to ensure any employee who is injured or sick during work can be immediately taken care of.
- In every production unit, there is at least one employee with first-aid certificate who can provide assistance in case of an incident.
- Resting areas are designated at workplace to provide employees with an ideal rest environment.

Due to our efforts, the Group did not record any cases of work-related fatalities during the Reporting Period, however, there were 13 cases of work injuries. Based on their severity levels, we classify incidents into four major categories, which are minor injury incidents, serious injury incidents, incidents of major casualties and fatal incidents of extremely major casualties, and each category is provided with corresponding handling procedures. 2 of the abovementioned work injuries were traffic accidents which took place on the way to and from work, and were not related to production operations. The rest of which were mostly caused by human error. After each incident, we carry out investigations to analyse the root causes, formulate and further improve corresponding ratification measures, and prevent incidents from happening again.

EMERGENCY PLANS

Incidents or emergency situations may happen and arise during the production process and daily operation of the Group. We have identified each situation, analysed its type, and based on its severity level and place of occurrence, we have established the "Emergency Preparation and Response Procedures" (《應急準備和響應程序》). We have also installed and maintained fire safety system, and equipped with relevant supplies so as to allow and guarantee the swift response of every department as well as prevent casualties and losses in case of an accident. We have established an emergency response team, which is responsible for organising and guiding other staffs at times of incidents to ensure effective execution of emergency plans during incidents. We have also provided trainings for the required members of the emergency response team, especially for firefighters and paramedics, ensuring that they are capable of handling emergencies.

We will also regularly update our emergency plans and training drills. During the Reporting Period, we conducted two fire safety trainings and emergency drills. Through these trainings, every department acquired a better understanding on the fire emergency plans, the principles and various types of fire extinguishers and the use of fire hydrants, thus, it enhanced our employees' awareness on fire safety and capabilities on emergency response to fire incident at the factory.

OUR EMPLOYEES

Talents are the most valuable asset of an enterprise and are the key to successful sustainable development. The Group has followed the "people-oriented principle" by respecting humanity, upholding employees' rights and health, cultivating and encouraging employees to achieve their potentials, facilitating exchanges and cooperation of talents, as well as providing a fair, friendly, and safe working environment in order to attract and retain talents, fostering the common growth of employees and the Group.

We value our employees' opinions and gather them through different channels. Same with previous year, we continued to conduct employee survey to understand employees' level of satisfaction of the Company in various aspects and identified the most urgent problems for formulation of improvement measures. We have also set up an employee feedback system and organised staff seminars on a regular basis, which provide our employees a channel to express their opinions, and the management can understand their needs directly, thereby improving methods of management continuously.

EMPLOYMENT

As an equal opportunity employer, we are committed to putting an end to discrimination that leads to distinction, exclusion, or preference on the grounds of age, gender, race, religion, sexual orientation, marital status, and physical disability, and ensure that job seekers and employees enjoy fair treatment in recruitment, remuneration welfare, workload, training and promotion. We openly recruit staff through various channels including HR agencies, campus recruitment and job advertisements, employing candidates on merit and fair basis.

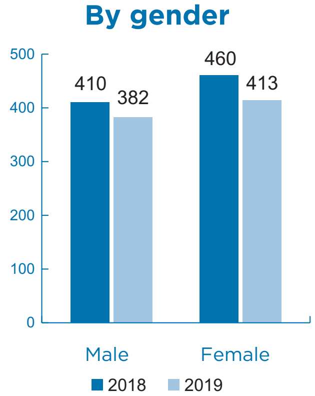
The Group takes reference to the level of salaries in the labor market and the industry, as well as the employees' seniority and positions when setting the remuneration packages, which are regularly reviewed to maintain its competitiveness. We provide our employees a variety of welfares including paid leave and apply for various social insurance. We value the career development and growth of our employees, thus we have established an equal and fair promotion policy. In accordance to the actual needs of every departments and consolidating the professional knowledge, skills, experience, work ethics, and leadership skills of the employee, we conduct regular assessments that act as a basis for reward and promotion. We follow the above mechanism to provide a fair and reasonable treatment to our employees, such that they are motivated to enhance their performance, thus promoting healthy competition among themselves.

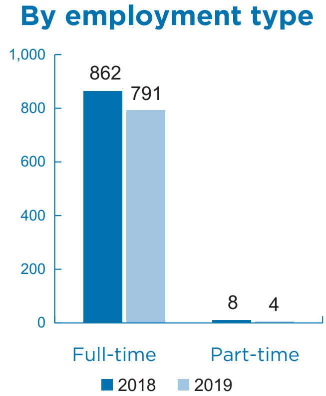
The Group handles resignation and dismissal matters in accordance to the regulations and contracts, and our human resources department will also inquire about the situation to ensure that they are not the results of unfair treatments or discriminations.

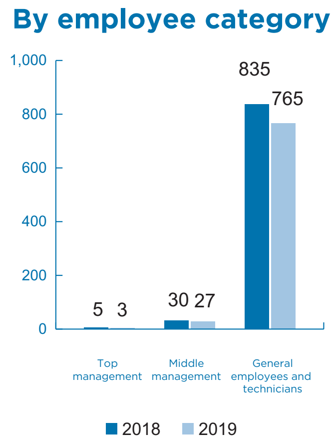
EMPLOYEE BENEFITS

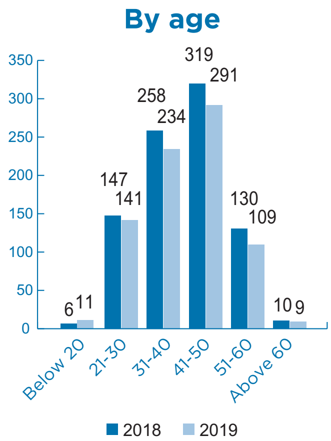
The Group cares about the living and welfare of our employees. In addition to remuneration packages, we also provide our employees with benefits including transportation tickets for weekends, issuing birthday coupons, arranging health checks, as well as arranging vehicles for our employees who go home for reunion during Spring Festival. At certain traditional festivals, we present gifts to employees and celebrate the festival together. From time to time, we also organise various team building activities, such as basketball match, mountain climbing, table-tennis match, and birthday party, to reduce work pressure and enhance employee cohesion and employees' sense of belonging to the Company.

EMPLOYEE DEMOGRAPHICS

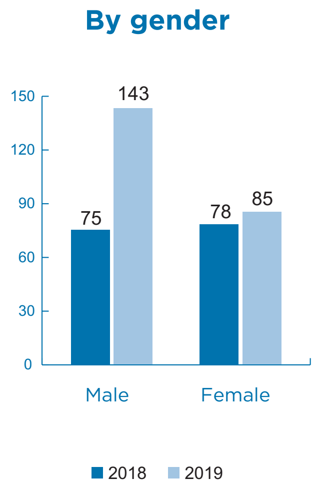


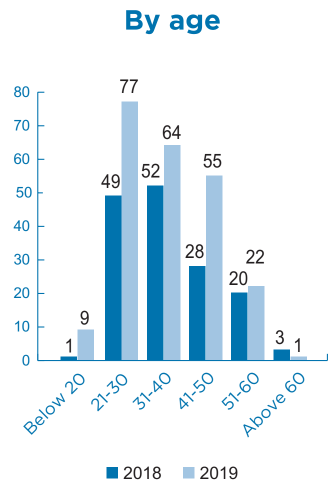






EMPLOYEE TURNOVER ANALYSIS





LABOUR STANDARDS

We strictly comply with the applicable employment laws and regulations, including the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》), the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), and the Regulations on Prohibition the Use of Child Labor (《禁止使用童工規定》), and employ workers according to laws and regulations. We prohibit any form of child and forced labor in our business operations. During our recruitment process, we verify the applicants' age by checking their ID cards to avoid recruitments of child labor under the age required by laws. In addition, we require our employees to comply with the overtime management policy by completing the Overtime Application Form and submitting the form to their department heads for approval before working overtime. We encourage our employees to maintain a balance between work and rest and ensure that none of our employees shall work overtime against their will. To the best knowledge of the Director, the Group did not have any material violation of employment laws and regulations during the Reporting Period.

EMPLOYEE TRAINING AND DEVELOPMENT

The Group believes that through training employees, it can enhance their skills as well as facilitate team communication and cooperation, which increase working efficiency and cultivate employees' sense of belongings to the Company. Based on the Group's development strategy and business needs, and considering the different career plan of employees, we provide suitable trainings regularly, and assist our employees in meeting the required continuous training hours for professional qualification. We have a comprehensive training system, which designs targeted trainings based on the qualification standards of the posts. Training courses specific to each posts are developed, so that employees are able to update their knowledge, broaden their horizon, as well as activate and show their full potentials. The Group also offers various business and operation related internal trainings to ensure that employees stick close to the constantly updating production technology as well as master the relevant professional skills in both aspects of professional knowledge and daily works, developing a driving force for continuous learning of our staff and promoting a learning atmosphere inside the Group.

We have formulated the "Huazhong Craftsmen" (《華眾工匠》) scheme for the selection and development of exceptional talents. During the Reporting Period, we arranged more than 200 various trainings for employees, including occupational skills, product quality, production safety, fire safety, and emergency awareness. Through our cooperation with Xizhou Community Education College* (西周社區教育學院), we provided skills enhancement courses to 63 initial installation assembling technicians. The Group also encourages its employees to participate in external trainings, seminars and examinations for work-related professional qualifications or licenses. In addition, we have established "Huaxiang University" (華翔大學) through our long-term cooperation with Shanghai Jiaotong University, and organised corporate management courses for senior management in training management talents.

During the Reporting Period, our trainings focused on the following areas[1]:

New entrants training

Training on rules and regulations
Training on knowledge of quality
Training on production safety

Company-level training

Stress and emotion management
The five major tools for quality management
Training on production management
Training on new products

Department-level training

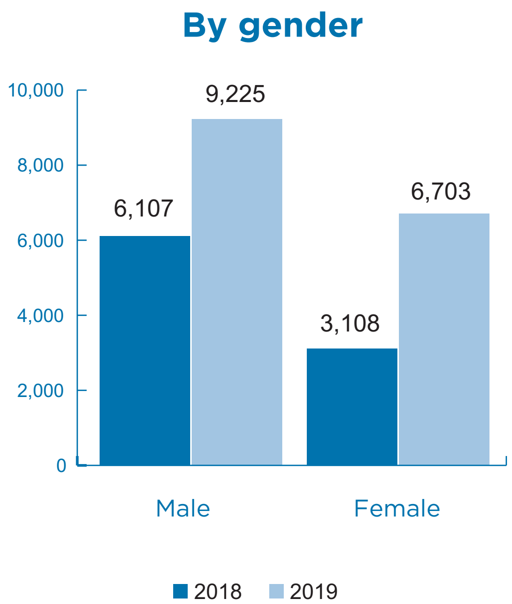
Taxation training
Customer assessment training
Project management training

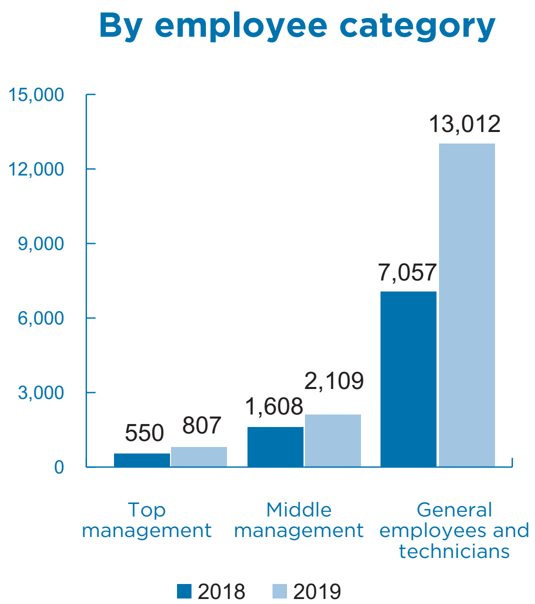
Work site training

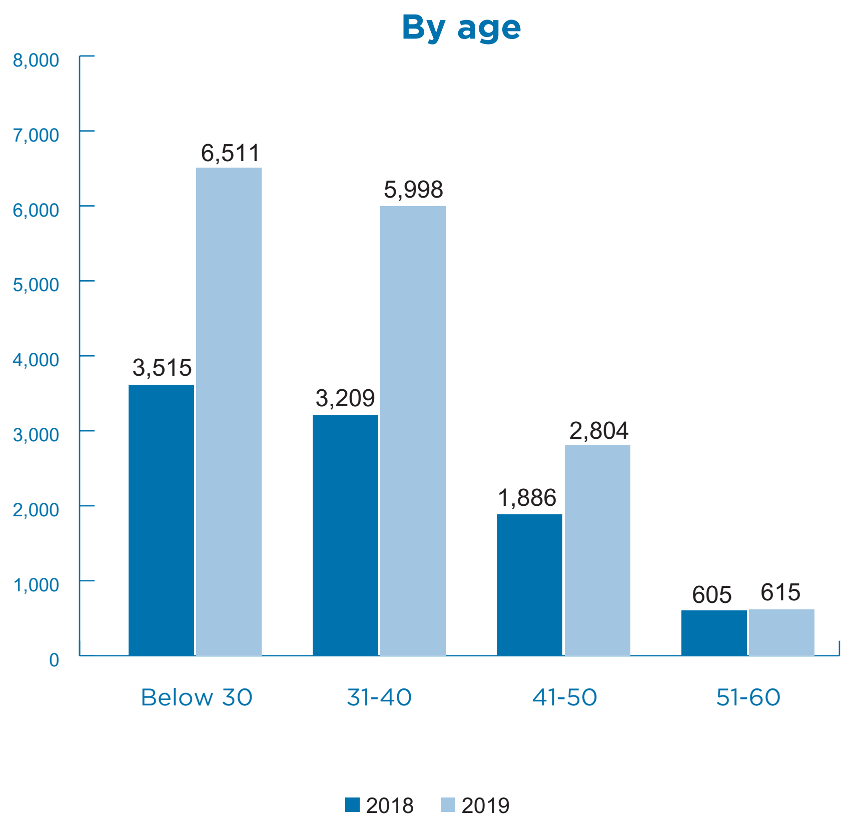
Training on quality issues
6S management training
Standardised operation training

1 Five major tools for quality control include: 1. Statistical Process Control (SPC); 2. Measurement System Analyse (MSA); 3. Failure Mode & Effect Analyse (FMEA); 4. Advanced Product Quality Planning (APQP); 5. Production Part Approval Process (PPAP).

EMPLOYEE TRAINING HOURS







GREEN PRODUCTION

In the past, we developed Low Pressure Injection Moulding ("LPIM") process. We apply LPIM in the making of automobile interior decorative parts which allows the fabric to strongly adhere to the plastic backing of the product without using any glue or other chemical substances and are much more environmental friendly than traditional process, therefore achieving green production. We believe that the continuous improvement of the environmental friendly element in products will enable us to gain an advantage in market competition.

The Group carries over the policy mentioned last year and maintains its implementations of technological innovation and technical improvements, and conducts researches in multiple aspects. We replace steels with plastics to reduce the use of the engines and cooling systems. This results in a weight reduction of 4 to 6 kg, which reduces the use of fuel and the amount of greenhouse gases emission. Meanwhile, the welding process is also eliminated, contributing to even less energy consumption.

In respect of automation, through the use of 11-axles linkage technology and application of flexible automated manufacturing system, we have solved the problem of easy deformity in picking up inverted-hook structured door-window strips. Through our conscientious study in robot paint-spraying line, the robot can finally start its mass production and put into use after five months of installation and testing procedure. The application of robot paint-spraying line will increase efficiency, enhance product quality and reduce production costs. Robot paint-spraying line has been approved by our customers, and it has already passed the assessment and started mass production. In addition, we have successfully applied the automatic riveting technology in the flexible percussive riveting system, producing front end modules for customers and achieving synchronized production. Apart from the above, we also carried out technical improvement projects on water channel mould cleaning equipment, low-pressure injection machine-side automation, hydraulic clips, robotic arms configuration and in-mold monitoring etc.

Our unrelenting innovations in numerous high efficiency technology and persistence in implementing various energy conserving measures have been recognised, as we have garnered the "Advanced Enterprise in Energy Saving and Emission Reduction" ("節能減排先進企業") certificate from the People's Government of Ningbo Municipality ("寧波市政府") and the ISO 14001 environmental management system certification. In May 2019, we have obtained the "2018 Annual Outstanding Entrepreneur in Technological Innovation" ("《2018年度科技創新優秀企業》") award from the Xiangshan County Chinese Communist Party Committee ("中共象山縣委") and the People's Government of Xiangshan County ("象山縣人民政府"). We have also received the "Individual Champions Nurturing Enterprise" ("《單項冠軍培育企業》") award in the same month. In future, we will continue to seek opportunities to continuously reduce emissions and wastes, and to reduce the impact of the Group's business on the environment and natural resources.

EXHAUST GAS EMISSION AND ENERGY RESERVATION

It is inevitable that greenhouse gases are emitted during our production process. Our vehicles, forklifts and canteen consume petrol, diesel and liquefied petroleum gas, which produce emissions and cause negative impact to the environment. We strictly oversee and control the production of waste emissions and greenhouse gases in every part of the production process, and adopt control measures such as activated carbon absorption and water sprinkling to purify the emitted gases and thus reduce the environmental impact. In addition, we reduce power consumption by acquiring new injection moulding machines, which at the same time increased operation speed and thus shortened the production cycles. We also prevent repeated raising and lowering of temperature by stabilising the temperature in the paint-spraying workshops to reduce power consumption.

To reduce the reliance on traditional energy, we proactively use renewable energy. During the Year, we used 1,370 MWh of solar energy, representing an increase of 31 MWh from the previous year. Although it only contributed to a small part of our energy consumption, we will continue to look for more opportunities in extending the use and increasing the ratio of renewable resources such as solar energy, so to reduce emissions and lower the negative impact on natural environment.

We are committed to abiding by the exhaust gas emission requirements stated in the "Integrated Emission Standard of Air Pollutants" (《大氣污染物綜合排放標準》) (GB 16297-1996), and have engaged a third-party agency in monitoring our emitted exhaust gas. The inspection report shows that the emission densities and emission rates of our organised air emissions including toluene, xylene, non-methane total hydrocarbons and ethyl acetate are all in compliance with the emission requirements. The unorganised waste emission is also in compliance with the emission requirements. In the meantime, we have also taken the following measures in respect of energy management:

- Set up an energy management committee to improve energy management and efficiency
- Analyse and monitor energy consumption on a regular basis
- Make use of natural daylight in our factory and offices as much as possible and install energy-efficient light tubes
- Ensure equipment and devices are switched off during downtime and breaks
- Remind employees to switch off air-conditioners, electrical appliances, computers, and factory and office equipment when not in use
- Set the temperature of air conditioning in our offices at 24°C to 26°C to save electricity

WASTE DISCHARGE

It is inevitable that wastes are produced during our production activity, which includes both hazardous and non-hazardous wastes. The hazardous waste produced is mainly paint residues, whereas for non-hazardous wastes, we mainly produce plastic scraps, metal scraps and paper boxes. The handling procedures of industrial wastes are carried out strictly according to laws, regulations and standards in relation to the disposal of industrial wastes. Periodically, a third-party solid waste treatment company collects all our hazardous wastes for further treatment, while non-hazardous wastes will undergo the appropriate recycling processes. We have taken the following measures to reduce non-hazardous wastes production and to reuse non-hazardous wastes:

- Plastic scraps are crushed and reused in the production lines
- Metal scraps are collected and handed over to recycling companies for recycling
- Used cartons are handled according to their conditions. Those that can be reused will be resized and recycled to enhance the use of packaging materials

Moreover, we also implement a number of schemes to reduce the production of office waste paper and encourage employees to reduce waste production. They include:

- Achieve the goal of "paperless and digital" workplace by using emails and electronic workflow system
- Place memos with environmentally friendly messages and tips on office equipment
- Set up paper recycle box in office and recycle cartridges
- Use durable items, such as ceramic cups and reusable spoons instead of disposable plastic and paper cups and wooden stirrers

NOISE

The Group uses mechanical equipment for productions, among which the pulverizing workshops generate relatively large amount of noise. We have located the workshops in a secluded room and distributed hearing protection earmuffs to employees to reduce the impact of noise on them. In addition, we have also engaged a qualified agency to inspect and monitor noise production of the Group according to the "Emission Standard for Industrial Enterprises Noise at Boundary" (《工業企業廠界噪聲排放標準》) (GB 12348-2008). The inspection result shows that our environmental noise production is in compliance with the requirements.

WATER RESOURCES MANAGEMENT

The Group does not produce a large amount of wastewater during its production process, and the cooling process is the most water-consuming part of the production. We reuse the water in the cooling process to reduce water consumption. Our domestic water consumption mainly includes water for cooking in the canteen and water for toilets. We completed the construction of the canteen sewage treatment facility according to the plan provided by the government: firstly, wastewater is filtered by a screen filter to remove solid wastes; then, it is discharged into a sedimentation compartment to separate fine-grained sediments such as silt; then, oil floating on water is removed by using the grease trap; finally, water is discharged after purification in the separation compartment. We have engaged a third-party agency to inspect our wastewater discharge. The results shows that we are in compliance with the "Integrated Wastewater Discharge Standard" (《污水綜合排放標準》) (GB 8978-1996). The Group's water is sourced from municipal water system, and thus the Group does not have any difficulty in sourcing water.

COMPLIANCE

Our business requires us to comply with various environmental laws and regulations, including but not limited to "Environmental Protection Law of the People's Republic of China" (《中華人民共和國環境保護法》), "Energy Conversation Law of the People's Republic of China" (《中華人民共和 國節約能源法》), the "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution" (《中華人民共和國大氣污染防治法》), the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes" (《中華人民共和國固體廢物污染環境防治法》), the "Law of the People's Republic of China on the Prevention and Control of Environmental Noise" (《中華人民共和國環境噪聲污染防治法》) and the "Law of the People's Republic of China on Prevention and Control of Water Pollution" (《中華人民共和國水污染防治法》). During the Reporting Period, we have not been subject to any fines or penalties due to violation of environmental laws and regulations in China.

ENVIRONMENTAL KPIs

	2019	2018	Unit
Air emissions			
Nitrogen oxides (NO_X)	296.4	375.2	Tonnes
Sulphur oxides (SO_X)	4.9	6.2	Tonnes
Particulate matter (PM)	11.1	14.0	Tonnes
Greenhouse gases emissions			
Total greenhouse gas emissions	122,378.9	153,299.6	Tonnes of CO2e
Direct emission (scope 1)	114,581.4	144,880.6	Tonnes of CO2e
Indirect emission (scope 2)	7,797.5	8,419.0	Tonnes of CO2e
Greenhouse gas emissions intensity	2.1	3.5	Tonnes of CO2e/'000 product unit
Hazardous waste			
Total amount of hazardous waste produced and disposed	19.5	27.2	Tonnes
Hazardous waste intensity/'000 product unit	0.3	0.6	Kg/'000 product unit
Non-hazardous waste			
Total amount of non-hazardous waste produced and disposed[2]	465.9	318.3	Tonnes
Recycled – metal	150.4	76.3	Tonnes
Recycled – paper	232.3	182.3	Tonnes
Recycled – plastic	79.5	55.9	Tonnes
Discarded – paper	3.7	3.8	Tonnes
Non-hazardous waste intensity/'000 product unit	7.9	7.3	Kg/'000 product unit
Packaging materials			
Total amount of packaging materials used	2,016.2	2,472.6	Tonnes
Packaging materials intensity/'000 product unit	34.1	56.8	Kg/'000 product unit
Energy consumption			
Total energy consumption	527,282.8	664,214.2	MWh
Purchased electricity	11,083.8	11,967.3	MWh
Liquefied natural gas	514,279.4	650,245.9	MWh
Liquefied petroleum gas	42.0	154.5	MWh
Unleaded petrol	384.3	439.3	MWh
Diesel	123.0	137.3	MWh
Renewable energy – solar photovoltaic power generation	1,370.3	1,269.9	MWh
Energy consumption intensity	8.9	15.3	MWh/'000 product unit
Water consumption			
Total water consumption	118,161.0	100,490.0	m^3
Water consumption intensity	2.0	2.3	m^3/'000 product unit

2 Domestic waste generated in offices and dormitories was not included as it was collected by local environmental sanitation team.

SUPPLY CHAIN MANAGEMENT

We regard our suppliers as long-term partners with whom we share common development. We also believe good supply chain management will help maintain the quality of our products and the reputation of the Group, which are fundamental in achieving long-term business growth.

The production materials we procure mainly include various types of resin, such as polycarbonate/ acrylonitrile butadiene styrene ("PC/ABS") and polypropylene ("PP"), accessories (such as metal clamps and screws) and fabric. The Group sources most of the fabrics it needs through its jointly controlled company, Ningbo Roekona-Zoeppritex-Tex-Line Co., Ltd. ("Ningbo Hualete"). For other production materials such as resins and accessories, we do not rely on any particular supplier since there are generic standards each of these materials. Most of our suppliers are from China, while certain production materials, including higher grade plastics, and accessories are sourced from overseas.

The Group has established a stringent procurement policy and management process for the selection of suppliers. ISO/TS 16949 quality system is an internationally recognised standard which also includes the additional requirements of ISO 9001 and specific types of automotive industry certifications. The Group requires that all suppliers must obtain the above certification to ensure the quality of the materials or products they supply. We thoroughly check the background of the suppliers, and make selections based on their prices, technologies, production capacities, delivery time, products and service quality, as well as performance in environmental protection, ethical behaviours and social responsibilities. Only qualified vendors will be included in our list of approved suppliers. Our quality control department also evaluates the performance of suppliers every month based on product return rates and feedback from the production lines.

The Group is concerned about the social responsibilities of the suppliers. We understand that the achievement of sustainable development relies very much on the alignment of philosophies between the suppliers and the Group. We hope to maintain the suppliers' product qualities and price stabilities through long-term cooperation. We also require the products to be produced in manners that conforms to ethical principles. We work together with the suppliers in improving employees' rights, environmental protection and corporate integrity, to build a stable and sustainable supply chain. During the Reporting Period, the Group was not aware of any material deficiencies or misconduct of our major suppliers in areas such as business ethics, environmental protection or labour practices. Any suppliers, if found operating in manners contrary to our philosophy of sustainable development, may be subject to termination of cooperation.

PROTECTION OF PERSONAL INFORMATION AND PRIVACY

The Group makes its utmost effort to protect the confidentiality of information and personal privacies of our employees, customers, suppliers and business partners and prevent their rights from being infringed. We have established information security measures and a strict management system with different levels of authorisation set up in the IT system for employees of different positions in accessing different types of documents. For any queries of relevant data, they must be reviewed and approved by going through established procedures. To prevent disclosure of privacies, confidential information must not be accessed without permission. We also actively promote the employees' awareness of the risks of information leakage. To the best of the Directors' knowledge, the Group did not receive any complaints in relation to privacy matters during the Reporting Period.

ANTI-CORRUPTION AND PROMOTION OF INTEGRITY

To protect the Group's reputation and interests, we do not tolerate any form of corruption, we prohibit all illegal acts and violations of laws and regulation such as briberies, extortions and money laundering. We are committed to running an operation that can stand as a model for the other corporations in terms of its honest and trustworthy operation. We have set up complaint and reporting channels, we encourage employees or other informers to participate in the implementation of the Group's integrity supervisory system and we protect the identity and interests of the reporting parties. Upon verification of violations, the parties involved will be subject to disciplinary actions, or even dismissal and submission to judiciary authorities for investigation and punishments.

The Group continuously promotes and educates the employees on its anti-corruption policies. It requires all newly recruited employees to participate in integrity training in order to strengthen their awareness of anti-corruption. It is stipulated in the "Employee Handbook" (《員工手冊》) that employees cannot give or receive any kind of benefits, in exchange of any favourable business decisions or any improper advantages. We also enter into "Anti-corruption Agreements" (《廉潔合同》) with major cooperative partners, putting into writing the responsibilities of both parties in safeguarding integrity, preventing improper conduct and fostering a business environment with fairness and honesty.

The Group strictly abide by laws and regulations in relation to anti-corruption, including the Anti-Money Laundering Law of the People's Republic of China (《中國人民共和國反洗錢法》) and Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》). During the Reporting Period, the Group did not find any violations in relation to bribery, fraud, extortion or money laundering that had material impact on the Group.

GIVING BACK TO THE SOCIETY

The Group takes the initiative to shoulder social responsibility and gives concerns to the welfare of the underprivileged groups and poor families. During the Reporting Period, we donated RMB100,000 to the Xiangshan County People's Education Foundation and established the Huaxiang Education Fund for the development of education. We also donated RMB500,000 to Xiangshan Charity Federation and established the Guanming Fund for the support of public welfare. In addition to recruiting and identifying suppliers from areas surrounding our place of operation in order to promote the economic development of the local district, we also participated in community construction proactively and promoted the sustainable development of the community by giving back to the society.

In addition, the Group has always been providing employment opportunities to people with disabilities and helping them participate in and contribute to the society. Looking forward, we will, as always, disseminate our love and care and give back to the society through caring and helping people with disabilities.

HKEX ESG REPORTING GUIDE INDEX

Main scope, aspects, general disclosure and key performance indicators ("KPI")		Section/remarks
A. Environmental		
Aspect A1: Emissions		
A1 General disclosure	Regarding the waste emissions and greenhouse gas emissions, sewage to water and land, hazardous and non-hazardous waste generation, etc.: (a) Policy; and (b) Details on compliance with laws and regulations related to significant impacts on the issuer	Green production
A1.1	Types of emissions and related emissions data.	Environmental KPIs
A1.2	Total greenhouse gas emissions and density.	Environmental KPIs
A1.3	The total amount of hazardous waste generated and density.	Environmental KPIs
A1.4	The total amount of non-hazardous waste produced and density.	Environmental KPIs
A1.5	Describe the measures to reduce emissions and the results obtained.	Exhaust gas emission and energy reservation
A1.6	Describe ways to deal with hazardous and nonhazardous waste, measures to reduce production, and results obtained.	Waste discharge

Main scope, aspects, general disclosure and key performance indicators ("KPI")		Section/remarks
A. Environmental		
Aspect A2: Resource Utilisation		
A2 General disclosure	Policies for the effective use of resources	Green production
A2.1	The total consumption and density of direct and/or indirect energy by type	Exhaust gas emission and energy reservation
A2.2	Total water consumption and density.	Water resources management
A2.3	Describe energy use efficiency plans and results.	Green production
A2.4	Describe any problems that can be found in the application of water, as well as plans to improve water use efficiency and the results obtained.	Water resources management
A2.5	The total amount of packaging materials used in finished products and (if applicable) per unit of production.	Environmental KPIs
Aspect A3: Environment and Natural Resources		
A3 General disclosure	Policies to reduce the issuer's significant impact on the environment and natural resources	Green production
A3.1	Describe the significant impact of business activities on the environment and natural resources and the actions that have been taken to manage the impact.	Green production

Main scope, aspects, general disclosure and key performance indicators ("KPI")		Section/remarks
B. Society		
Employment and Labour Practices		
Aspect B1: Employment		
B1 General disclosure	Regarding pay and dismissal, recruitment and promotion, working hours, holidays, equal opportunities, diversification, antidiscrimination and other benefits: (a) Policy; and (b) Details on compliance with laws and regulations with material impacts on the issuer.	Our employees Labour standards
B1.1	The total number of employees by employment type, age group and region.	Employee demographics
B1.2	The rate of employee turnover by age group and region.	Employee turnover analysis
Aspect B2: Health and Safety		
B2 General disclosure	To provide a safe working environment and to protect employees from occupational hazards: (a) Policy; and (b) Details on compliance with laws and regulations with material impacts on the issuer	Occupational safety and health
B2.1	The number and rate of work-related deaths.	During the Reporting Period, there were no work-related deaths.
B2.2	Lost work days due to work-related injuries.	Relevant data is not disclosed for the year
B2.3	Describe the occupational health and safety measures adopted, as well as the relevant implementation and monitoring methods.	Occupational safety and health

Main scope, aspects, general disclosure and key performance indicators ("KPI")		Section/remarks
B. Society		
Employment and Labour Practices		
Aspect B3: Development and Training		
B3 General disclosure	Policies on improving employees' knowledge and skills in performing job duties. Describe training activities.	Employee training and development
B3.1	Percentage of employees trained by gender and category of employee.	Employee training hours
B3.2	The average number of training hours completed by each employee by gender and employee category	Relevant data is not disclosed for the year
Aspect B4: Labour Standards		
B4 General disclosure	Regarding the prevention of child labour or forced labour: (a) Policy; and (b) Details on compliance with laws and regulations with material impacts on the issuer.	Labour standards
B4.1	Describe measures to review recruitment practices to avoid child labour and forced labour.	Labour standards
B4.2	Describe the steps taken to eliminate the situation when a violation is found.	Relevant data is not disclosed for the year

Main scope, aspects, general disclosure and key performance indicators ("KPI")		Section/remarks
B. Society		
Operating practices		
Aspect B5: Supply Chain Management		
B5 General disclosure	Environmental and social risk policies on supply chain management.	Supply chain management
B5.1	Number of suppliers by region.	Relevant data is not disclosed for the year
B5.2	Describe the practice of appointing suppliers, the number of suppliers subject to relevant practices, and the implementation and monitoring methods of relevant practices.	Relevant data is not disclosed for the year
Aspect B6: Product Liability		
B6 General disclosure	About the health and safety, advertising, labelling and privacy issues and remedies of the products and services provided: (a) Policy; and (b) Details on compliance with laws and regulations with material impacts on the issuer.	Product safety and health
B6.1	Percentage of products to be recalled of the total products sold or shipped for safety and health reasons.	Correction and prevention
B6.2	Number of complaints about products and services received and how to deal with them.	Correction and prevention
B6.3	Describe the practices related to the maintenance and protection of intellectual property	Relevant data is not disclosed for the year
B6.4	Describe the quality verification process and product recovery procedures.	Relevant data is not disclosed for the year
B6.5	Describe consumer data protection and privacy policies, and related implementation and monitoring methods.	Protection of personal information and privacy

Main scope, aspects, general disclosure and key performance indicators ("KPI")		Section/remarks
B. Society		
Operating practices		
Aspect B7: Anti-corruption		
B7 General disclosure	About preventing bribery, extortion, fraud and money laundering: (a) Policy; and (b) Details on compliance with laws and regulations with material impacts on the issuer.	Anti-corruption and promotion of integrity
B7.1	The number of corruption lawsuits filed against the issuer or his employees during the Reporting Period and the outcome of the lawsuit.	To the best of the Directors' knowledge, during the Reporting Period, the Group did not receive any compliant from anyone in respect of bribery, blackmailing, fraud and money laundering, and are not aware of any corruption lawsuits.
B7.2	Describe preventive measures and whistleblowing procedures, as well as related implementation and monitoring methods.	Anti-corruption and promotion of integrity
Community		
Aspect B8: Community Investment		
B8 General disclosure	The policy on community participation to understand the needs of the communities in which they operate and to ensure that their business activities take into account the interests of the community	Giving back to the society
B8.1	Focus on the areas of contribution	Relevant data is not disclosed for the year
B8.2	Use resources in the focus areas	Relevant data is not disclosed for the year

DIRECTORS

Executive Directors

Mr. Zhou Minfeng (周敏峰), aged 53, 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 24 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. Chang Jingzhou (常景洲), aged 59, was appointed as an executive Director on 7 December 2011. Mr. Chang has over 17 years of experience in the automobile body parts industry and is primarily responsible for overall production management, technology quality assurance and project management of the Group. Mr. Chang worked for the People's Liberation Army of PRC from January 1980 to December 1982. From 1996 to December 1998, Mr. Chang served various positions in Xi'an Airport Industry Wei Yuan Company (西安飛機工業渭原公司), including head of technical department and general engineer. Mr. Chang joined the Group in June 2000 as supervisor of technology development and was promoted to vice general manager in August 2008. Mr. Chang obtained the bachelor's degree in Machinery Manufacturing Process and Equipment (機械製造工藝與設備) from Xi'an City Employee University (西安市職工大學) in June 1990.

Non-executive Directors

Ms. Lai Cairong (賴彩絨), aged 75, 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 63, 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 58, 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 60, 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 academic leader of Chang Jiang Scholars and Innovation Team of Energy-saving and Environment-friendly Vehicles, the vice president of executive council of China SAE, the director of the Expert Committee of the Innovation Strategic Alliance of China Hydrogen and Fuel Cells Industry, 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.

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 Shanghai Highly (Group) Co., Ltd., a company listed on the main board of the Shanghai Stock Exchange (stock code: 600619).

Mr. Yu was appointed as an independent director of Guangdong Dazhi Environmental Protection Technology Incorporated Company, a company listed on the Shenzhen Stock Exchange (Stock Code: 300530), in November 2019.

Independent non-executive Directors

Mr. Wong Luen Cheung Andrew (王聯章), aged 62, was appointed as an independent non-executive Director on 8 April 2015 and the vice-chairman of the Company on 30 December 2015. Mr. Wong is currently an independent 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 71, was appointed as an independent non-executive Director on 7 December 2011. Mr. Yu is also the chairman of the audit committee and the remuneration committee of the Company and a member of the nomination committee of the Company. Mr. Yu received a diploma in economics from Shanghai Financial School (上海財經學院) in July 1985. Mr. Yu served as the head of financial department, vice general accountant, general accountant and head of the factory of Aerospace Shanghai Xinxin Machine Factory (航天部上海新新機器廠) from 1986 to 1997. Mr. Yu then joined Shanghai Delphi Automotive Air Conditioning Systems Co., Ltd. (上海德爾福汽車空調系統有限公司) and worked as a general manager until June 2006. Subsequently, Mr. Yu served as the head of the Shanghai Automotive Air Conditioner Factory (上海汽車空調器廠) until November 2008. Mr. Yu currently serves as the director of Zhejiang Sanhua Co., Ltd. (浙江三花股份有限公司) since April 2006. Mr. Yu became a qualified senior accountant in the PRC in August 1995. Subsequently, Mr. Yu served as an independent executive of Ningbo Huaxiang Electronics (寧波華翔電子股份有限公司), a company listed on Shenzhen Stock Exchange, from January 2008 to December 2013 and has been a supervisor of Ningbo Huaxiang Electronics since January 2014.

Mr. Tian Yushi (田雨時), aged 74, was appointed as an independent non-executive Director on 7 December 2011. Mr. Tian is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Tian received the bachelor's degree in machinery from Harbin Industrial University (哈爾濱工業大學) in July 1970 and the bachelor's degree in party policy management (黨政管理) from correspondence school of CPC Central Committee Party School (中共中央黨校函授學院) in December 1992. Mr. Tian served various positions in China First Automobile Group (中國第一汽車集團公司) (formerly known as CPC First Automobile Factory (中共第一汽車製造廠)), a state-owned enterprise which is principally engaged in automobile manufacturing, including department head of the party committee, director for production and dispatching, general director for dispatching, assistant to the general manager and director for coordination and supporting from May 1991 to January 2000. Mr. Tian was then designated as the general manager of Fawer Automotive Parts Company Ltd. (富奧汽車零部件有限公司), a subsidiary of China First Automobile Group in January 2000. From January 2000 to July 2005, Mr. Tian also served as the chairman of more than 12 subsidiaries of First Automobile Works (第一汽車集團公司). Mr. Tian was appointed as senior consultant of China Auto Parts & Accessories Corp. (中國汽車零部件工業公司) in October 1996. Mr. Tian currently serves as an evaluation expert of the Investment Projects of Jilin Province and an evaluation expert of the Key Projects of Changchun.

Mr. Xu Jiali (徐家力), aged 59, was appointed as an independent non-executive Director on 31 July 2013. Mr. Xu is also a member of the Audit 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.

Mr. Wu Bichao, aged 46, was appointed as an independent non-executive Director on 12 Setpember 2018. Mr. Wu graduated from Huaqiao University with a junior college degree in financial management. 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.

SENIOR MANAGEMENT

Mr. Zhou Ruqing (周汝青), aged 73, is the vice general manager and is primarily responsible for the daily management. From August 1988 to October 1993, Mr. Zhou served as a technician of Ningbo Huaxiang Electronics (a company listed on the Shenzhen Stock Exchange). Mr. Zhou then joined Ningbo Huazhong Plastic and worked as a head of the factory until June 1999. Mr. Zhou served as the vice general manager of Ningbo Xinxing until May 2004. From May 2004 to September 2009, Mr. Zhou worked as the vice general manager of Ningbo Huaying Incos Mould Manufacturing Co., Ltd. (寧波華英模具科技發展有限公司), a private company which is principally engaged in mould manufacturing. Mr. Zhou worked as the vice general manager of Ningbo Huazhong Moulding since September 2009. Mr. Zhou became an engineer in December 1993. Mr. Zhou graduated from Xizhou Middle School (西周中學) in July 1963.

Mr. Cheung Wah Lung Warren (張華龍), aged 40, joined the Company on 9 June 2015 and is the chief financial officer and a joint company secretary of the Company. He graduated with a bachelor of business and administration degree from the Simon Fraser University in Canada. He is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Chartered Secretaries. Prior to joining the Company, Mr. Cheung Wah Lung Warren worked in the assurance and advisory business services department of Ernst & Young, Certified Public Accountants, and served as the financial controller of a company listed on the Stock Exchange from November 2010 to May 2015.

Mr. Cui Jihong (崔繼宏), aged 54, is the assistant to general manager of the Company and is primarily responsible for sales. From February 2001 to October 2004, Mr. Cui served various positions in Ningbo Huazhong Plastic, including the department head for sales, production and technology. Mr. Cui was then delegated to join Nanchang Jiangling Huaxiang Automobile Parts Co., Ltd. (南昌江鈴華翔汽車零部件有限公司), a private company which is principally engaged in automobile body parts manufacturing in October 2004 and worked as the vice general manager until November 2007. Mr. Cui then joined Ningbo Huazhong Plastic and worked as the assistant of the general manager since April 2008. Mr. Cui became an engineer in September 1993. Mr. Cui obtained the bachelor's degree from Dalian University of Technology (大連理工大學) in July 1988.

JOINT COMPANY SECRETARIES

Mr. Cheung Wan Lung Warren (張華龍) is a member of the senior management and a Joint Company Secretary. Please refer to his biography under the paragraph headed "Senior Management" above.

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

* *For identification purpose only*

The Directors have pleasure in presenting their report together with the audited financial statements of the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is one of the principal suppliers of automobile body parts in China. The Group is principally engaged in manufacture and sale of internal and external decorative and structural automobile parts, moulds and tooling, casing and liquid tank of air conditioning or heater units and other non-automobile products.

BUSINESS REVIEW

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

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

KEY RISK FACTORS

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

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

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

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

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

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

DEPENDENCE ON A FEW KEY CUSTOMERS

Sales to our five largest customers, in aggregate, accounted for about 51.3% (2018: 49.3%) 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 retention payables of the Group as at 31 December 2019 are set out in note 26 to the financial statements.

During the Reporting Period, 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 retention receivables of the Group as at 31 December 2019 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 Reporting Period, 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 36.2% (2018: 28.6%) and 51.3% (2018: 49.3%), respectively, of the Group's total revenue from operations.

Aggregate purchases from the Group's largest and five largest suppliers accounted for 3.3% (2018: 8.9%) and 13.2% (2018: 20.7%), respectively, of the Group's total purchases from suppliers.

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

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2019 are set out in note 1 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2019 and the state of the Group's affairs as at that date are set out in the financial statements on pages 77 to 80 of this annual report.

DIVIDEND

The Board recommends the payment of a final dividend of RMB0.475 cent (equivalent to HK0.5206 cent at an exchange rate of HK$1 equals to RMB0.91243) cent per ordinary share for the Year (2018: RMB0.4030 cent (equivalent to HK0.4714 cent at an exchange rate of HK$1 equals to approximately RMB0.8548). 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 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2019, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Law**"), amounted to RMB19,685,000. Under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2019 are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in issued capital of the Company during the year ended 31 December 2019 are set out in note 31 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 174.

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. Li Xuejun* (resigned on 31 July 2019)
Mr. Chang Jingzhou

Non-Executive Directors
Ms. Lai Cairong
Mr. Wang Yuming
Mr. Guan Xin
Mr. Yu Zhuoping (appointed on 5 August 2019)

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

* Mr. Li Xuejun resigned as an executive Director due to other business commitments with effect from 31 July 2019.

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 are set out on pages 56 to 60 of this annual report.

Update on Director's Information

On 25 November 2019, Mr. Yu Zhuoping was appointed as an independent director of Guangdong Dazhi Environmental Protection Technology Incorporated Company, a company listed on the Shenzhen Stock Exchange (stock code: 300530).

Save as disclosed herein, there has been no change to the information of the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

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

INDEMNITY FOR DIRECTORS

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

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

As at 31 December 2019, the Directors and the chief executive of the Company had the following interests or short positions in the shares (the "**Shares**"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Long position in the Company

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. Chang Jingzhou	Beneficial owner	840,400	0.05%
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 2019, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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.

Share Option Scheme

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

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

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

(a) the nominal value of a Share;

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

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

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting option granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme. The remaining life of the Share Option Scheme is 2 years. There were no outstanding options, and there were no options granted, exercised, lapsed or cancelled pursuant to the Share Option Scheme during the Year and as at the date of this report. As at the date of this annual report, the total number of securities available for issue under the Share Option Scheme was 77,500,000, representing approximately 4.38% of the issued share capital of the Company.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES 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 2019, 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%
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 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 2019, 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 Automobile Latex and Plastic Co., Ltd ("**Changxing Huaxin**") (1)	Shanghai Automobile Air Conditioner Factory* (上海汽車空調器廠)	30%
Changxing Huaxin (1)	Shanghai Beicai Industrial Co., Ltd. (上海北蔡工業有限公司)	19%

Note:

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

Save as disclosed above, as at 31 December 2019, 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.

Term Loan Facility And Specific Performance Obligation

In accordance with the continuing obligation set out in Rule 13.21 of the Listing Rules, the following are the details of the loan agreement with covenants relating to specific performance on the controlling shareholders of the Company as at the date of this report pursuant to Rule 13.18 of the Listing Rules thereof.

The Company, as a borrower entered into a facility agreement (the "**Facility Agreement**") relating to term loan facilities of HKD13,000,000 (the "**Loan 1**"), HKD89,550,000 (the "**Loan 2**") and HKD78,022,240 (the "**Loan 3**"), with a total amount of HKD180,572,240 in total with a licensed bank in Hong Kong (the "**Bank**"). The final maturity date of these term loan facilities shall be due from within one year from 31 December 2019.

Pursuant to the Facility Agreement, Mr. Zhou (a) will remain as a Director and the chairman of the Company and maintain control over the management and business of the Company and its subsidiaries at any time; (b) shall (directly or indirectly) (i) hold no less than 50% equity interests in the Company and (ii) remain the single largest shareholder of the Company at any time; and (c) shall remain as a member of the Board.

As at the date of this report, Mr. Zhou indirectly owned approximately 74.61% of the issued share capital of the Company.

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 37 to the financial statements in respect of items denoted with "Δ" and item disclosed in Note 37(b) 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 2019. 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 operate in China are required to participate in defined contribution central pension schemes operated by the local municipal government. The subsidiaries of the Group are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension schemes.

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

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 2019 are set out in note 28 to the financial statements.

On behalf of the Board
Zhou Minfeng
Chairman and Chief Executive

27 March 2020

* *For identification purpose only*

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 77 to 173, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRS**") 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 2019, the Group had inventories of approximately RMB361,648,000 at the lower of the cost and net realisable value. We identified the determination of net realisable value of inventories as a key audit matter because the carrying amount of 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) Obtained an understanding of the Group's inventory provision policy and checked the calculation of the inventory provision based on the Group's policy. We evaluated management's assumptions used to calculate the provision by checking the ageing analysis of inventories, subsequent sales and usage of inventories; and 2) Tested slow moving and obsolete inventory items during inventory observation as at the year end.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

Other information consists of the information included in the Annual Report other than the consolidated financial statements and our auditor's report thereon. The directors of the Company are responsible for the other information. 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 will 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 identified above when it becomes available 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.

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 IFRS 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, related safeguards.

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	6	**2,173,549**	1,979,147
Cost of sales		**(1,687,672)**	(1,477,390)
Gross profit		**485,877**	501,757
Other income and gains	6	**39,900**	29,350
Selling and distribution expenses		**(131,432)**	(133,123)
Administrative expenses		**(248,000)**	(214,468)
(Impairment losses)/reversal of impairment losses on financial assets, net		**(2,177)**	11,336
Other expenses		**(6,760)**	(5,262)
Share of profits of joint ventures	19	**13,220**	21,388
Finance income	7	**4,979**	4,576
Finance costs	8	**(43,818)**	(38,227)
PROFIT BEFORE TAX	9	**111,789**	177,327
Income tax expense	12	**(24,157)**	(36,285)
PROFIT FOR THE YEAR		**87,632**	141,042
Attributable to:			
Owners of the parent		**84,087**	138,742
Non-controlling interests		**3,545**	2,300
		87,632	141,042
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic			
— For profit for the year		**RMB0.0475**	RMB0.0784
Diluted			
— For profit for the year		**RMB0.0475**	RMB0.0784

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR	**87,632**	141,042
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**4,805**	36
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**4,805**	36
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	**20,824**	2,650
Income tax effect	**(5,206)**	(662)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**15,618**	1,988
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**20,423**	2,024
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**108,055**	143,066
Attributable to:		
Owners of the parent	**104,510**	140,766
Non-controlling interests	**3,545**	2,300
	108,055	143,066

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	**2019 RMB'000**	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**818,505**	730,316
Investment properties	16	**42,363**	44,663
Right-of-use assets	17b	**238,415**	—
Prepaid land lease payments	17a	**—**	215,217
Intangible assets	18	**6,539**	7,224
Investments in joint ventures	19	**171,111**	163,892
Prepayments for acquiring property, plant and equipment		**72,194**	56,063
Equity investments designated at fair value through other comprehensive income	20	**60,149**	39,325
Deferred tax assets	30	**10,554**	11,345
Total non-current assets		**1,419,830**	1,268,045
CURRENT ASSETS			
Inventories	21	**361,648**	409,974
Trade and notes receivables	22	**781,605**	712,983
Prepayments and other receivables	23	**285,471**	241,755
Debt investment at fair value through profit or loss	24	**—**	30,510
Amounts due from related parties	37(c)	**61,218**	85,017
Pledged deposits	25	**207,839**	215,004
Cash and cash equivalents	25	**188,250**	78,752
Total current assets		**1,886,031**	1,773,995
CURRENT LIABILITIES			
Trade and notes payables	26	**977,753**	848,432
Other payables and accruals	27	**235,270**	246,856
Interest-bearing bank and other borrowings	28	**811,196**	629,664
Amounts due to the ultimate controlling shareholder	37(c)	**254**	1,110
Amounts due to related parties	37(c)	**77,302**	67,819
Income tax payable		**43,833**	47,860
Total current liabilities		**2,145,608**	1,841,741
NET CURRENT LIABILITIES		**(259,577)**	(67,746)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,160,253**	1,200,299

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

	Notes	**2019 RMB'000**	2018 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	**38,492**	168,136
Government grants	29	**12,538**	8,681
Deferred tax liabilities	30	**34,299**	41,092
Total non-current liabilities		**85,329**	217,909
Net assets		**1,074,924**	982,390
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	**142,956**	142,956
Reserves	32	**894,109**	800,220
		1,037,065	943,176
Non-controlling interests		**37,859**	39,214
Total equity		**1,074,924**	982,390

Zhou Minfeng
Director

Chang Jingzhou
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Attributable to owners of the parent										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Merger reserve RMB'000	Exchange fluctuation 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 2018	142,956	8,157*	14,268*	58,804*	88,278*	(1,350)*	–*	506,547*	817,660	36,914	854,574
Profit for the year	–	–	–	–	–	–	–	138,742	138,742	2,300	141,042
Other comprehensive income for the year:											
Exchange differences related to foreign operations	–	–	–	–	–	36	–	–	36	–	36
Change in fair value of equity investments designated at fair value through other comprehensive income, net of tax	–	–	–	–	–	–	1,988	–	1,988	–	1,988
Total comprehensive income for the year	–	–	–	–	–	36	1,988	138,742	140,766	2,300	143,066
Final 2017 dividends	–	–	(8,509)	–	–	–	–	–	(8,509)	–	(8,509)
Interim 2018 dividends	–	–	–	–	–	–	–	(6,741)	(6,741)	–	(6,741)
Transfer to statutory reserve funds and discretionary surplus reserve	–	–	–	5,514	–	–	–	(5,514)	–	–	–
As at 31 December 2018	142,956	8,157*	5,759*	64,318*	88,278*	(1,314)*	1,988*	633,034*	943,176	39,214	982,390

	Attributable to owners of the parent										
	Share capital RMB'000	**Share premium RMB'000**	**Capital reserve RMB'000**	**Statutory reserve funds RMB'000**	**Merger reserve RMB'000**	**Exchange fluctuation 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 2019	**142,956**	**8,157***	**5,759***	**64,318***	**88,278***	**(1,314)***	**1,988***	**633,034***	**943,176**	**39,214**	**982,390**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**84,087**	**84,087**	**3,545**	**87,632**
Other comprehensive income for the year:											
Exchange differences related to foreign operations	**–**	**–**	**–**	**–**	**–**	**4,805**	**–**	**–**	**4,805**	**–**	**4,805**
Change in fair value of equity investments designated at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**15,618**	**–**	**15,618**	**–**	**15,618**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**4,805**	**15,618**	**84,087**	**104,510**	**3,545**	**108,055**
Dividends paid to non-controlling shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,900)**	**(4,900)**
Final 2018 dividends	**–**	**–**	**(7,130)**	**–**	**–**	**–**	**–**	**–**	**(7,130)**	**–**	**(7,130)**
Disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**(3,491)**	**–**	**–**	**(3,491)**	**–**	**(3,491)**
Transfer to statutory reserve funds and discretionary surplus reserve	**–**	**–**	**–**	**34,530**	**–**	**–**	**–**	**(34,530)**	**–**	**–**	**–**
As at 31 December 2019	**142,956**	**8,157**	**(1,371)**	**98,848**	**88,278**	**–**	**17,606**	**682,591**	**1,037,065**	**37,859**	**1,074,924**

* These reserve accounts comprise the consolidated reserves of RMB894,109,000 (2018: RMB800,220,000) in the consolidated state ment of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities:			
Profit before tax		**111,789**	177,327
Adjustments for:			
Finance costs	8	**43,818**	38,227
Share of profits of joint ventures		**(13,220)**	(21,388)
Interest income	7	**(4,979)**	(4,576)
Other interest income from debt investments at fair value through profit or loss	6	**–**	(510)
Gain on disposal of items of property, plant and equipment	6	**(1,087)**	(2,222)
Loss on disposal of items of intangible assets		**395**	466
Gain on disposal of an associate	6	**–**	(547)
Gain on disposal of a subsidiary	34	**(643)**	–
Release of government grants	29	**(1,078)**	(814)
Depreciation of property, plant and equipment	15	**87,147**	78,577
Depreciation of investment properties	16	**3,435**	2,509
Amortisation of right-of-use assets	17b	**10,214**	–
Amortisation of prepaid land lease payments	17a	**–**	4,971
Amortisation of intangible assets	18	**1,148**	1,209
Write-down of inventories to net realisable value		**–**	140
Impairment losses on financial assets, net		**2,177**	(11,336)
Decrease/(increase) in inventories		**43,932**	(37,438)
Increase in trade and notes receivables		**(78,280)**	(98,960)
Increase in prepayments and other receivables		**(39,260)**	(100,355)
Decrease/(increase) in amounts due from related parties		**23,799**	(14,097)
Increase in trade and notes payables		**136,978**	226,913
Increase in other payables and accruals		**1,231**	32,029
Increase/(decrease) in amounts due to related parties		**9,483**	(6,712)
Decrease in amounts due to the controlling shareholder		**(856)**	(1,040)
Increase in pledged deposits		**(20,851)**	(15,453)
Cash generated from operations		**315,292**	246,920
Income tax paid		**(39,393)**	(42,503)
Net cash flows generated from operating activities		**275,899**	204,417

	Notes	**2019 RMB'000**	2018 RMB'000
Cash flows from investing activities:			
Interest received		**4,979**	6,938
Purchases of items of property, plant and equipment		**(240,105)**	(195,605)
Purchase of right-of-use assets		**(20,269)**	—
Purchases of items of land use right	17	**—**	(26,830)
Purchases of items of investment property		**—**	(500)
Purchases of items of intangible assets		**(448)**	(863)
Proceeds from disposal of items of property, plant and equipment		**16,629**	14,224
Purchases of financial assets at fair value through profit or loss		**—**	(30,000)
Receipt of government grants for property, plant and equipment	29	**5,071**	1,092
Recovery of financial assets at fair value through profit or loss		**30,510**	—
Disposal of an associate		**—**	19,080
Disposal of a subsidiary	34	**(1,138)**	—
Decrease in non-pledged time deposits with original maturity of three months or more when acquired		**—**	69,035
Purchases of equity investments at fair value through other comprehensive income		**—**	(21,675)
Net cash flows used in investing activities		**(204,771)**	(165,104)
Cash flows from financing activities:			
Proceeds from bank loans	35	**923,752**	992,891
Principal portion of lease payments		**(4,915)**	—
Repayment of bank loans	35	**(853,056)**	(918,064)
Interest paid		**(43,397)**	(38,227)
Dividends paid	35	**(7,130)**	(15,238)
Dividends paid to non-controlling shareholders		**(4,900)**	—
Decrease/(increase) in pledged deposits		**28,016**	(9,687)
Net cash flows generated from financing activities		**38,370**	11,675
Net increase in cash and cash equivalents		**109,498**	50,988
Cash and cash equivalents at beginning of year		**78,752**	27,764
Cash and cash equivalents at end of year	25	**188,250**	78,752

	Notes	2019 RMB'000	2018 RMB'000
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents as stated in the consolidated statement of cash flows		**188,250**	78,752
Cash and bank balances	25	**188,250**	78,752
Non-pledged time deposits with original maturity of three months or more when acquired	25	**—**	—
Cash and cash equivalents as stated in the consolidated statement of financial position		**188,250**	78,752

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Issued ordinary/ registered share capital	Principal activities
Subsidiaries					
Huazhong Investment Company Limited ("**Huazhong Investment**")	BVI	100%	–	US$1	Investment holding
Huayou Investment (Hong Kong) Limited ("**Huayou Investment**")	Hong Kong, 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

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Name	Place of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Issued ordinary/ registered share capital	Principal activities
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
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
Foshan Huazhong Automotive Parts Co., Ltd. ("**Foshan Huazhong**")	PRC/Mainland China	–	100%	RMB20,000,000	Manufacture and sale of plastic parts and automotive parts
HZ FBZ Formenbau Züttlingen GmbH ("**HZ FBZ**")*	Germany	100%	–	EUR1,000,000	Manufacture and sale of moulds

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Name	Place of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Issued ordinary/ registered share capital	Principal activities
Ningbo 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 Huatai In-Vehicle Technology Co., Ltd. ("**Ningbo Huatai**")	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
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

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Name	Place of incorporation/ registration and business	Percentage of equity interest attributable to the Company Direct	Indirect	Issued ordinary/ registered share capital	Principal activities
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%	USD$20,000,000	Manufacture and sale of plastic parts and automotive parts
Shangrao Huazhong Automotive Parts Co., Ltd. ("**Shangrao Huazhong**")	PRC/Mainland China	–	100%	RMB10,000,000	Manufacture and sale of plastic parts and automotive parts

* On 27 December 2019, HZ FBZ, a 100 % owned subsidiary, was disposed of by the Company and the results of HZ FBZ have been excluded from consolidation into the Group since then. The details are disclosed in note 34 to the financial statements.

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

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.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") 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.

The financial statements have been prepared under the going concern basis not withstanding that the Group had net current liabilities of RMB259,577,000 as at 31 December 2019. The directors of the Company are of the opinion that based on the available unutilised banking facilities as at 31 December 2019, the Group will have the necessary liquid funds to finance its working capital and to meet its capital expenditure requirements. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained 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 new and revised IFRS for the first time for the current year's financial statements.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRS 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRS 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRS are described below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases — Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

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

(a) *(continued)*

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of leasehold land and warehouse. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("**short-term leases**") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at the cost model applying IAS 40 as defined in the section "investment properties" in note 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

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

(a) *(continued)*

As a lessee — Leases previously classified as operating leases *(continued)*

Impact on transition (continued)

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/(decrease) RMB'000
Assets	
Increase in right-of-use assets	226,423
Decrease in prepaid land lease payments — non-current portion	(215,217)
Decrease in prepaid land lease payments — current portion	(4,947)
Increase in total assets	6,259
Liabilities	
Increase in interest-bearing bank and other borrowings	6,259
Increase in total liabilities	6,259

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

(a) *(continued)*

Financial impact at 1 January 2019 *(continued)*

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	11,382
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(4,571)
Commitments relating to leases of low-value assets	(94)
	6,717
Weighted average incremental borrowing rate as at 1 January 2019	5.13%
Discounted operating lease commitments as at 1 January 2019	6,259
Lease liabilities as at 1 January 2019	6,259

(b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the Group did not have long-term interests in associates and joint ventures that should be measured in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "**uncertain tax positions**"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation 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 IFRS, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

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

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. 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

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

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

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

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

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

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

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

Fair value measurement *(continued)*

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consist with the function of the impaired asset.

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

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

Related parties

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

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

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

or

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress and freehold land, are stated at cost 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:

Freehold land	Not depreciated
Plant and buildings	20-30 years
Machinery	5-15 years
Motor vehicles	4-6 years
Furniture and fixtures	3-8 years
Tooling	3 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net disposal proceeds and the carrying amount of the relevant asset.

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

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

Investment properties

Investment properties are interests in self-owned buildings which would otherwise meet the definition of an investment property held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. 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.

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.

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.

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

Intangible assets (other than goodwill) *(continued)*

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, commencing from the date when the products are put into commercial production.

Leases (applicable from 1 January 2019)

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.

(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	20 to 30 years
Warehouses	1 to 6 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.

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

Leases (applicable from 1 January 2019) *(continued)*

Group as a lessee *(continued)*

(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 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.

(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, equipment 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 office equipment and laptop computers 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. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. 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.

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

Leases (applicable before 1 January 2019)

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

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

Investments and other financial assets

Initial recognition and measurement

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

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.

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.

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

Investments and other financial assets *(continued)*

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 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.

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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

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.

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

Derecognition of financial assets *(continued)*

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.

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 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.

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

Impairment of financial assets *(continued)*

General approach *(continued)*

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

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings 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.

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

Financial liabilities *(continued)*

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.

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.

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

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.

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.

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

Income tax *(continued)*

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries 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.

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to 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.

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 on delivery 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.

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

Revenue recognition *(continued)*

Revenue from contracts with customers *(continued)*

(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.

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.

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

Employee benefits *(continued)*

Pension scheme — Hong Kong

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

Pension scheme — Germany

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

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.

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

Foreign currencies

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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.

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

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

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

Foreign currencies *(continued)*

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS 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:

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).

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

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

Fair value of certain of unlisted equity investments

Certain of the Group's unlisted equity investments has been valued based on a market-based valuation technique as detailed in note 39 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 investment as Level 3. The fair value of the unlisted equity investment at 31 December 2019 was RMB60,149,000 (2018: RMB16,870,000). Further details are included in note 20 to the financial statements.

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.

5. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
Mainland China	**1,987,353**	1,745,354
Overseas	**186,196**	233,793
	2,173,549	1,979,147

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

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
Mainland China	**1,349,127**	1,182,626
Overseas	**—**	34,749
Total	**1,349,127**	1,217,375

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

Information about major customers

Revenue from operations of approximately RMB786,668,000 (2018: RMB565,956,000) 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

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers		
Sales of plastic parts and automotive parts	**1,899,770**	1,761,159
Sales of moulds and tooling	**273,779**	217,988
	2,173,549	1,979,147

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 according to 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 goods transferred at a point in time.

The revenue recognised during the year ended 31 December 2019 that was included in contract liabilities at the beginning of the year was RMB 94,383,000. (2018: RMB72,603,000).

(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 2019 are 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 *(continued)*

Revenue from contracts with customers *(continued)*

An analysis of other income and gains is as follows:

	Note	**2019 RMB'000**	2018 RMB'000
Other income			
Government grants		**5,963**	4,213
Interest income from debt investments at fair value through profit or loss		**—**	510
Management fee		**3,600**	3,479
Net rental income from investment property operating leases, net: fixed payments		**12,262**	13,441
Compensation of demolition		**7,686**	—
Others		**7,722**	4,217
		37,233	25,860
Other gains			
Gain on sales of scrap materials		**937**	721
Gain on disposal of items of property, plant and equipment		**1,087**	2,222
Gain on disposal of an associate		**—**	547
Gain on disposal of a subsidiary	34	**643**	—
		2,667	3,490
		39,900	29,350

7. FINANCE INCOME

	2019 RMB'000	2018 RMB'000
Interest income on bank deposits	**4,979**	4,576

8. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest expense on bank borrowings	**43,397**	38,227
Interest expense on lease liabilities	**421**	—
	43,818	38,227

9. PROFIT BEFORE TAX

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

	Notes	2019 RMB'000	2018 RMB'000
Cost of inventories sold		**1,687,672**	1,477,390
Depreciation of property, plant and equipment	15	**87,147**	78,577
Depreciation of investment properties	16	**3,435**	2,509
Amortisation of right-of-use assets (2018: amortisation of land lease payments)	17(a),17(b)	**10,214**	4,971
Amortisation of intangible assets	18	**1,148**	1,209
Research and development costs		**67,584**	64,930
Minimum lease payments under operating leases		**—**	16,964
Lease payments not included in the measurement of lease liabilities	17(d)	**4,665**	—
Auditors' remuneration		**2,500**	2,600
Employee benefit expense (excluding directors' and chief executive's remuneration (Note 10):			
Wages and salaries		**249,855**	225,646
Pension scheme costs		**14,861**	14,216
		264,716	239,862
Gross rental income		**(15,961)**	(17,581)
Direct expenses for generating rental income		**3,699**	4,140
Rental income, net		**(12,262)**	(13,441)
Foreign exchange differences, net		**2,429**	2,008
Impairment losses on financial assets, net		**2,177**	(11,336)
Write-down of inventories to net realisable value (included in the cost of sales)		**—**	140
Gain on disposal of a subsidiary		**(643)**	—
Gain on disposal of an investment in an associate		**—**	(547)
Gain on disposal of items of property, plant, and equipment		**(1,087)**	(2,222)
Government grants		**(5,963)**	(4,213)
Interest income on bank deposits		**(4,979)**	(4,576)

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:

	2019 RMB'000	2018 RMB'000
Fees	**2,865**	2,302
Other emoluments:		
Salaries, allowances and benefits in kind	**1,338**	832
Pension scheme contributions	**19**	18
	1,357	850
	4,222	3,152

(a) Independent non-executive directors

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

	2019 RMB'000	2018 RMB'000
Mr. Wong Luen Cheung Andrew	**707**	707
Mr. Tian Yushi	**210**	210
Mr. Yu Shuli	**210**	210
Mr. Xu Jiali	**210**	210
Mr. Bichao Wu****	**210**	64
	1,547	1,401

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

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

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2019					
Executive director and chief executive:					
Mr. Zhou Minfeng *	600	559	–	13	1,172
Mr. Li Xuejun*	–	400	–	–	400
Executive director:					
Mr. Chang Jingzhou	–	379	–	6	385
	600	1,338	–	19	1,957
Non-executive directors:					
Ms. Lai Cairong	210	–	–	–	210
Mr. Guan Xin	210	–	–	–	210
Mr. Wang Yuming	210	–	–	–	210
Mr. Yu Zhuoping**	88	–	–	–	88
	718	–	–	–	718

	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
2018					
Executive director and chief executive:					
Mr. Li Xuejun	–	100	–	–	100
Executive directors:					
Mr. Zhou Minfeng	131	371	–	13	515
Mr. Chang Jingzhou	–	361	–	5	366
	131	832	–	18	981
Non-executive directors:					
Ms. Lai Cairong	210	–	–	–	210
Mr. Guan Xin	210	–	–	–	210
Mr. Wang Yuming	210	–	–	–	210
Mr. Liu Genyu***	140	–	–	–	140
	770	–	–	–	770

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

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

* With effect from 31 July 2019, Mr. Li Xuejun resigned from an executive director and the chief executive, Mr. Zhou Minfeng was appointed as an executive director and the chief executive after Mr. Li's resignation.

** On 5 August 2019, Mr. Yu Zhuoping was appointed as an independent non-executive director.

*** With effect from 1 September 2018, Mr. Liu Genyu resigned from a non-executive director.

**** On 12 September 2018, Mr. Bichao Wu was appointed as an independent non-executive director.

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

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors including the chief executive (2018: three directors 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 (2018: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019	2018
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,435**	1,398
Pension scheme contributions	**25**	18
	2,460	1,416

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

	Numbers of employees	
	2019	2018
Nil to RMB1,000,000	**3**	2

12. INCOME TAX

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

No Hong Kong profits tax has been provided as there was no assessable profit earned in or derived from Hong Kong during the year ended 31 December 2019 (2018: 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, Chongqing Huazhong and Chengdu Huazhong were qualified as Western China development enterprises, and were entitled to a preferential rate of 15% during the year ended 31 December 2019 (2018: 15%).

In November 2017, Ningbo Huazhong Moulding was accredited as a "High and New Technology Enterprise" to enjoy a preferential rate of 15% for the three years ended 31 December 2017, 2018 and 2019.

In November 2018, Foshan Huazhong Moulding was accredited as a "High and New Technology Enterprise" to enjoy a preferential rate of 15% for the three years ended 31 December 2018, 2019 and 2020.

Pursuant to the local tax rules in Germany, HZ FBZ was subject to tax at a rate of 28.075% during the year ended 31 December 2019 (2018: 28.075%).

In September 2019, Changchun Huateng was accredited as a "High and New Technology Enterprise" to enjoy a preferential rate of 15% for the three years ended 31 December 2019, 2020 and 2021.

In November 2019, Ningbo Huazhong Plastic extended to be accredited as a "High and New Technology Enterprise" to enjoy a preferential rate of 15% for the three years ended 31 December 2019, 2020 and 2021.

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

	2019 **RMB'000**	2018 RMB'000
Current income tax		
Charge for the year	**39,453**	33,543
Overprovision in prior years	**(4,087)**	(185)
Deferred income tax (note 30)	**(11,209)**	2,927
Total tax charge for the year	**24,157**	36,285

12. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the PRC of 25% to the tax expense at the effective tax rate for each of the years is as follows:

	2019 RMB'000	2018 RMB'000
Profit before tax	**111,789**	177,327
Tax at the statutory tax rate	**27,947**	44,332
Tax rate differences for specific provincial or local tax authority	**(12,771)**	(7,750)
Tax losses not recognised	**21,543**	12,159
Profits attributable to joint ventures	**(3,305)**	(5,347)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	**—**	(600)
Non-taxable income	**(738)**	(514)
Expenses not deductible for tax	**1,654**	1,607
Utilisation of tax losses in previous years	**(770)**	(1,036)
Tax incentives on eligible expenditures	**(7,262)**	(6,381)
Effect on opening deferred tax of decrease in rates	**1,946**	—
Tax charge for the year at the effective rate	**28,244**	36,470

13. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Interim — 2019: Nil (2018: 0.4367 cent) per ordinary share	**—**	6,741
Proposed final — 2019: HK0.5206 cent (2018: HK0.4714 cent) per ordinary share	**8,409**	7,130
	8,409	13,871

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 (2018: 1,769,193,800) in issue during the year.

During the year ended 31 December 2019, 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 amounts presented for the year ended 31 December 2019 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the year.

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

	2019 **RMB'000**	2018 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**84,087**	138,742

	Numbers of ordinary shares **2019**	2018
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 2019							
At 31 December 2018 and 1 January 2019:							
Cost	510,290	550,307	19,589	19,355	63,408	52,336	1,215,285
Accumulated depreciation and impairment	(126,327)	(281,905)	(12,575)	(13,457)	(50,705)	–	(484,969)
Net carrying amount	383,963	268,402	7,014	5,898	12,703	52,336	730,316
At 1 January 2019, net of accumulated depreciation and impairment	383,963	268,402	7,014	5,898	12,703	52,336	730,316
Additions	1,473	49,503	947	1,367	34,637	135,240	223,167
Transfers	26,673	70,305	–	–	–	(96,978)	–
Transfers to intangible assets	–	–	–	–	–	(410)	(410)
Transfers to investment properties	(1,135)	–	–	–	–	–	(1,135)
Disposals	(41)	(1,193)	(205)	(76)	(1,269)	(12,758)	(15,542)
Disposal of a subsidiary	(19,938)	(10,481)	(320)	(6)	–	–	(30,745)
Depreciation provided during the year	(23,091)	(44,923)	(2,198)	(1,457)	(15,478)	–	(87,147)
Exchange realignment	–	1	–	–	–	–	1
At 31 December 2019, net of accumulated depreciation and impairment	367,904	331,614	5,238	5,726	30,593	77,430	818,505
At 31 December 2019:							
Cost or valuation	511,795	626,411	18,575	20,281	95,042	77,430	1,349,534
Accumulated depreciation and impairment	(143,891)	(294,797)	(13,337)	(14,555)	(64,449)	–	(531,029)
Net carrying amount	367,904	331,614	5,238	5,726	30,593	77,430	818,505

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 2018							
At 31 December 2017 and 1 January 2018:							
Cost or valuation	457,621	435,808	17,866	16,381	47,703	65,325	1,040,704
Accumulated depreciation and impairment	(103,480)	(249,777)	(11,334)	(12,464)	(39,957)	—	(417,012)
Net carrying amount	354,141	186,031	6,532	3,917	7,746	65,325	623,692
At 1 January 2018, net of accumulated depreciation and impairment	354,141	186,031	6,532	3,917	7,746	65,325	623,692
Additions	4,191	62,478	2,403	1,148	18,477	125,110	213,807
Transfers	67,183	66,805	—	2,119	161	(136,268)	—
Transfers to intangible assets	—	—	—	—	—	(1,495)	(1,495)
Transfers to investment properties	(15,303)	—	—	—	—	—	(15,303)
Disposals	(2,102)	(8,818)	8	(21)	(733)	(336)	(12,002)
Depreciation provided during the year	(24,270)	(38,167)	(1,927)	(1,265)	(12,948)	—	(78,577)
Exchange realignment	123	73	(2)	—	—	—	194
At 31 December 2018, net of accumulated depreciation and impairment	383,963	268,402	7,014	5,898	12,703	52,336	730,316
At 31 December 2018:							
Cost or valuation	510,290	550,307	19,589	19,355	63,408	52,336	1,215,285
Accumulated depreciation and impairment	(126,327)	(281,905)	(12,575)	(13,457)	(50,705)	—	(484,969)
Net carrying amount	383,963	268,402	7,014	5,898	12,703	52,336	730,316

Included in the property, plant and equipment as at 31 December 2019 were certain buildings with a net carrying value of RMB91,564,000 (2018: RMB114,689,000), of which the property certificates have not been obtained. The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors of the Company are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2019.

The Group's land included in plant and buildings with a carrying amount of RMB5,925,969 is situated in Germany and is held freehold as at 31 December 2018.

As at 31 December 2019, certain of the Group's buildings with a net carrying value of approximately RMB16,649,000 (2018: RMB16,643,000) were pledged to secure bank loans granted to the Group (Note 28).

16. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	**44,663**	31,369
Transfer from owner-occupied property	**1,135**	15,303
Addition	**—**	500
Depreciation during the year	**(3,435)**	(2,509)
Carrying amount at 31 December	**42,363**	44,663

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

The Group's investment properties consist of three industrial properties in China. The directors of the Company have determined that the investment properties consist of one class of asset based on the nature, characteristics and risk of each property. The fair value of the Group's investment properties was RMB100,138,000 as at 31 December 2019 (2018: RMB94,250,000), 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 37.

Included in the investment properties as at 31 December 2019 were certain industrial properties with a net carrying value of RMB24,887,000 (2018: RMB25,424,000), 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 2019.

The Group's investment properties with a net carrying value of RMB1,884,000 as at 31 December 2019 (2018: RMB2,133,000) were pledged to secure bank loans of the Group (Note 28).

16. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy

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

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

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

17. LEASES

The Group as a lessee

The Group has lease contracts for various items of warehouses and other equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of warehouses generally have lease terms between 1 and 6 years. Other equipment generally has 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) Prepaid land lease payments (before 1 January 2019)

	RMB'000
Carrying amount at 1 January 2018	198,305
Addition	26,830
Recognised in profit or loss during the year	(4,971)
Carrying amount at 31 December 2018	220,164
Current portion included in prepayments and other receivables	(4,947)
Non-current portion	215,217

17. LEASES *(continued)*

(b) 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	Warehouses RMB'000	Total RMB'000
As at 1 January 2019	220,164	6,259	226,423
Additions	20,269	1,937	22,206
Depreciation charge	(5,620)	(4,594)	(10,214)
As at 31 December 2019	234,813	3,602	238,415

(c) 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:

	2019 Lease liabilities RMB'000
Carrying amount at 1 January	6,259
New leases	1,937
Accretion of interest recognised during the year	421
Payments	(4,915)
Carrying amount at 31 December	3,702
Analysed into:	
Current portion	2,554
Non-current portion	1,148

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

17. LEASES *(continued)*

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

	2019 RMB'000
Interest on lease liabilities	421
Depreciation charge of right-of-use assets	10,214
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales or selling and distribution expenses)	4,571
Expense relating to leases of low-value assets (included in selling and distribution expenses)	94
Total amount recognised in the statement of profit or loss	15,300

(e) The total cash outflow for leases is disclosed in note 35(c) to the financial statements.

The Group as a lessor

The Group leases its investment properties (note 16) consisting of three industrial property in Mainland China under operating lease arrangements. 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 RMB15,961,000 (2018: RMB17,581,000), details of which are included in note 6 to the financial statements.

18. INTANGIBLE ASSETS

	Software RMB'000	Development costs RMB'000	Total RMB'000
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	7,216	8	7,224
Additions	448	—	448
Transfer from construction in progress	410	—	410
Amortisation provided during the year	(1,148)	—	(1,148)
Disposal	(387)	(8)	(395)
At 31 December 2019	6,539	—	6,539
At 31 December 2019:			
Cost	13,411	—	13,411
Accumulated amortisation and impairment	(6,872)	—	(6,872)
Net carrying amount	6,539	—	6,539
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	6,610	40	6,650
Additions	639	224	863
Transfer from construction in progress	1,495	—	1,495
Amortisation provided during the year	(964)	(245)	(1,209)
Disposal	(466)	—	(466)
Exchange realignment	(98)	(11)	(109)
At 31 December 2018	7,216	8	7,224
At 31 December 2018:			
Cost	11,790	1,210	13,000
Accumulated amortisation and impairment	(4,476)	(1,191)	(5,667)
Exchange realignment	(98)	(11)	(109)
Net carrying amount	7,216	8	7,224

19. INVESTMENTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Share of net assets	**171,111**	163,892

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

Name	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Ningbo Roekona—Zoeppritex-Tex-Line Co., Ltd. ("Ningbo Hualete") (note (i))	PRC/Mainland China	50%	50%	50%	Manufacture and sale of auto parts, design and manufacture of high-grade textiles
Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd. ("Changchun Huazhong Yanfeng") (note (ii))	PRC/Mainland China	50%	50%	50%	Manufacture and sale of auto parts, provision of after-sales services, and technical consultations

Notes:

(i) On 17 March 2004, Ningbo Hualete was established in Zhejiang Province, the PRC, with a 41% equity interest beneficially held by the Group. On 24 December 2010, the Group acquired an additional 9% equity interest in Ningbo Hualete from Ningbo Huayou Properties Co. Ltd. ("Ningbo Huayou Properties"), a related party. The Group currently holds a 50% equity interest in Ningbo Hualete.

(ii) On 3 June 2011, Changchun Huazhong Yanfeng Plastic Omnium Automotive Exteriors Co., Ltd. (formerly known as Changchun Huaxiang Faurecia) was established in Jilin Province, the PRC, with a 50% equity interest held by the Group. The joint venture has changed the other investor from Ningbo Huading to Yanfeng Omnium on 23 May 2017 due to the share transfer agreement between Ningbo Huading and Yanfeng Omnium. According to the share transfer agreement, Yanfeng Omnium will hold 50% of the equity 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.

19. INVESTMENTS IN JOINT VENTURES *(continued)*

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

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**9,809**	2,789
Other current assets	**202,891**	205,630
Current assets	**212,700**	208,419
Non-current assets	**58,642**	52,577
Financial liabilities, excluding trade and other payables	**(23,911)**	(39,900)
Other current liabilities	**(59,536)**	(42,480)
Net assets	**187,895**	178,616
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	**93,947**	89,308
Carrying amount of the investment	**93,947**	89,308
Revenue	**177,504**	195,892
Interest income	**14**	6
Depreciation and amortisation	**(4,964)**	(4,241)
Interest expenses	**(2,569)**	(3,727)
Profit and total comprehensive income for the year	**21,279**	11,294
Group's share of total comprehensive income for the year	**10,640**	5,647
Dividend	**(6,001)**	—

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

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:

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**93,177**	155,933
Other current assets	**196,034**	176,267
Current assets	**289,211**	332,200
Non-current assets	**160,127**	103,259
Financial liabilities, excluding trade and other payables	**—**	—
Other current liabilities	**(295,010)**	(286,291)
Net assets	**154,328**	149,168
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	**77,164**	74,584
Carrying amount of the investment	**77,164**	74,584
Revenue	**517,988**	626,326
Interest income	**2,728**	2,053
Depreciation and amortisation	**(22,984)**	(19,242)
Interest expenses	**—**	—
Profit and total comprehensive income for the year	**5,160**	31,482
Group's share of comprehensive income for the year,	**2,580**	15,741

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

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

	2019	2018
	RMB'000	RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments		
Investment A	**44,349**	22,455
Investment B	**15,800**	16,870
	60,149	39,325

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

	2019	2018
	RMB'000	RMB'000
Raw materials	**67,772**	58,239
Work in progress	**28,346**	85,416
Finished goods	**265,530**	266,319
	361,648	409,974

22. TRADE AND NOTES RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**684,155**	613,478
Notes receivable at fair value through other comprehensive income	**104,552**	104,430
	788,707	717,908
Impairment of trade receivables	**(7,102)**	(4,925)
	781,605	712,983

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 receivable are all aged within six months and are neither past due nor impaired.

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:

	2019 RMB'000	2018 RMB'000
Within 3 months	**556,610**	550,087
3 to 6 months	**86,272**	50,765
6 months to 1 year	**22,246**	4,294
Over 1 year	**11,925**	3,407
	677,053	608,553

22. TRADE AND NOTES RECEIVABLES *(continued)*

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

	2019 RMB'000	2018 RMB'000
At beginning of year	**4,925**	6,091
Impairment losses/(reversal of impairment losses), net	**2,177**	(1,166)
At end of year	**7,102**	4,925

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due 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 year 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 2019

	Expected loss rate	Gross carrying amount RMB'000	Impairment RMB'000
General item:			
Current and within 1 year	**0.37%**	**667,612**	**2,484**
More than one year but within 2 years	**27.92%**	**16,543**	**4,618**
		684,155	**7,102**

As at 31 December 2018

	Expected loss rate	Gross carrying amount RMB'000	Impairment RMB'000
General item:			
Current and within 1 year	0.47%	607,977	2,831
More than one year but within 2 years	38.07%	5,501	2,094
		613,478	4,925

23. PREPAYMENTS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Other receivables	**74,420**	61,931
Prepayments	**211,051**	174,877
Land lease payments (Note 17a)	**–**	4,947
	285,471	241,755

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

	2019 RMB'000	2018 RMB'000
At beginning of the year	**–**	10,170
Impairment losses recognised	**–**	–
Reversal of impairment losses	**–**	(10,170)
At end of the year	**–**	–

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 2019 and 2018, the loss allowance was assessed to be minimal.

24. DEBT INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Unlisted debt investment, at fair value	**–**	30,510

The above unlisted investment at 31 December 2018 was a floating-rate financial product with principal not guaranteed issued by Agricultural Bank of China in Mainland China. It was mandatorily classified as financial asset at fair value through profit or loss as its contractual cash flows are not solely payments of principal and interest.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	**285,655**	181,239
Time deposits	**110,434**	112,517
	396,089	293,756
Less: Pledged deposits	**(207,839)**	(215,004)
Cash and cash equivalents in the consolidated statement of financial position	**188,250**	78,752
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**—**	—
Cash and cash equivalents in the consolidated statement of cash flows	**188,250**	78,752

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 RMB88,938,000 as at 31 December 2019 (2018: RMB68,087,000) were pledged to secure the issue of notes payable (Note 26).

Pledged deposits with a carrying value of RMB117,434,000 as at 31 December 2019 (2018: RMB146,917,000) were pledged to secure the bank loans granted to the Group (Note 28).

Pledged deposits with a carrying value of RMB1,467,000 as at 31 December 2019 (2018: nil) were pledged to secure the construction of certain property.

26. TRADE AND NOTES PAYABLES

An ageing analysis of the trade and notes payables of the Group as at 31 December 2019, based on the invoice date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 3 months	**697,204**	575,199
3 to 12 months	**278,891**	269,432
1 to 2 years	**—**	1,995
2 to 3 years	**130**	1,126
Over 3 years	**1,528**	680
	977,753	848,432

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

Certain notes payable were secured by pledged deposits of the Group with a carrying value of RMB88,938,000 as at 31 December 2019 (2018: RMB68,087,000) (Note 25).

27. OTHER PAYABLES AND ACCRUALS

	Notes	2019 RMB'000	2018 RMB'000
Other payables	(b)	**167,402**	147,632
Contract liabilities	(a)	**54,483**	94,383
Accruals		**12,248**	3,840
Government grants — current portion		**1,118**	982
Dividends payable		**19**	19
		235,270	246,856

27. OTHER PAYABLES AND ACCRUALS *(continued)*

Notes:

(a) Contract liabilities are all short-term advances received to deliver automobile body parts products. The decrease in contract liabilities in 2019 was mainly due to the downstream of the overall market.

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

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate %	Maturity	RMB'000	Effective interest rate %	Maturity	RMB'000
Current						
Bank loans — secured	**4.57-4.785**	**2020**	**100,000**	2.85-4.87	2019	132,036
Bank loans — unsecured	**2.20+HIBOR-4.785**	**2020**	**606,164**	2.20+HIBOR-4.87	2019	476,534
Current portion of long term bank loans — unsecured	**2.20+HIBOR-5.225**	**2020**	**102,478**	4.99	2019	21,094
Lease liability	**5.13**	**2020**	**2,554**			—
			811,196			629,664
Non-current						
Bank loans — unsecured	**4.992-5.225**	**2021**	**37,344**	2.20+HIBOR-6.31	2020	168,136
Lease liability	**5.13**	**2021-2024**	**1,148**			—
			38,492			168,136
			849,688			797,800

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

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**808,642**	629,664
In the second year	**37,344**	168,136
	845,986	797,800
Lease liabilities:		
Within one year	**2,554**	—
More than one year	**1,148**	—
	3,702	—
	849,688	797,800

All bank borrowings were obtained from third party financial institutions.

As at 31 December 2019, the Group's bank facilities of RMB208,428,200 (2018: RMB226,330,000) were secured by the pledges of the Group's assets. Pledged bank facilities of RMB100,000,000 (2018: RMB67,200,000) were utilised by the Group as at 31 December 2019. The carrying values of the pledged assets are as follows:

	Notes	2019 RMB'000	2018 RMB'000
Property, plant and equipment	15	**16,649**	16,643
Investment properties	16	**1,884**	2,133
Prepaid land lease payments		**—**	47,796
Right-of-use assets — prepaid land lease payments		**46,803**	—
Pledged deposits	25	**117,434**	146,917
		182,770	213,489

29. GOVERNMENT GRANTS

	2019 RMB'000	2018 RMB'000
Carrying amount at beginning of the year	**9,663**	9,385
Received during the year	**5,071**	1,092
Released to the statement of profit or loss	**(1,078)**	(814)
Carrying amount at end of the year	**13,656**	9,663
Current portion, classified under other payables and accruals (Note 27)	**1,118**	982
Non-current	**12,538**	8,681
	13,656	9,663

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

30. DEFERRED TAX

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

	2019 RMB'000	2018 RMB'000
Deferred tax assets arising from:		
— Provision for impairment of receivables	**1,432**	1,118
— Write-down of inventories	**955**	1,932
— Accruals	**6,635**	8,380
— Unrealised profits	**2,559**	1,568
	11,581	12,998
Deferred tax liabilities arising from:		
— Valuation surplus	**1,683**	5,408
— Withholding taxes	**27,775**	36,675
— Fair value adjustments of equity investments at fair value through other comprehensive income	**5,868**	662
	35,326	42,745

30. DEFERRED TAX *(continued)*

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 2017 and 1 January 2018	3,690	1,911	9,139	2,604	17,344
(Charged)/credited to the statement of profit or loss (Note 12)	(2,572)	21	(759)	(1,036)	(4,346)
As at 31 December 2018 and 1 January 2019	1,118	1,932	8,380	1,568	12,998
Credited/(charged) to the statement of profit or loss (Note 12)	314	(977)	(1,745)	991	(1,417)
As at 31 December 2019	1,432	955	6,635	2,559	11,581

30. DEFERRED TAX *(continued)*

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

	Valuation surplus RMB'000	Withholding taxes RMB'000	Fair value adjustments of equity investments at fair value through other comprehensive income RMB'000	Total RMB'000
As at 1 January 2018	6,209	37,275	—	43,484
Charged to the statement of profit or loss (Note 12)	(819)	(600)	—	(1,419)
Exchange realignment	18	—	—	18
Charged to other comprehensive income	—	—	662	662
As at 31 December 2018 and 1 January 2019	5,408	36,675	662	42,745
Credited to the statement of profit or loss (Note 12)	(3,726)	(8,900)	—	(12,626)
Exchange realignment	1	—	—	1
Charged to other comprehensive income	—	—	5,206	5,206
As at 31 December 2019	1,683	27,775	5,868	35,326

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 2019, 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 RMB301,490,000 at 31 December 2019 (2018: RMB298,001,000).

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

30. DEFERRED TAX *(continued)*

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

	2019 **RMB'000**	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**10,554**	11,345
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(34,299)**	(41,092)

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

	2019 **RMB'000**	2018 RMB'000
Unused tax losses	**133,794**	165,913

The remaining tax losses are subject to an expiry period of five years for offsetting future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

31. ISSUED CAPITAL

Shares

	2019 **RMB'000**	2018 RMB'000
Issued and fully paid:		
1,769,193,800 (2018: 1,769,193,800) ordinary shares of HK$0.10 each	**142,956**	142,956

32. 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.

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

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

	2019 **RMB'000**	2018 RMB'000
Percentage of equity interest held by non-controlling interests:		
Shanghai Huaxin	**49%**	49%
Profit for the year attributable to non-controlling interests:		
Shanghai Huaxin	**3,545**	2,300
Dividends paid to non-controlling interests of Shanghai Huaxin	**(4,900)**	—
Accumulated balances of non-controlling interests at the reporting dates:		
Shanghai Huaxin	**37,859**	39,214

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

	2019 **RMB'000**	2018 RMB'000
Shanghai Huaxin		
Revenue	**122,267**	121,031
Profit and total comprehensive income for the year	**8,823**	7,266
Current assets	**93,012**	116,855
Non-current assets	**72,728**	57,275
Current liabilities	**(90,455)**	(97,863)
Non-current liabilities	**(195)**	—
Net cash flows (used in)/generated from operating activities	**(295)**	22,660
Net cash flows generated from/(used in) investing activities	**7,255**	(22,202)
Net cash flows generated from/(used in) financing activities	**704**	(2,919)
Net increase/(decrease) in cash and cash equivalents	**7,664**	(2,461)

34. DISPOSAL OF A SUBSIDIARY

	2019 RMB'000
Net liabilities disposed of:	
Property, plant and equipment	30,745
Cash and bank balances	1,138
Trade receivables	7,481
Prepayments and other receivables	248
Inventory	10,395
Interest-bearing bank and other borrowings	(27,356)
Trade payables	(7,657)
Other payables and accruals	(12,146)
	2,848
Exchange fluctuation reserve	(3,491)
	(643)
Gain on disposal of a subsidiary	643
	—
Satisfied by:	
Cash	—

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

	2019 RMB'000
Cash consideration	—
Cash and bank balances disposed of	(1,138)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(1,138)

35. 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 RMB1,937,000 and RMB1,937,000, respectively, in respect of lease arrangements for warehouses (2018: Nil).

(b) Changes in liabilities arising from financing activities

2019

	Interest-bearing bank and other borrowings liabilities RMB'000	**Lease Dividends** RMB'000	**payable** RMB'000
At 31 December 2018	**797,800**	**—**	**19**
Effect of adoption of IFRS 16	**—**	**6,259**	**—**
At 1 January 2019 (restated)	**797,800**	**6,259**	**19**
Changes from financing cash flows	**70,696**	**(4,915)**	**(12,030)**
Disposal of a subsidiary	**(27,356)**	**—**	**—**
Exchange realignment	**4,846**	**—**	**—**
New leases	**—**	**1,937**	**—**
2018 final dividends	**—**	**—**	**7,130**
Dividends to non-controlling shareholders	**—**	**—**	**4,900**
Interest expense	**—**	**421**	**—**
At 31 December 2019	**845,986**	**3,702**	**19**

2018

	Interest-bearing bank and other borrowings RMB'000	Dividends payable RMB'000
At 31 December 2017	722,791	7
Changes from financing cash flows	74,827	(15,238)
Exchange realignment	182	—
2018 dividends	—	15,250
At 31 December 2018	797,800	19

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

(c) Total cash outflow for leases

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

	2019 RMB'000
Within operating activities	4,665
Within financing activities	4,915
	9,580

36. COMMITMENTS

(a) Capital commitments

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

	2019 **RMB'000**	2018 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**160,011**	156,941

(b) Operating lease commitments as at 31 December 2018

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	5,420
After one year but not more than five years	5,962
	11,382

37. 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
公主嶺華翔汽車頂棚系統有限公司 (“**Gongzhuling Huaxiang**”)	Joint venture of Ningbo Huaxiang Electronics
南昌江鈴華翔汽車零部件有限公司 (“**Nanchang Jiangling**”)	Joint venture of Ningbo Huaxiang Electronics
Ningbo Hualete	Joint venture of the Group
象山華翔國際酒店有限公司 (“**Huaxiang Resort**”)	Collectively controlled by Mr. Zhou Cimei and Ms. Lai Cairong

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

(a) Name and relationship *(continued)*

Name of related party	Relationship with the Group
Guangzhou Chengli Industrial Co., Ltd. ("**Guangzhou Chengli**")	Controlled by Mr. Zhou
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
瀋陽華翔汽車零部件有限公司 ("**Shenyang Huaxiang**")	Subsidiary of Ningbo Huaxiang Electronics
Ningbo Tex Line Automotive Textiles Co.,Ltd. ("**Ningbo Hualuote**")	Subsidiary of a joint venture of the Group
成都華翔汽車頂棚系統有限公司 ("**Chengdu Antolin**")	Joint venture of Ningbo Huaxiang Electronics
長春華翔轎車消聲器有限責任公司 ("**Changchun Huaxiang Car**")	Joint venture of Ningbo Huaxiang Electronics
成都華翔轎車消聲器有限公司 ("**Changchun Huaxiang Car**")	Joint venture of Ningbo Huaxiang Electronics
佛山華翔汽車金屬零部件有限公司 ("**Foshan Huaxiang Automotive**")	Joint venture of Ningbo Huaxiang Electronics
寧波華翔汽車車門系統有限公司 ("**Ningbo Antolin Huaxiang**")	Joint venture of Ningbo Huaxiang Electronics
寧波華翔特雷姆汽車飾件有限公司 (原寧波瑪克特汽車飾件有限公司) ("**NBHX Trim**")	Joint venture of Ningbo Huaxiang Electronics

37. 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	2019 RMB'000	2018 RMB'000
Sales of raw materials and goods to related parties:	(i)		
Changchun Huazhong Yanfeng		**65,261**	102,341
Ningbo Hualete		**1,466**	631
Ningbo Hualuote		**206**	—
Shenyang Huaxiang		**1,542**	—
		68,475	102,972
Purchases of raw materials, goods and services from related parties:	(ii)		
Ningbo Hualete		**78,281**	82,660
NBHX Trim		**9,718**	—
Changchun Huaxiang Car		**6,299**	—
Nanchang Jiangling		**2,828**	2,361
Foshan Huaxiang Automotive		**1,726**	—
Ningbo Antolin Huaxiang		**1,533**	—
Shenyang Huaxiang		**850**	7,977
Huaxiang Resort[△]		**664**	50
Huaxiang Export		**163**	—
Gongzhuling Huaxiang		**55**	—
Changchun Huazhong Yanfeng		**—**	14,896
		102,117	107,944
Gross rental income from related parties:	(iii)		
Ningbo Hualuote		**6,270**	9,303
Changchun Huazhong Yanfeng		**8,452**	8,452
Ningbo Hualete		**1,019**	1,007
		15,741	18,762
Rental expenses charged by related parties:	(iii)		
Huaying Moulding[△]		**820**	926
Management fee from a related party:	(iv)		
Changchun Huazhong Yanfeng		**3,600**	3,479

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

(b) Related party transactions *(continued)*

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

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

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

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

The related party transactions in respect of items disclosed in Note 37(b) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(c) Outstanding balances with related parties

	2019 RMB'000	2018 RMB'000
Amounts due from related parties:		
Changchun Huazhong Yanfeng	**54,883**	74,265
Ningbo Hualuote	**5,248**	10,280
Shenyang Huaxiang	**1,081**	—
Huaxiang Export	**—**	420
Ningbo Hualete	**—**	46
Guangzhou Chengli	**6**	6
	61,218	85,017
Amount due to the ultimate controlling shareholder:		
Mr. Zhou	**254**	1,110

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

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

	2019 RMB'000	2018 RMB'000
Amounts due to related parties:		
Ningbo Hualete	**61,832**	61,351
Shenyang Huaxiang	**—**	3,285
Nanchang Jiangling	**1,857**	1,767
Huaying Moulding	**657**	1,065
Huaxiang Resort	**122**	193
Huayou Holdings	**4,321**	158
NBHX Trim	**5,666**	—
Changchun Huaxiang Car	**2,122**	—
Foshan Huaxiang Automotive	**455**	—
Ningbo Antolin Huaxiang	**270**	—
	77,302	67,819

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

(d) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Short term employee benefits	**6,305**	2,035
Post-employment benefits	**46**	42
Total compensation paid to key management personnel	**6,351**	2,077

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

38. 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

2019	Financial assets at amortised cost RMB'000
Trade receivables	**677,053**
Financial assets included in prepayments and other receivables (Note 23)	**74,420**
Due from related parties	**61,218**
Pledged deposits	**207,839**
Cash and cash equivalents	**188,250**
	1,208,780

	Equity investments at fair value through other comprehensive income RMB'000
Notes receivable at fair value through other comprehensive income	**104,552**
Equity investments at fair value through other comprehensive income	**60,149**
	164,701

2018	Financial assets at amortised cost RMB'000
Trade receivables	608,553
Financial assets included in prepayments and other receivables (Note 23)	61,931
Due from related parties	85,017
Pledged deposits	215,004
Cash and cash equivalents	78,752
	1,049,257

38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

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

Financial assets *(continued)*

	Equity investments at fair value through other comprehensive income RMB'000
Notes receivable at fair value through other comprehensive income	104,430
Equity investments at fair value through other comprehensive income	39,325
	143,755

	Debt investment at fair value through profit or loss designated as such upon initial recognition RMB'000
Debt investment at fair value through profit or loss	30,510

Financial liabilities

2019	**Financial liabilities at amortised cost RMB'000**
Financial liabilities included in other payables and accruals (Note 27)	**167,402**
Trade and notes payables	**977,753**
Interest-bearing bank borrowings	**849,688**
Due to the ultimate controlling shareholder	**254**
Due to related parties	**77,302**
	2,072,399

2018	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals (Note 27)	147,632
Trade and notes payables	848,432
Interest-bearing bank borrowings	797,800
Due to the ultimate controlling shareholder	1,110
Due to related parties	67,819
	1,862,793

39. 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	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Equity investments designated at fair value through other comprehensive income	**60,149**	39,325	**60,149**	39,325
Debt investment at fair value through profit or loss	**–**	30,510	**–**	30,510
	60,149	69,835	**60,149**	69,835
Financial liabilities				
Interest-bearing bank borrowings, non-current portion	**37,344**	168,136	**37,344**	168,136

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and notes receivables, trade and notes payables, financial assets included in prepayments and other receivables, financial liabilities included in other payables 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 method and assumption were used to estimate the fair value:

The fair value of the non-current portion of interest-bearing bank borrowings has been calculated by discounting the expected 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 2019 was assessed to be insignificant.

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

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.

At 31 December 2018, the Group invested in certain unlisted investments, which represent one floating-rate financial product with principal not guaranteed issued by Agricultural Bank of China in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

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

Below is a summary of significant unobservable inputs to the valuation of the financial instrument together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

	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 multiples of peers	2019: 3.88 to 37.32	10% increase/decrease in multiple would result in increase/decrease in fair value by 4,435
		Discount for lack of marketability	2019: 0.00% to 91.30%	10% increase/decrease in multiple would result in decrease/increase in fair value by 830
Investment B	Valuation multiples	Forward average P/E multiples of peers	2019: 19.15 to 53.29	10% increase/decrease in multiple would result in increase/decrease in fair value by 1,580
		Discount for lack of marketability	2019: 0.00% to 91.30%	10% increase/decrease in multiple would result in decrease/increase in fair value by 297
Unlisted equity investment				
Investment B	Valuation multiples	Forward average P/E multiples of peers	2018: 18.49 to 33.13	10% increase/decrease in multiple would result in increase/decrease in fair value by 1,690
		Discount for lack of marketability	2018: 0.00% to 91.30%	10% increase/decrease in multiple would result in decrease/increase in fair value by 320

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

Fair value hierarchy

Assets measured at fair value

As at 31 December 2019

		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	**60,149**	**–**	**–**	**60,149**
Notes receivable at fair value through other comprehensive income	**104,552**	**–**	**104,552**	**–**

Liabilities for which fair values are disclosed

As at 31 December 2019

		Fair value measurement using		
	Total RMB'000	Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000
Interest-bearing bank borrowings, non-current portion	**37,344**	**–**	**–**	**37,344**

As at 31 December 2018

		Fair value measurement using		
	Total RMB'000	Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000
Interest-bearing bank and other borrowings, non-current portion	168,136	–	–	168,136

40. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

At 31 December 2019, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Endorsed Bills") with a carrying amount of RMB3,874,000 (2018: RMB5,164,000) 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 RMB3,874,000 (2018: RMB5,164,000) as at 31 December 2019.

Transferred financial assets that are derecognised in their entirety

At 31 December 2019, 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 RMB78,640,731 (2018: RMB100,685,000). 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 2019, 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.

41. 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.

41. 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 28.

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

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

	Increase/(decrease) in basis points	Effect on profit before tax RMB'000
Year ended 31 December 2019		
RMB	**100**	**(4,530)**
RMB	**(100)**	**4,530**
Year ended 31 December 2018		
RMB	100	(3,364)
RMB	(100)	3,364

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-ending 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.

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

Credit risk *(continued)*

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

	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*	**—**	**—**	**—**	**684,155**	**684,155**
Notes receivable	**104,552**	**—**	**—**	**—**	**104,552**
Financial assets included in prepayments, other receivables and other assets					
— Normal**	**74,420**	**—**	**—**	**—**	**74,420**
Pledged deposits					
— Not yet past due	**207,839**	**—**	**—**	**—**	**207,839**
Cash and cash equivalents					
— Not yet past due	**188,250**	**—**	**—**	**—**	**188,250**
	575,061	**—**	**—**	**684,155**	**1,259,216**
As at 31 December 2018					
Trade receivables*	—	—	—	613,478	613,478
Notes receivable	104,430	—	—	—	104,430
Financial assets included in prepayments, other receivables and other assets					
— Normal**	61,931	—	—	—	61,931
Pledged deposits					
— Not yet past due	215,004	—	—	—	215,004
Cash and cash equivalents					
— Not yet past due	78,752	—	—	—	78,752
	460,117	—	—	613,478	1,073,595

* 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, other receivables and other assets 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 50% (2018: 44%) of the total trade and notes receivables as at 31 December 2019.

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

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.

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 2019					
Interest-bearing bank borrowings	**—**	**120,710**	**739,853**	**38,369**	**898,932**
Trade and notes payables	**—**	**697,204**	**278,891**	**1,658**	**977,753**
Other payables (Note 27)	**167,402**	**—**	**—**	**—**	**167,402**
Amount due to the ultimate controlling shareholder	**254**	**—**	**—**	**—**	**254**
Amounts due to related parties	**73,880**	**—**	**—**	**—**	**73,880**
	241,536	**817,914**	**1,018,744**	**40,027**	**2,118,221**
31 December 2018					
Interest-bearing bank borrowings	—	85,739	571,399	175,373	832,511
Trade and notes payables	397,641	240,334	207,774	2,683	848,432
Other payables (Note 27)	147,632	—	—	—	147,632
Amount due to the ultimate controlling shareholder	1,110	—	—	—	1,110
Amounts due to related parties	67,819	—	—	—	67,819
	614,202	326,073	779,173	178,056	1,897,504

41. 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 2019 and 31 December 2018.

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

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

	2019 **RMB'000**	2018 RMB'000
Trade and notes payables	**977,753**	848,432
Other payables and accruals	**235,270**	246,856
Interest-bearing bank and other borrowings	**849,688**	797,800
Amounts due to the ultimate controlling shareholder	**254**	1,110
Amounts due to related parties	**77,302**	67,819
Less: Cash and cash equivalents	**(188,250)**	(78,752)
Net debt	**1,952,017**	1,883,265
Equity attributable to owners of the parent	**1,037,065**	943,176
Capital and net debt	**2,989,082**	2,826,441
Gearing ratio	**65%**	67%

42. 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:

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**30**	30
Investments in subsidiaries	**6,043**	60,942
Investment in a joint venture	**71,021**	73,541
Total non-current assets	**77,094**	134,513
CURRENT ASSETS		
Prepayments and other receivables	**91**	91
Amounts due from subsidiaries	**252,005**	132,954
Prepayments and other receivables	**4,194**	389
Cash and cash equivalents	**4,508**	8,971
Total current assets	**260,798**	142,405
CURRENT LIABILITIES		
Interest-bearing bank borrowings	**161,753**	26,534
Other payables and accruals	**4,307**	1,854
Amounts due to a shareholder	**4,340**	177
Total current liabilities	**170,400**	28,565
Net current assets	**90,398**	113,840
TOTAL ASSETS LESS CURRENT LIABILITIES	**167,492**	248,353
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**–**	89,854
Total non-current liabilities	**–**	89,854
Net assets	**167,492**	158,499
EQUITY		
Issued capital	**142,956**	142,956
Reserves (Note)	**24,536**	15,543
Total equity	**167,492**	158,499

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018	8,157	8,688	—	2,840	19,685
2017 dividends	—	(8,509)	—	—	(8,509)
Interim 2018 dividends	—	—	—	(6,741)	(6,741)
Profit for the year	—	—	—	11,108	11,108
At 31 December 2018	8,157	179	—	7,207	15,543
At 31 December 2018 and 1 January 2019	8,157	179	—	7,207	15,543
2018 dividends	(7,130)	—	—	—	(7,130)
Profit for the year	—	—	—	16,123	16,123
At 31 December 2019	**1,027**	**179**	—	**23,330**	**24,536**

43. EVENT AFTER THE REPORTING PERIOD

There has been an outbreak of the novel coronavirus that was first reported from Wuhan, China in December 2019. To prevent or control the epidemic, the Chinese government has adopted a series of measures nationwide, including among others, restrictions on enterprises from resuming work, traffic control and travel bans.

As of the date of these financial statements, the assessment is still in progress. The Group will continue to closely monitor the development of the novel coronavirus, assess and actively respond to its impact on the financial condition, operating results and other aspects of the Group.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2020.

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				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
RESULTS					
REVENUE	**2,173,549**	1,979,147	1,761,736	1,738,891	1,635,565
Cost of sales	**(1,687,672)**	(1,477,390)	(1,247,313)	(1,260,153)	(1,239,432)
Gross profit	**485,877**	501,757	514,423	478,738	396,133
Other income and gains	**39,900**	29,350	28,805	22,847	12,254
Selling and distribution expenses	**(131,432)**	(133,123)	(120,242)	(117,418)	(94,348)
Administrative expenses	**(248,000)**	(214,468)	(192,341)	(198,454)	(177,006)
Other expenses	**(6,760)**	(5,262)	(3,647)	(10,668)	(91)
Impairment losses on financial assets, net	**(2,177)**	11,336	(12,735)	—	—
Finance income	**4,979**	4,576	6,050	10,345	7,824
Finance costs	**(43,818)**	(38,227)	(40,398)	(47,296)	(41,731)
Share of profits and losses of:					
Joint ventures	**13,220**	21,388	13,348	14,377	1,785
Associates	**—**	—	1,733	(12)	(199)
PROFIT BEFORE TAX	**111,789**	177,327	194,996	152,459	104,621
Income tax expense	**(24,157)**	(36,285)	(51,724)	(41,957)	(29,745)
PROFIT FOR THE YEAR	**87,632**	141,042	143,272	110,502	74,876
Attributable to:					
Owners of the parent	**84,087**	138,742	138,151	104,907	69,404
Non-controlling interests	**3,545**	2,300	5,121	5,595	5,472
	87,632	141,042	143,272	110,502	74,876

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
TOTAL ASSETS	**3,305,861**	3,042,040	2,597,031	2,436,364	2,237,702
TOTAL LIABILITIES	**(2,230,937)**	(2,059,650)	(1,742,457)	(1,720,718)	(1,629,769)
NON-CONTROLLING INTERESTS	**(37,859)**	(39,214)	(36,914)	(33,796)	(31,316)
	1,037,065	943,176	817,660	681,850	576,617