The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

羅兵咸永道

June 20, 2013

The Directors
Nexteer Automotive Group Limited

BOCI Asia Limited
J.P. Morgan Securities (Far East) Limited

Dear Sirs,

We report on the financial information of Nexteer Automotive Group Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the combined balance sheets as at December 31, 2010, 2011 and 2012, and the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to IV below for inclusion in Appendix IA to the prospectus of the Company dated June 20, 2013 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on August 21, 2012 as an exempted company with limited liability under Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization as described in Note 1.1 of Section II headed "Reorganization" below, which was completed on January 30, 2013, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganization").

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As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1.1 of Section II below. All of these companies are private companies or if incorporated or established outside Hong Kong, have substantially the same characteristics of a Hong Kong incorporated private company.

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganization. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 1.1 of Section II below.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods, in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "Underlying Financial Statements"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the "ISA") issued by the International Auditing and Assurance Standards Board ("IAASB") pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon, and on the basis set out in Note 1.2 of Section II below.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with the basis of presentation set out in Note 1.2 of Section II below and in accordance with IFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

Opinion

In our opinion, the financial information gives, for the purpose of this report and presented on the basis set out in Note 1.2 of Section II below, a true and fair view of the combined state of affairs of the Group as at December 31, 2010, 2011 and 2012 and of the Group's combined results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at December 31, 2010, 2011 and 2012 and for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 (the "Financial Information"), presented on the basis set out in Note 1.2 of Section II below.

The financial information is presented in US dollars and all amounts are rounded to the nearest thousand (US$'000) except when otherwise indicated.

COMBINED BALANCE SHEETS

	Note	December 31,		
		2010	2011	2012
		US$'000	US$'000	US$'000
ASSETS				
Non-current assets				
Property, plant and equipment	6	270,704	290,146	434,103
Land use rights	7	742	754	737
Intangible assets	8	4,846	74,942	179,082
Deferred income tax assets	9	10,426	10,735	14,595
Other receivables and prepayments	12	1,563	1,395	2,483
		288,281	377,972	631,000
Current assets				
Inventories	10	152,313	156,788	174,433
Trade receivables	11	308,180	315,882	324,317
Other receivables and prepayments	12	48,851	44,395	64,790
Restricted bank deposits	13	822	220	251
Cash and cash equivalents	14	113,466	78,233	64,080
		623,632	595,518	627,871
Total assets		911,913	973,490	1,258,871
EQUITY				
Capital and reserves attributable to equity holders				
Combined capital	15	110,000	113,000	113,000
Exchange reserve	16	2,760	(9,508)	(5,107)
(Accumulated losses)/retained earnings		(58,421)	7,336	63,038
		54,339	110,828	170,931
Non-controlling interests		20,615	12,190	20,878
Total equity		74,954	123,018	191,809

I. FINANCIAL INFORMATION OF THE GROUP (continued)

COMBINED BALANCE SHEETS (continued)

	Note	December 31,		
		2010	2011	2012
		US$'000	US$'000	US$'000
LIABILITIES				
Non-current liabilities				
Borrowings	17	25,555	2,065	441,531
Retirement benefits and compensations	18	16,825	20,296	25,077
Deferred income tax liabilities	9	3,150	2,600	2,866
Provisions	19	30,475	33,228	40,730
Deferred revenue	20	2,005	24,024	46,034
Other payables and accruals	22	626	1,414	3,527
		78,636	83,627	559,765
Current liabilities				
Trade payables	21	254,667	259,687	295,741
Other payables and accruals	22	90,813	87,489	85,549
Current income tax liabilities		2,458	872	2,219
Retirement benefits and compensations	18	954	1,141	1,721
Provisions	19	44,495	11,511	16,043
Deferred revenue	20	48	1,574	6,907
Borrowings	17	364,888	404,571	99,117
		758,323	766,845	507,297
Total liabilities		836,959	850,472	1,067,062
Total equity and liabilities		911,913	973,490	1,258,871
Net current (liabilities)/assets		(134,691)	(171,327)	120,574
Total assets less current liabilities		153,590	206,645	751,574

I. FINANCIAL INFORMATION OF THE GROUP (continued)

COMBINED INCOME STATEMENTS

	Note	For the period from November 4, to December 31, 2010	For the year ended December 31, 2011	For the year ended December 31, 2012
		US$'000	US$'000	US$'000
Revenue	5	156,688	2,247,752	2,167,802
Cost of sales	24	(182,033)	(1,970,477)	(1,900,989)
Gross (loss)/profit		(25,345)	277,275	266,813
Engineering and product development costs	24	(8,470)	(108,376)	(81,623)
Selling and distribution expenses	24	(994)	(10,547)	(9,343)
Administrative expenses	24	(21,841)	(78,089)	(88,563)
Other (losses)/gains, net	23	(638)	8,938	(3,361)
Operating (loss)/profit		(57,288)	89,201	83,923
Finance income	26	72	838	562
Finance costs	26	(1,744)	(16,602)	(22,291)
Finance costs, net		(1,672)	(15,764)	(21,729)
(Loss)/profit before income tax		(58,960)	73,437	62,194
Income tax credit/(expense)	27	293	(5,404)	(3,567)
(Loss)/profit for the period/year		(58,667)	68,033	58,627
Attributable to:				
Equity holders of the Company		(58,539)	66,686	57,096
Non-controlling interests		(128)	1,347	1,531
		(58,667)	68,033	58,627

I. FINANCIAL INFORMATION OF THE GROUP (continued)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
(Loss)/profit for the period/year	(58,667)	68,033	58,627
Other comprehensive income/(loss)			
Exchange differences	2,865	(11,851)	4,607
Actuarial gains/(losses) on defined benefit plans, net of tax of US$(20,000), US$296,000 and US$622,000 respectively	118	(929)	(1,394)
	2,983	(12,780)	3,213
Total comprehensive (loss)/income for the period/year	(55,684)	55,253	61,840
Attributable to:			
Equity holders of the Company	(55,661)	53,489	60,103
Non-controlling interests	(23)	1,764	1,737
	(55,684)	55,253	61,840

I. FINANCIAL INFORMATION OF THE GROUP (continued)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Combined capital	Exchange reserve	(Accumulated losses)/ retained earnings	Sub-total	Non-controlling interests	Total
	US$'000 (Note15)	US$'000 (Note16)	US$'000	US$'000	US$'000	US$'000
Balance at November 4, 2010	—	—	—	—	—	—
Comprehensive income						
Loss for the period	—	—	(58,539)	(58,539)	(128)	(58,667)
Other comprehensive income						
Exchange differences	—	2,760	—	2,760	105	2,865
Actuarial gains on defined benefit plans	—	—	118	118	—	118
Total other comprehensive income	—	2,760	118	2,878	105	2,983
Total comprehensive income/(loss)	—	2,760	(58,421)	(55,661)	(23)	(55,684)
Transactions with owners						
Capital injection	110,000	—	—	110,000	—	110,000
Acquisition of business (Note 31)	—	—	—	—	20,638	20,638
	110,000	—	—	110,000	20,638	130,638
Balance at December 31, 2010	110,000	2,760	(58,421)	54,339	20,615	74,954
Comprehensive income						
Profit for the year	—	—	66,686	66,686	1,347	68,033
Other comprehensive (loss)/income						
Exchange differences	—	(12,268)	—	(12,268)	417	(11,851)
Actuarial losses on defined benefit plans	—	—	(929)	(929)	—	(929)
Total other comprehensive (loss)/income	—	(12,268)	(929)	(13,197)	417	(12,780)
Total comprehensive (loss)/income	—	(12,268)	65,757	53,489	1,764	55,253
Transactions with owners						
Capital injection	3,000	—	—	3,000	—	3,000
Dividends to non-controlling shareholders of subsidiaries	—	—	—	—	(10,189)	(10,189)
	3,000	—	—	3,000	(10,189)	(7,189)
Balance at December 31, 2011	113,000	(9,508)	7,336	110,828	12,190	123,018
Comprehensive income						
Profit for the year	—	—	57,096	57,096	1,531	58,627
Other comprehensive income/(loss)						
Exchange differences	—	4,401	—	4,401	206	4,607
Actuarial losses on defined benefit plans	—	—	(1,394)	(1,394)	—	(1,394)
Total other comprehensive income/(loss)	—	4,401	(1,394)	3,007	206	3,213
Total comprehensive income	—	4,401	55,702	60,103	1,737	61,840
Transactions with owners						
Contributions from non-controlling shareholders of subsidiaries (Note 29(b)(ii))	—	—	—	—	6,951	6,951
Balance at December 31, 2012	113,000	(5,107)	63,038	170,931	20,878	191,809

I. FINANCIAL INFORMATION OF THE GROUP (continued)

COMBINED STATEMENTS OF CASH FLOWS

	Note	For the period from November 4, to December 31, 2010	For the year ended December 31, 2011	2012
		US$'000	US$'000	US$'000
Cash flows from operating activities				
Cash generated from operations	29(a)	49,165	104,645	162,109
Income tax paid		(226)	(7,767)	(5,844)
Net cash generated from operating activities		48,939	96,878	156,265
Cash flows from investing activities				
Purchase of property, plant and equipment		(8,614)	(67,071)	(172,381)
Addition of intangible assets		(4,846)	(69,585)	(104,091)
Proceeds from sale of property, plant and equipment		—	3,790	5,320
Changes in restricted bank deposits		(62)	602	(499)
Acquisition of business, net of cash acquired	31	(317,781)	—	—
Net cash used in investing activities		(331,303)	(132,264)	(271,651)
Cash flows from financing activities				
Capital injection		100,000	3,000	—
Proceeds from borrowings		319,000	88,836	567,185
Repayments of borrowings		(20,749)	(74,027)	(434,071)
Finance costs paid		(3,211)	(17,400)	(27,925)
Payment of listing expenses		—	—	(2,910)
Dividends paid to non-controlling shareholders of subsidiaries		—	(344)	(3,129)
Net cash generated from financing activities		395,040	65	99,150
Net increase/(decrease) in cash and cash equivalents		112,676	(35,321)	(16,236)
Cash and cash equivalents at beginning of period/year		—	113,466	78,233
Exchange gains on cash and cash equivalents		790	88	2,083
Cash and cash equivalents at end of period/year		113,466	78,233	64,080

II. NOTES ON THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

Nexteer Automotive Group Limited (the "Company") was incorporated in the Cayman Islands on August 21, 2012 as an exempted company with limited liability under Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company, together with its subsidiaries listed in Note 1.1 (collectively referred to as the "Group"), are principally engaged in the design and manufacture of steering and driveline systems and components for automobile manufacturers and other automotive-related companies ("the Listing Business"). The Group's primary operations are in the United States of America ("USA" or "US"), Mexico, Poland and the People's Republic of China (the "PRC") and it is structured to supply its customers globally. The principal markets for the Group's products are North America, Europe and the PRC.

The Company is a wholly-owned subsidiary of Pacific Century Motors, Inc. ("PCM China"). PCM China is 51% owned by AVIC Automobile Industry Holding Co., Ltd. ("AVIC Auto," a direct wholly-owned subsidiary of Aviation Industry Corporation of China ("AVIC") which is a state-owned enterprise established in the PRC), 24% owned by Beijing E-Town International Investment & Development Co., Ltd. ("Beijing E-Town," a company controlled by the Municipal Government of Beijing, the PRC) and 25% owned by PCM Systems Co., Ltd. ("PCM Systems," a private company incorporated in the PRC on January 8, 2003 unrelated to AVIC or the Municipal Government of Beijing).

The Company's directors consider AVIC as being the ultimate holding company of the Company.

1.1 Reorganization

(a) Prior to the incorporation of the Company, the following transactions relating to the shareholding of the Listing Business took place:

(i) Acquisition of the Listing Business by PCM China (the " acquisition of business")

Upon incorporation on September 10, 2010, PCM China was owned by Beijing E-Town (75%) and PCM Systems (25%).

Prior to December 1, 2010, the Listing Business had historically been conducted and owned by GM Global Steering Holdings, LLC ("GM Global Steering"). GM Global Steering was wholly-owned by General Motors Company ("General Motors") which was established in the US and unrelated to AVIC.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

1 GENERAL INFORMATION (continued)

1.1 Reorganization (continued)

(i) Acquisition of the Listing Business by PCM China (the "acquisition of business") (continued)

On November 30, 2010 ("acquisition date"), PCM China acquired the entire equity interests in GM Global Steering and thereby the operations of the Listing Business (refer to Note 31 for details) from General Motors. In connection with this acquisition, PCM China transferred the Listing Business to its two direct wholly-owned subsidiaries, PCM (US) Steering Holding Inc. ("PCM US") and PCM (Singapore) Steering Holding Pte. Limited ("PCM Singapore") which were established on November 8, 2010 and November 4, 2010 respectively. Thereafter GM Global Steering became inactive without any operations.

(ii) Disposal of 51% equity interests in PCM China by Beijing E-Town

On March 24, 2011, Beijing E-Town disposed of 51% of its interests in PCM China to AVIC Auto, and thereafter AVIC became the ultimate holding company of PCM China and the Listing Business.

(b) In preparation for the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent the following transactions to transfer the Listing Business to the Company (the "Reorganization"):

(i) On August 21, 2012, the Company was incorporated in the Cayman Islands by Nexteer Automotive (Hong Kong) Holdings Limited ("Nexteer Hong Kong"), which is a wholly-owned subsidiary of PCM China, with an authorized share capital of US$50,000 divided into 50,000 shares of par value of US$1.00. On the same day, one ordinary share was issued and allotted by the Company to Nexteer Hong Kong.

(ii) On January 30, 2013, the Company acquired the entire equity interests in PCM US and PCM Singapore respectively from PCM China. The considerations were settled through the issuance of two new ordinary shares by Nexteer Hong Kong at par to PCM China.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

1 GENERAL INFORMATION (continued)

1.1 Reorganization (continued)

Upon completion of the above reorganization steps and as at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name	Place and date of incorporation/ establishment	Issued and paid-up capital	Attributable equity interest in 2010–2012	Principal activities
Directly held:				
PCM (US) Steering Holding Inc. (note (a))	Delaware, US November 8, 2010	US$10,000	100%	Investment holding
PCM (Singapore) Steering Holding Pte. Limited (note (b))	Singapore November 4, 2010	US$37,999,980	100%	Investment holding
Indirectly held:				
Steering Holding Pte. Ltd. (note (b))	Singapore February 15, 2008	EUR 6,100,000	100%	Investment holding
Project Rhodes Holding Corporation (note (a))	Delaware, US May 18, 2007	US$1	100%	Investment holding
Global Steering Holdings, LLC (formally GM Global Steering Holdings, LLC) (note (a))	Delaware, US March 9, 2009	—	100%	Investment holding
Steering Solutions Corporation (note (a))	Delaware, US October 29, 2007	US$1	100%	Investment holding
Nexteer Automotive Corporation (note (a))	Delaware, US January 2, 2008	US$1	100%	Manufacturing of steering components
Steering Solutions Expat Holding Corporation (note (a))	Delaware, US January 2, 2008	US$1	100%	Investment holding
Steering Solutions IP Holding Corporation (note (a))	Delaware, US January 2, 2008	US$1	100%	Investment holding
Rhodes Holding I S.a.r.l. (note (a))	Luxembourg January 15, 2008	EUR 4,344,880	100%	Investment holding
Rhodes Holding II S.a.r.l. (note (a))	Luxembourg January 15, 2008	EUR 433,150	100%	Investment holding
Nexteer Otomotiv Sanayi ve Ticaret Limited Sirketi (note (a))	Turkey March 28, 2008	LIRA 1,105,000	100%	Manufacturing of steering components
Nexteer Automotive India Private Limited (note (c))	India February 25, 2008	RS 142,960,000	100%	Manufacturing of steering components
Rhodes Japan LLC (note (a))	Japan February 21, 2008	JPY 1	100%	Customer support/ engineering centre
Nexteer Automotive Australia Pty Ltd (note (d))	Australia January 23, 2008	AU$2,849,108	100%	Manufacturing of steering components
Nexteer Automotive Italy Srl (note (a))	Italy January 30, 2008	EUR 10,000	100%	Customer support/ engineering centre
Nexteer Automotive Germany GmbH (note (a))	Germany January 2, 2008	EUR 25,000	100%	Customer support/ engineering centre

II. NOTES ON THE FINANCIAL INFORMATION (continued)

1 GENERAL INFORMATION (continued)

1.1 Reorganization (continued)

Name	Place and date of incorporation/ establishment	Issued and paid-up capital	Attributable equity interest in 2010–2012	Principal activities
Nexteer Automotive France S.A.S. (note (e))	France March 25, 2008	EUR 1,287,000	100%	Customer support/ engineering centre
Nexteer Automotive Korea Limited (note (a))	Korea February 28, 2008	KRW 1,200,000,000	100%	Manufacturing of steering components
Fidass II B.V. (note (a))	Netherlands February 6, 2007	EUR 18,002	100%	Investment holding
Nexteer Automotive Poland Sp. z o.o. (note (f))	Poland January 2,1997	ZLOTY 20,923,650	100%	Manufacturing of steering components
Nexteer Automotive (Suzhou) Co., Ltd. (note (g))	The PRC January 24, 2007	US$21,000,000	100%	Manufacturing of steering components
Nexteer Lingyun Driveline (Zhuozhou) Co., Ltd. (note (g))	The PRC October 6, 1995	US$22,000,000	60%	Manufacturing of steering components
Nexteer Lingyun Driveline (Wuhu) Co., Ltd. (note (g))	The PRC December 22, 2006	US$22,400,000	60%	Manufacturing of steering components
Nexteer Industria e Comercio de Sistemas Automotivos Ltda. (note (h))	Brazil March 6,2007	REAL 54,639,116	100%	Manufacturing of steering components
Rhodes I LLC (note (a))	Michigan, US November 7, 2007	—	100%	Investment holding
Rhodes II LLC (note (a))	Michigan, US November 7, 2007	—	100%	Investment holding
SteeringMex S. de R.L. de C.V. (note (i))	Mexico December 14, 2007	PESO 100,292,917	100%	Manufacturing of steering components

Note:

Statutory auditor for each of the years ended December 31, 2010, 2011 and 2012 is as follows:

(a) There is no statutory audit requirement under the applicable laws in the respective place of incorporation.
(b) PricewaterhouseCoopers LLP, Singapore
(c) Price Waterhouse & Co., India
(d) PricewaterhouseCoopers, Australia
(e) PricewaterhouseCoopers Audit, France
(f) PricewaterhouseCoopers Sp. z o.o.
(g) PricewaterhouseCoopers Zhong Tian CPAs Limited Company
(h) PricewaterhouseCoopers, Brazil
(i) PricewaterhouseCoopers, S.C., Mexico

All of the Group's subsidiaries incorporated outside the PRC that are subject to statutory audits have not yet filed, by the date of this report, the audited financial statements for the year ended December 31, 2012 in accordance with the relevant local statutory requirements.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

1 GENERAL INFORMATION (continued)

1.2 Basis of presentation

After the acquisition of business from General Motors, the Listing Business was under common control of PCM China before and after the Reorganization. For the purpose of this report, the Financial Information has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants as if the current group structure had been in existence throughout the Relevant Periods or since the date when the combining companies first came under the control of PCM China, whichever is a shorter period.

Inter-company transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on combination.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial information are in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The financial information has been prepared under the historical cost convention.

The preparation of financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the combined financial information are disclosed in Note 4.

2.1 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Company controls by being exposed to, or has rights to, variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Consolidation (continued)

(a) Subsidiaries (continued)

The Group uses the acquisition method of accounting to account for business combinations except for business combination under common control for the Reorganization as described in Note 1.1 which are accounted for using the principles of merger accounting. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated.

(b) Non-controlling interests

The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker who has been identified as the Chief Executive Officer ("CEO"). The CEO is responsible for resource allocation and assessing the performance of the operating segments.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial information is presented in US dollars, which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(c) Group companies

The results of operations and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the related transactions); and

(iii) all resulting exchange differences are recognized in other comprehensive income.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment

Items of property, plant and equipment (including tools but excluding construction-in-progress) are measured at cost less accumulated depreciation and accumulated impairment losses. Improvements that materially extend the useful life of these assets are capitalized. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation on items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values overall their estimated useful lives as follows:

Leasehold improvements	10-20 years or over lease term, whichever is shorter
Buildings	10-40 years
Machinery, equipment and tooling	3-27 years
Furniture and office equipment	3-10 years

Tooling represents tools, dies, jigs and other items used in the manufacturing of customer specific parts. Tools owned by the Group are capitalized as property, plant and equipment and depreciated to cost of sales over their useful lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within "Other (losses)/gains, net" in the income statement.

Construction-in-progress represents buildings, machinery and equipment under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 *Land use rights*

Land use rights represent prepayment for operating leases and are stated at cost less accumulated amortization and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated. Amortization of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.6 *Intangible assets*

The Group incurs significant costs and efforts on research and development activities, which include expenditures on customer-specific applications, prototypes and testing. Research expenditures are charged to the income statement as an expense in the period the expenditure is incurred. Development costs are recognized as assets if they can be clearly assigned to a newly developed product or process and all the following can be demonstrated:

(i) The technical feasibility to complete the development project so that it will be available for use or sale;

(ii) The intention to complete the development project to use or sell it;

(iii) The ability to use the output of the development project;

(iv) The manner in which the development project will generate probable future economic benefits for the Group;

(v) The availability of adequate technical, financial and other resources to complete the development project and use or sell the intangible asset; and

(vi) The expenditure attributable to the asset during its development can be reliably measured.

The cost of an internally generated intangible asset is the sum of the expenditure incurred from the date the asset meets the recognition criteria above to the date when it is available for use. The costs capitalized in connection with the intangible asset include costs of materials and services used or consumed and employee costs incurred in the creation of the asset.

Capitalized development costs are amortized using the straight-line method over the life of the related program, usually four to seven years.

Development expenditures not satisfying the above criteria are recognized in the income statement as incurred.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life and intangible development assets not ready to use are not subject to amortization and are tested annually for impairment and whenever there is an indication of impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

(a) Classification

The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group's financial assets primarily comprise loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (Notes 2.10 and 2.11).

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(d) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out ("FIFO") method. Inventory cost includes direct material, direct labor and related manufacturing overhead costs (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less applicable selling expenses.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement as finance cost over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.14 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings outstanding during the period up to the amount of actual borrowing costs incurred during that period.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Retirement obligations

The Group has both defined contribution and defined benefit plans. Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

(a) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to prior or current employee services.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The salary level trend refers to the expected rate of salary increase which is estimated annually depending on inflation and the career development of employees within the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. A company specific default risk is not taken into account.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in the income statement.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

(i) Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(ii) Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provision

Provisions for restructuring, legal disputes, environmental liabilities, warranties and decommissioning are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions primarily comprise employee payments. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.18 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received, or receivable, less any trade discounts, sales returns and allowances allowed by the Group or any commercial incentives linked to sales. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group contracts with customers, which are generally OEMs in the automotive industry, to sell driveline and steering products. In connection with these contracts the Group also contracts to provide tooling and prototype and engineering services. The revenue recognition policies applied by the Group for each of these activities are as follows:

(i) Product

Revenues are recognized when finished products are shipped to customers, both title and the risks and rewards of ownership are transferred, and collectability is reasonably assured.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition (continued)

(ii) Prototype and engineering

Prototype and engineering activities are only performed in connection with the development of product that will be produced for the customers. Consideration received from customers for engineering and prototyping is deferred and recognized over the product life cycles of the related products.

(iii) Tooling

The Group's development and sale of tooling for customers is performed in connection with the preparations to produce and sell product to its customers. Therefore, consideration received from customers for tooling used in the production of the finished product is recognized as revenue at the time the tool is accepted by the customers.

Deferred revenue relates to customer deposits or cash advances and is deferred in the balance sheet until revenue recognition criteria are met.

2.20 Leases

Leases in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. The Group's operating leases cover principally real estate, office and other equipment. Depending on the nature of the leased asset, the Group records lease expense associated with operating leases within cost of sales, selling or administrative expenses on the income statement as appropriate.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Leases (continued)

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.21 Share-based payment

The Group offers a deferred incentives compensation plan to its employees, pursuant to which the plan participants are awarded incentive compensation that is derived from the appreciation in the combined value of certain subsidiaries of the Group during certain period as set out in Note 25(a). The related plan is accounted for as a liability plan as management's assumption is that future settlements will be made in the form of cash or stock. The fair value of the awards is measured at grant date using Black-Scholes model, taking into account the terms and conditions upon which the awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the awards, the total estimated fair value of the awards is spread over the vesting period, taking into account the probability that the awards will vest.

During the vesting period, the awards that are expected to vest is revalued. Any adjustment to the cumulative fair value recognized in prior years is charged or credited to the combined income statement for the year of the review. On the vesting date, the amount recognized as an expense is adjusted to reflect the actual amount of awards that vest.

2.22 Government grants

The Group periodically receives government grants in support of various business initiatives. Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants used to purchase, construct or otherwise acquire property, plant and equipment or tooling are deducted from the cost of the related asset. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized as income of the period in which they become receivable.

2.23 Interest income

Interest income is recognized using the effective interest method.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.25 New/revised standards, amendments to standards and interpretations

The Group has chosen to early adopt the following revised/new standards:

- IAS 19 (Revised 2011) . . . . "Employee Benefits"
- IAS 27 (Revised 2011) . . . . "Separate Financial Statements"
- IAS 28 (Revised 2011) . . . . "Investments in Associates and Joint Ventures"
- IFRS 10 . . . . "Consolidated Financial Statements"
- IFRS 11 . . . . "Joint Arrangements"
- IFRS 12 . . . . "Disclosures of Interest in Other Entities"
- IFRS 13 . . . . "Fair Value Measurement"

New standards and interpretations not yet adopted:

Certain new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012 and have not been applied in this financial information. They are not expected to have significant impacts on the financial information of the Group except for the following which the Group is yet to assess their full impacts:

- Amendment to IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after July 1, 2012) regarding other comprehensive income. It requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in other comprehensive income.

- Amendment to IFRS 7 "Financial instruments: Disclosures on asset and liability offsetting" (effective for annual periods beginning on or after January 1, 2013) requires new disclosure requirements which focus on quantitative information about recognized financial instruments that are offset in the balance sheet, as well as those recognized financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

- Amendment to IAS 32 "Financial instruments: Presentation on asset and liability offsetting" (effective for annual periods beginning on or after January 1, 2014) is to the application guidance in IAS 32 "Financial instruments: Presentation," and clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25 New/revised standards, amendments to standards and interpretations (continued)

- IFRS 9 "Financial instruments" (effective for annual periods beginning on or after January 1, 2015) addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the in the income statement, unless this creates an accounting mismatch.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's risk management and treasury department focuses on minimising potential adverse affects on the Group's financial performance. The Group currently does not use derivative financial instruments to hedge risk exposures, however, the need is continually assessed.

(a) Market risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and Chinese Renminbi ("RMB").

Management monitors and analyses expected exchange rate developments and considers hedging significant foreign currency exposure should the need arise.

As at each period/year end, if US$ strengthened by 10% against Euro/RMB with all other variables held constant, the equity and post-tax result for each period/year would have decreased mainly as a result of foreign exchange differences on translation of Euro/RMB denominated assets and liabilities:

	Equity	Post-tax result
	US$'000	US$'000
As at and for the period ended December 31, 2010		
Euro	13,826	43
RMB	6,084	187
As at and for the year ended December 31, 2011		
Euro	18,385	7,027
RMB	6,594	474
As at and for the year ended December 31, 2012		
Euro	22,213	2,118
RMB	9,426	383

A weakening of the US$ against the above currencies would have had equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(ii) Cash flow interest rate risk

The Group's interest rate risk primarily arises from current and non-current borrowings. Changes in interest rates on borrowings issued at variable rates potentially expose the Group to cash flow interest rate risk. As at each period/year end, the Group did not have any outstanding interest rate swaps. In the event there is a change in market conditions the Group will assess moving from variable to fixed rate borrowings.

As at December 31, 2010, 2011 and 2012, if the interest rates had been 100 basis points higher/(lower) than the prevailing rate, with all other variables held constant, net results for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 would have been US$263,000, US$3,589,000, US$4,765,000 lower/(higher) respectively.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Price risk

Price risk relates to changes in the price of raw materials purchased for production from time of price quotation to customers and production of saleable parts. The Group manages this risk primarily by negotiating recoveries from customers.

(b) Credit risk

The Group sells to automotive manufacturers throughout the world. Credit risk arises from deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables. The central treasury department is responsible for managing and analysing the credit risk for each new customer before standard payment and delivery terms and conditions are offered. The customer's creditworthiness is assessed at the local level through analysing past due receivables.

The Group's largest customer is General Motors and its subsidiaries ("General Motors Group") and its affiliates which comprised 50%, 51% and 52% of net sales during the period ended December 31, 2010 and each of the years ended December 31, 2011 and 2012, respectively. Trade receivables from General Motors Group and its affiliates was 43%, 43% and 49% of total trade receivables as at December 31, 2010, 2011 and 2012 respectively.

The Group monitors the credit ratings of its banks and financial institutions. As at December 31, 2010, 2011 and 2012 respectively, the Group holds approximately 95%, 95% and 72% of its cash in financial institutions with credit ratings of A or higher meaning the institutions have a very strong to extremely strong capacity to meet financial commitments.

(c) Liquidity risk

The Group monitors forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining sufficient availability on its undrawn committed borrowing facilities at all times as to not breach borrowing limits or covenants (where applicable) on any of its facilities. The Group's forecasting takes into consideration debt financing plans, covenant compliance, and if applicable, external regulatory or legal requirements.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The tables below analyse the Group's non-derivative financial liabilities into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	6 months or less	6-12 months	1-2 years	2-5 years	Over 5 years
	US$'000	US$'000	US$'000	US$'000	US$'000
At December 31, 2010					
Borrowings for acquisition of business	346,569	—	—	—	—
Short-term borrowings	19,500	22,500	—	—	—
Long-term borrowings	2,999	6,278	5,913	24,358	—
Finance lease obligations	8	9	17	3	—
	369,076	28,787	5,930	24,361	—
Trade payables	254,667	—	—	—	—
Other payables and accruals	90,813	—	626	—	—
At December 31, 2011					
Borrowings for acquisition of business	338,704	—	—	—	—
Short-term borrowings	48,878	41,219	—	—	—
Long-term borrowings	124	258	481	965	—
Finance lease obligations	108	159	304	778	—
	387,814	41,636	785	1,743	—
Trade payables	259,687	—	—	—	—
Other payables and accruals	87,489	—	1,414	—	—
At December 31, 2012					
Short-term borrowings	83,396	15,561	—	—	—
Long-term borrowings	9,336	9,977	79,535	237,207	194,499
Finance lease obligations	203	227	430	652	—
	92,935	25,765	79,965	237,859	194,499
Trade payables	295,741	—	—	—	—
Other payables and accruals	85,549	—	3,527	—	—

The borrowings for acquisition of business are recorded on the balance sheet at December 31, 2010 and 2011 as current liabilities as they were payable on demand by the lenders at any time in accordance with the contractual payment terms.

The Group is required to maintain an excess availability of facilities of not less than US$20 million at all times and a minimum required amount of operating income before interest, taxes, depreciation and amortization ("EBITDA") for the end of each monthly period as set forth in a bank credit agreement.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure to reduce the cost of capital. The Group monitors net debt to evaluate capital efficiency, as defined below:

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Total borrowings (Note 17)	390,443	406,636	540,648
Less: Borrowings for acquisition of business (Note 17)	(316,000)	(316,000)	—
Cash and cash equivalents	(113,466)	(78,233)	(64,080)
Restricted bank deposits (Note 13)	(822)	(220)	(251)
Net (surplus)/debt	(39,845)	12,183	476,317

The increase of net debt as at December 31, 2012 was primarily due to the full repayment of borrowings for acquisition of business in November 2012 by the proceeds obtained from the new long-term bank loans of US$426,000,000 (refer to Note 17 (a) and (b) for details).

3.3 Fair value estimation

The carrying amounts of the Group's current financial assets and liabilities, including cash and cash equivalents, restricted bank deposits, trade and other receivables, trade and other payables and current borrowings approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

(a) Assets acquired/liabilities assumed in business combination

The Group's assets/liabilities were recognized at fair value in connection with PCM China's acquisition of the Group's operations. The fair values of the acquired assets/assumed liabilities were determined based on valuation methodologies and techniques that involved the use of a third-party valuation firm's expertise. The judgements and assumptions used in that valuation of assets and liabilities along with the assumptions on the useful lives of acquired assets have a significant effect on the Group's combined financial information.

(b) Intangible assets not available for use

(i) Capitalization

Costs incurred on development projects are recognized as intangible assets when it is probable that the projects will be successful considering the criteria set out in Note 2.6. The Group's development activities are tracked by its engineering department and documented to support the basis of determining if and when the criteria were met.

(ii) Impairment

The Group is required to test intangible development assets not available for use on an annual basis. Other non-financial assets are tested whenever events or changes in circumstances indicate that the carrying amount of those assets exceeds its recoverable amount. The recoverable amount is determined based on the higher of fair value less cost to sell and value in use.

Determination of the value in use is an area involving management judgement in order to assess whether the carrying value of the intangible development assets not available for use can be supported by the net present value of future cash flows. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of (i) future unlevered free cash flows; (ii) long-term growth rates; and (iii) the selection of discount rates to reflect the risks involved.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Intangible assets not available for use (continued)

(ii) Impairment (continued)

The Group prepares and approves formal five-year management plans for its operations, which are used in estimating the value in use of the assets or cash generating units being tested. Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the outcome of the Group's impairment evaluation.

(c) Retirement benefits

The costs, assets and liabilities of the defined benefit plans operated by the Group are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions and the sensitivity analysis of such assumptions are set out in Note 18. Changes in the assumptions used may have a significant effect on the statement of comprehensive income and the balance sheet.

(d) Provisions

The Group recognizes a provision when there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where these criteria are not met, a contingent liability may be disclosed in the notes to the financial information. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the financial information could have a material effect on the Group's financial position. Application of these accounting principles to legal cases requires the Group's management to make determinations about various factual and legal matters beyond its control.

(i) Litigation

From time to time the Group is subject to various legal actions and claims incidental to its business, including those arising out of alleged defects, breach of contracts, intellectual property matters, and employment related matters.

The Group believes its established reserves are adequate to cover such items. However, the final amounts required to resolve these matters could differ materially from recorded estimates.

Litigation is subject to many uncertainties and the outcome of the individual litigated matters is not predictable with assurance. Based on currently available information, it is the opinion of management that the outcome of such matters will not have a material adverse impact on the Group.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Provisions (continued)

(ii) Environmental liabilities

The Group records environmental liabilities based upon estimates of financial exposure with respect to environmental sites. Environmental requirements may become more stringent over time or eventual environmental cleanup costs and liabilities may ultimately exceed current estimates. Moreover, future facilities sales could trigger additional, perhaps material, environmental remediation costs, as previously unknown conditions may be identified.

(iii) Warranties

The Group recognizes expected warranty costs for products sold principally at the time of sale of the product or when it is determined that such obligations are probable and can be reasonably estimated. Amounts recorded are based on the Group's estimates of the amount that will eventually be required to settle such obligations. These accruals are based on factors such as specific customer arrangements, past experience, production changes, industry developments and various other considerations. The Group's estimates are adjusted from time to time based on facts and circumstances that impact the status of existing claims.

(iv) Decommissioning

The Group identified conditional asset retirement obligations primarily related to asbestos abatement and removal and disposal of storage tanks at certain of its sites. Amounts recorded are based on the Group's estimate of future obligations to leave or close a facility. Sites are continually monitored for changes that may impact future obligations for decommissioning. The Group records accretion expense monthly to account for discounting of the obligation.

(e) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgements about future events. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Income taxes (continued)

Deferred tax assets are recognized only if it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. This determination requires significant judgement regarding the realisability of deferred tax assets. For entities with a recent history of losses, there would need to be convincing other evidence that sufficient taxable profits would be available in the future. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

5 SEGMENT INFORMATION

The Group's segment information is presented on the basis of internal reports that are regularly reviewed by the Group's CEO, in order to allocate resources to the segments and assess their performance. For each of the Group's reportable segments, the Group's CEO reviews internal management reports on a quarterly basis, at a minimum.

The Group classifies its businesses into four reportable segments; North America, Europe, the PRC and Rest of world. All of the Group's operating segments typically offer the same driveline and steering products. The "Others" category represents parent company activities of PCM US, PCM Singapore and Nexteer Automotive Corporation.

The key performance indicators that the Group monitors to run segment operations are:

- EBITDAR, which represents operating income/(loss) before interest, taxes, depreciation and amortization and restructuring/acquisition costs.
- Net working capital ("NWC"), which represents inventory and trade receivables net of trade payables. This measures the Group's net investment in operating assets for each segment.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

5 SEGMENT INFORMATION (continued)

Information about reportable segments and reconciliations of reportable segment revenues is as follows:

	North America	The PRC	Europe	Rest of world	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
For the period from November 4, 2010 to December 31, 2010						
Total revenue	101,986	19,701	32,559	11,833	—	166,079
Inter-segment revenue	(5,128)	(1,576)	(844)	(1,843)	—	(9,391)
Revenue from external customers	96,858	18,125	31,715	9,990	—	156,688
EBITDAR	(13,628)	1,538	1,856	15	1,756	(8,463)
NWC	124,462	31,920	29,861	19,775	(192)	205,826
For the year ended December 31, 2011						
Total revenue	1,513,468	178,079	460,609	172,926	—	2,325,082
Inter-segment revenue	(43,076)	(9,602)	(4,250)	(20,402)	—	(77,330)
Revenue from external customers	1,470,392	168,477	456,359	152,524	—	2,247,752
EBITDAR	67,714	(4,175)	55,319	11,109	14,983	144,950
NWC	134,550	15,369	42,781	16,695	3,588	212,983
For the year ended December 31, 2012						
Total revenue	1,563,850	195,778	335,729	130,780	—	2,226,137
Inter-segment revenue	(27,499)	(13,452)	(7,285)	(10,099)	—	(58,335)
Revenue from external customers	1,536,351	182,326	328,444	120,681	—	2,167,802
EBITDAR	110,817	16,964	27,026	(9,167)	3,599	149,239
NWC	161,779	36,693	25,722	(9,376)	(11,809)	203,009

Revenue between segments are carried out at arm's length. The revenue from external parties reported to the Group's CEO is measured in a manner consistent with that in the income statement.

Reconciliations of reportable segment net income to those as determined under IFRS are as follows:

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
EBITDAR from reportable segments	(8,463)	144,950	149,239
Depreciation and amortization expenses	(3,742)	(53,973)	(57,870)
Restructuring costs (Note 19)	(32,763)	(1,776)	(7,446)
Acquisition-related costs (Note 31)	(12,320)	—	—
Finance costs, net	(1,672)	(15,764)	(21,729)
(Loss)/profit before income tax	(58,960)	73,437	62,194

II. NOTES ON THE FINANCIAL INFORMATION (continued)

5 SEGMENT INFORMATION (continued)

In presenting information on the basis of geography, segment revenue is based on the geographical location of subsidiaries and segment assets are based on geographical location of the assets.

The geographic distribution of revenue for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 is as follows:

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
North America	96,858	1,470,392	1,536,351
Europe:			
Poland	31,240	450,304	323,701
Rest of Europe	475	6,055	4,743
The PRC	18,125	168,477	182,326
Rest of world	9,990	152,524	120,681
	156,688	2,247,752	2,167,802

The geographic distribution of non-current assets excluding deferred income tax assets as at December 31, 2010, 2011 and 2012 respectively is as follows:

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
North America	117,051	204,854	402,606
Europe:			
Poland	82,811	66,977	99,124
Rest of Europe	572	7,505	3,008
The PRC	62,549	72,642	94,920
Rest of world	14,872	15,259	16,747
	277,855	367,237	616,405

II. NOTES ON THE FINANCIAL INFORMATION (continued)

5 SEGMENT INFORMATION (continued)

Distribution of revenue between product lines for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 is as follows:

	For the period from November 4, to December 31,	For the year ended December 31,	
	2010	2011	2012
	US$'000	US$'000	US$'000
Steering	125,607	1,803,556	1,694,078
Driveline	31,081	444,196	473,724
	156,688	2,247,752	2,167,802

Revenues from customers amounting to 10 per cent or more of the Group's revenue are as follows and reported in all segments:

	For the period from November 4, to December 31,	For the year ended December 31,	
	2010	2011	2012
	US$'000	US$'000	US$'000
General Motors Group and its affiliates	78,912	1,137,732	1,133,370
Customer A	18,665	284,567	275,245
Customer B	13,776	224,700	156,990
	111,353	1,646,999	1,565,605

II. NOTES ON THE FINANCIAL INFORMATION (continued)

6 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Leasehold improvement	Buildings	Machinery, equipment and tooling	Furniture and office equipment	Construction in progress	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Net book amount at November 4, 2010	—	—	—	—	—	—	—
Acquisition of business (Note 31)	8,052	3,583	24,166	206,826	2,550	20,667	265,844
Additions	—	147	77	6,159	87	1,089	7,559
Depreciation	—	(16)	(115)	(3,579)	(30)	—	(3,740)
Exchange differences	32	14	95	808	10	82	1,041
Net book amount at December 31, 2010	8,084	3,728	24,223	210,214	2,617	21,838	270,704
At December 31, 2010							
Cost	8,084	3,744	24,338	213,793	2,647	21,838	274,444
Accumulated depreciation	—	(16)	(115)	(3,579)	(30)	—	(3,740)
Net book amount	8,084	3,728	24,223	210,214	2,617	21,838	270,704
Net book amount at January 1, 2011	8,084	3,728	24,223	210,214	2,617	21,838	270,704
Additions	9	1,230	940	47,035	852	28,010	78,076
Disposals	—	(1)	(7)	(3,455)	(15)	—	(3,478)
Depreciation	—	(809)	(4,006)	(47,730)	(728)	—	(53,273)
Exchange differences	(56)	(26)	(169)	(1,462)	(18)	(152)	(1,883)
Net book amount at December 31, 2011	8,037	4,122	20,981	204,602	2,708	49,696	290,146
At December 31, 2011							
Cost	8,037	4,947	25,102	255,911	3,466	49,696	347,159
Accumulated depreciation	—	(825)	(4,121)	(51,309)	(758)	—	(57,013)
Net book amount	8,037	4,122	20,981	204,602	2,708	49,696	290,146
Net book amount at January 1, 2012	8,037	4,122	20,981	204,602	2,708	49,696	290,146
Additions	—	533	1,242	86,664	2,212	110,828	201,479
Disposals	—	(5)	(40)	(8,163)	(60)	—	(8,268)
Depreciation	—	(166)	(3,899)	(48,235)	(983)	—	(53,283)
Exchange differences	(270)	151	888	2,968	226	66	4,029
Net book amount at December 31, 2012	7,767	4,635	19,172	237,836	4,103	160,590	434,103
At December 31, 2012							
Cost	7,767	5,626	27,192	337,380	5,844	160,590	544,399
Accumulated depreciation	—	(991)	(8,020)	(99,544)	(1,741)	—	(110,296)
Net book amount	7,767	4,635	19,172	237,836	4,103	160,590	434,103

II. NOTES ON THE FINANCIAL INFORMATION (continued)

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Certain of the Group's property, plant and equipment have been pledged as collateral under the Group's borrowing arrangements. The carrying amounts of property, plant and equipment pledged as collateral were US$110,321,000, US$129,239,000 and US$320,840,000 as at December 31, 2010, 2011 and 2012 respectively.

Property, plant and equipment at December 31, 2010, 2011 and 2012 included office equipment under finance lease of US$35,000, US$1,229,000 and US$1,387,000, net of accumulated depreciation of US$7,000, US$94,000 and US$386,000 respectively.

Depreciation has been charged to the following function of expenses:

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
Cost of sales	3,589	50,988	50,171
Engineering and product development costs	79	1,311	1,987
Administrative expenses	72	974	1,125
	3,740	53,273	53,283

The Group has capitalized borrowing costs amounting to US$287,000 and US$447,000 on qualifying assets of property, plant and equipment for each of the years ended December 31, 2011 and 2012 respectively. Borrowing costs were capitalized at the weighted average of its borrowing rate of 2.9% and 4.1% during the respective year.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

7 LAND USE RIGHTS

	US$'000
Cost	
As at November 4, 2010	—
Acquisition of business (Note 31)	949
Exchange differences	8
As at December 31, 2010	957
Exchange differences	48
As at December 31, 2011	1,005
Exchange differences	2
As at December 31, 2012	1,007
Accumulated amortization	
As at November 4, 2010	—
Acquisition of business (Note 31)	211
Amortization	2
Exchange differences	2
As at December 31, 2010	215
Amortization	25
Exchange differences	11
As at December 31, 2011	251
Amortization	25
Exchange differences	(6)
As at December 31, 2012	270
Net book amount	
As at December 31, 2010	742
As at December 31, 2011	754
As at December 31, 2012	737

The Group's land use rights are located in the PRC and are held under leases for periods of 50 years.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

8 INTANGIBLE ASSETS

	Product development costs
	US$'000
Cost	
As at November 4, 2010	—
Additions	4,846
As at December 31, 2010	4,846
Additions	70,771
As at December 31, 2011	75,617
Additions	108,702
As at December 31, 2012	184,319
Accumulated amortization	
As at November 4, 2010	—
Amortization	—
As at December 31, 2010	—
Amortization	675
As at December 31, 2011	675
Amortization	4,562
As at December 31, 2012	5,237
Net book amount	
As at December 31, 2010	4,846
As at December 31, 2011	74,942
As at December 31, 2012	179,082

The additions for each of the years ended December 31, 2011 and 2012 include US$1,186,000 and US$4,611,000 respectively of capitalized interest related to the borrowings associated with developmental costs.

Impairment tests

Capitalized product development costs not yet available for use are tested annually based on the recoverable amount of the cash generating unit to which the intangible asset is related. As these development costs support each of the operating segments, their appropriate cash-generating unit is at the Group's level.

The recoverable amount of the Group was determined based upon value in use. The value in use was estimated using the discounted cash flow approach. The pre-tax discount rates used to discount the estimated future cash flows were 14.5% and 14% in 2011 and 2012 respectively which were based on an estimated weighted average cost of capital and include estimates of industry sector risk premium. If the pre-tax discount rate had been 2% higher/(lower), there was still sufficient headroom with no impairment required.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

8 INTANGIBLE ASSETS (continued)

Impairment tests (continued)

In determining value in use it is necessary to make a series of assumptions to estimate future cash flows. There is risk in future profitability such as customer volumes and commodity pricing. The assumptions for customer volumes and commodity pricing are reviewed annually as part of the management's budgeting and strategic planning cycles.

The assumptions related to customer volume and timing of sales to customers may vary due to a number of factors, including variation in demand for customers' products, customers' attempts to manage their inventories, design changes, changes in customers' manufacturing strategy, etc. Accordingly, many of the Group's customers do not commit to long term production schedules.

The assumptions related to commodity pricing may vary as raw material costs are influenced by several commodities and the volatility of these prices may have an adverse impact on the Group's business. However, to mitigate the risk the Group continues its efforts to pass material, component, and supply cost increases to the Group's customers.

Estimated cash flows are bases on management forecasts over a five year horizon and a terminal value, which assumes a 3.0% long-term growth rate. The growth rate is consistent with similar global enterprises and consistent with expected long-term inflation. Management believes that there are long term prospects for growth due to the Group's market position and established platform of products. If the growth rate had been 1% higher/(lower), there was still sufficient headroom with no impairment required.

9 DEFERRED INCOME TAXES

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Deferred income tax assets:			
— to be recovered after more than 12 months	8,598	8,646	—
— to be recovered within 12 months	1,828	2,089	14,595
	10,426	10,735	14,595
Deferred income tax liabilities:			
— to be settled after more than 12 months	(3,150)	(2,124)	(2,762)
— to be settled within 12 months	—	(476)	(104)
	(3,150)	(2,600)	(2,866)
Deferred income tax assets, net	7,276	8,135	11,729

II. NOTES ON THE FINANCIAL INFORMATION (continued)

9 DEFERRED INCOME TAXES (continued)

The movement in deferred income tax assets and liabilities during the period/year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Property, plant and equipment	Retirement benefits and compensations	Provisions and accruals	Tax losses and credits	Intangible assets	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Deferred income tax assets							
As at November 4, 2010	—	—	—	—	—	—	—
Acquisition of business (Note 31)	6,995	1,669	6,610	—	—	684	15,958
(Charged)/credited to income statement	(37)	138	1,704	—	—	206	2,011
Charged to other comprehensive income	—	(6)	—	—	—	—	(6)
Exchange differences	(14)	(3)	(2)	—	—	(2)	(21)
As at December 31, 2010	6,944	1,798	8,312	—	—	888	17,942
Credited/(charged) to income statement	1,091	1,998	18,332	1,169	—	(318)	22,272
Credited to other comprehensive income	—	279	—	—	—	—	279
Exchange differences	(168)	(57)	(46)	(29)	—	(16)	(316)
At December 31, 2011	7,867	4,018	26,598	1,140	—	554	40,177
(Charged)/credited to income statement	(3,752)	3,716	17,189	19,654	—	9,714	46,521
Credited to other comprehensive income	—	622	—	—	—	—	622
Exchange differences	19	10	24	36	—	247	336
At December 31, 2012	4,134	8,366	43,811	20,830	—	10,515	87,656
Deferred income tax liabilities							
As at 4 November 2010	—	—	—	—	—	—	—
Acquisition of business (Note 31)	(8,226)	(85)	(466)	—	—	(753)	(9,530)
Credited/(charged) to income statement	49	(10)	438	—	(1,823)	216	(1,130)
Charged to other comprehensive income	—	(14)	—	—	—	—	(14)
Exchange differences	8	—	—	—	—	—	8
As at December 31, 2010	(8,169)	(109)	(28)	—	(1,823)	(537)	(10,666)
Credited /(charged) to income statement	5,890	(70)	(171)	—	(25,876)	(1,272)	(21,499)
Credited to other comprehensive income	—	17	—	—	—	—	17
Exchange differences	56	2	5	—	—	43	106
At December 31, 2011	(2,223)	(160)	(194)	—	(27,699)	(1,766)	(32,042)
(Charged)/credited to income statement	(5,360)	64	(170)	—	(38,668)	282	(43,852)
Exchange differences	(25)	—	—	—	—	(8)	(33)
At December 31, 2012	(7,608)	(96)	(364)	—	(66,367)	(1,492)	(75,927)

II. NOTES ON THE FINANCIAL INFORMATION (continued)

9 DEFERRED INCOME TAXES (continued)

Deferred income tax assets are recognized for tax loss carry-forwards and deductible temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable. Deferred income tax assets being calculated at applicable tax rates have not been recognized in respect of the following as management believes it is more likely than not that they would not be utilised before expiration:

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Tax losses	10,422	14,625	7,249
Deductible temporary differences	37,249	21,583	4,765
	47,671	36,208	12,014

(i) As at December 31, 2010, 2011 and 2012, the Group has US$26,510,000, US$34,613,000 and US$29,722,000 respectively, of gross net operating loss ("NOL") carryforwards in US which will begin to expire in 2032. As at December 31, 2010, 2011 and 2012, the Group has US$1,647,000, US$8,814,000 and US$26,347,000 respectively, of non-U.S. gross NOL carryforwards which have various expiration dates of which a significant amount are unlimited.

(ii) As at December 31, 2011 and 2012, the Group has US$6,267,000 and US$9,035,000 respectively of various tax credits which begin to expire in 2022. With the exception of these credits, the remaining deductible temporary differences do not expire under current tax legislation.

Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries because the Company is able to control the timing of reversal of the temporary differences and no material amounts of such unremitted earnings are currently intended to be distributed. Unremitted earnings totalled US$67,323,000, US$94,579,000 and US$100,700,000 as at December 31, 2010, 2011 and 2012 respectively.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

10 INVENTORIES

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Raw materials	104,026	95,683	107,148
Work in progress	31,488	36,611	40,764
Finished goods	17,126	27,916	34,787
	152,640	160,210	182,699
Less: provision for impairment losses	(327)	(3,422)	(8,266)
	152,313	156,788	174,433

The cost of inventories recognized as an expense and included in cost of sales for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 amounted to US$152,278,000, US$1,926,585,000 and US$1,851,941,000 respectively.

The carrying amounts of inventories pledged as collateral were US$92,490,000, US$110,906,000 and US$126,855,000 as at December 31, 2010, 2011 and 2012 respectively.

11 TRADE RECEIVABLES

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Trade receivables, gross	308,219	317,167	327,261
Less: provision for impairment	(39)	(1,285)	(2,944)
	308,180	315,882	324,317

Credit terms range from 30-90 days after the invoice date depending on the customer and the geographical region. Ageing analysis of trade receivables based on credit terms is as follows:

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Not overdue	298,393	300,851	311,364
Overdue up to 30 days	5,298	8,811	11,409
Overdue 30 to 60 days	1,379	3,542	1,569
Overdue 60 to 90 days	906	469	272
Overdue over 90 days	2,243	3,494	2,647
	308,219	317,167	327,261

II. NOTES ON THE FINANCIAL INFORMATION (continued)

11 TRADE RECEIVABLES (continued)

Trade receivables of US$9,787,000, US$15,031,000 and US$12,953,000 were past due but not impaired as at December 31, 2010, 2011 and 2012 respectively. These relate mainly to a number of customers for whom there is no history of default. The ageing analysis of these past due but not impaired receivables is as follows:

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Overdue up to 30 days	5,298	8,811	11,409
Overdue 30 to 60 days	1,379	3,542	1,544
Overdue 60 to 90 days	906	469	—
Overdue over 90 days	2,204	2,209	—
	9,787	15,031	12,953

The provision for impairment of receivables includes estimates and assessments of individual receivables based on the creditworthiness of the respective customer, current economic developments, and the analysis of historical losses on receivables. The creditworthiness of a customer is assessed on their payment history and ability to make repayments and customer credit rating from third-party rating agencies.

Trade receivables of US$39,000, US$1,285,000 and US$2,944,000 were impaired as at December 31, 2010, 2011 and 2012 respectively, on which full provision was made as at respective year-ends. These individually impaired receivables are relatively long overdue.

Movement on the provision for impairment of trade receivables is as follows:

	US$'000
As at November 4, 2010	—
Provision for impairment of trade receivables	35
Exchange differences	4
As at December 31, 2010	39
Provision for impairment of trade receivables	1,141
Written-off as uncollectible	(116)
Exchange differences	221
As at December 31, 2011	1,285
Provision for impairment of trade receivables	1,570
Exchange differences	89
As at December 31, 2012	2,944

A subsidiary of the Group participates in a factoring program in Europe where proceeds of US$32,000,000 and US$21,203,000 received were accounted for as short-term borrowings as at December 31, 2011 and 2012 respectively. The risks and rewards of the related trade receivables remain with the Group, thus these assets have not been derecognized.

The carrying amounts of trade receivables pledged as collateral were US$196,913,000, US$207,210,000 and US$261,002,000 as at December 31, 2010, 2011 and 2012 respectively.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

12 OTHER RECEIVABLES AND PREPAYMENTS

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Amounts reimbursable from customers on tools	15,712	12,268	30,525
Other taxes recoverable (note (a))	11,199	18,104	17,963
Prepaid assets (note (b))	9,000	10,246	12,333
Deposits to vendors	3,489	4,087	5,662
Others (note (c))	11,014	1,085	790
	50,414	45,790	67,273
Less: non-current portion	(1,563)	(1,395)	(2,483)
Current portion	48,851	44,395	64,790

Notes:

(a) Balance mainly represents value-added tax recoverable and certain incentives granted to the Group for investing capital and maintaining jobs in the State of Michigan, USA.

(b) As at December 31, 2012, balance includes prepayments of listing expenses of US$1,047,000.

(c) Balance at December 31, 2010 includes receivable due from a related party disclosed in Note 32(c).

13 RESTRICTED BANK DEPOSITS

Restricted bank deposits are maintained with banks for issuance of letters of credit.

14 CASH AND CASH EQUIVALENTS

The Group's RMB balances are placed with banks in the PRC. The RMB is not a freely convertible currency. The conversion of these RMB denominated balances into foreign currencies in the PRC is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Cash balances denominated in RMB will be used as part of the normal operating activities in the PRC and are classified as unrestricted cash on this basis. Other cash balances are unrestricted.

15 COMBINED CAPITAL

As mentioned in Note 1.2 in Section II, the Financial Information has been prepared as if the current group structure had been in existence throughout the Relevant Periods or since the date when the combining companies first came under the control of PCM China, whichever is a shorter period. The combined capital during the Relevant Periods represents the combined share capital of PCM US and PCM Singapore.

16 EXCHANGE RESERVE

Exchange reserve arises from currency translations of all group entities that have a functional currency different from the US$ being translated into the Group's presentation currency of US$.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

17 BORROWINGS

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Non-current			
Borrowings from banks			
— secured	—	—	571
— unsecured (note (b))	—	1,153	439,961
Borrowings from a subsidiary of Delphi Corporation (former owner, a third party) — unsecured (note (c))	25,536	—	—
Finance lease obligations (note (f))	19	912	999
	25,555	2,065	441,531
Current			
Borrowings from banks			
— secured, for acquisition of business (note (a))	316,000	316,000	—
— secured, others (note (d))	3,000	49,550	47,055
— unsecured (note (e))	—	38,553	50,045
Borrowings from General Motors — unsecured	37,985	—	—
Add: current portion of:			
— non-current secured borrowings from banks	—	—	285
— non-current unsecured borrowings from banks	3,414	208	1,388
— non-current unsecured borrowings from a subsidiary of Delphi Corporation (note (c))	4,474	—	—
— finance lease obligations (note (f))	15	260	344
	364,888	404,571	99,117
Total borrowings	390,443	406,636	540,648

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Maturity of borrowings			
Within 1 year	364,888	404,571	99,117
Between 1 and 2 years	4,490	562	58,978
Between 2 and 5 years	21,065	1,503	200,553
Over 5 years	—	—	182,000
	390,443	406,636	540,648

II. NOTES ON THE FINANCIAL INFORMATION (continued)

17 BORROWINGS (continued)

	As at 31 December		
	2010	2011	2012
Weighted average annual interest rates			
Bank borrowings	2.5%	2.9%	4.1%
Other borrowings	0%–6%	—	—

	As at 31 December		
	2010	2011	2012
	US$'000	US$'000	US$'000
Currency denomination			
US$	357,103	331,843	476,476
Euro	34	32,017	21,232
RMB	33,306	39,359	32,350
Others	—	3,417	10,590
	390,443	406,636	540,648

	As at 31 December		
	2010	2011	2012
	US$'000	US$'000	US$'000
Undrawn facilities at floating rates			
Within 1 year	79,000	75,298	178,154
Over 1 year	—	—	57,040
	79,000	75,298	235,194

Note:

(a) This includes a debt of US$190,000,000 due in annual installments of 5.0% of the outstanding balance which commences in November 2012 and matures in October 2014 with a final repayment. It bears interest at LIBOR+1.4% per annum and is due on demand. It is guaranteed by AVIC and Beijing Economic Technological Investment and Development Corporation (a former shareholder of Beijing E-Town) and secured by all of the properties owned by PCM US and two standby letters of credit in the amount of US$195,000,000 each.

Another debt of US$126,000,000 due in semi-annual installments of US$21,000,000 which commences in May 2013 and matures in October 2015. It bears interest at LIBOR+3.0% per annum and is subject to review by the bank and can be called at any time. It is guaranteed by AVIC and Beijing E-Town, and secured by a standby letter of credit in the amount of US$140,000,000 and the inventories of certain subsidiaries of the Group.

These two debts were repaid in November 2012 with proceeds from long-term bank loans detailed in note (b)(i) below.

(b) As at December 31, 2012 this includes

(i) bank loans totalling US$426,000,000, which are guaranteed by AVIC and Beijing E-Town, bear interest at LIBOR+3.5% per annum and due in semi- annual installments of US$30,500,000 which commence in June 2014 and mature in October 2020 with the last repayment to be made then. In the opinion of the Directors of the Company, these loans are not intended to be repaid and the guarantee by AVIC and Beijing E-Town is not to be released prior to the Company's listing.

(ii) bank loans of US$15,817,000 borrowed by a certain subsidiary of the Group which are guaranteed by PCM China and bear interest at LIBOR plus floating basis points for USD denominated amounts and 10% above the People's Bank of China (the "PBOC") benchmark rate for RMB denominated amounts. These loans are expected to be repaid prior to the Company's Listing.

(c) This represents a loan payable to a subsidiary of Delphi Corporation which was repaid in 2011.

(d) This includes the short-term borrowings from a factoring program in Europe (Note 11).

(e) As at December 31, 2012 this includes bank loans of US$16,917,000 borrowed by a certain subsidiary of the Group which are guaranteed by PCM China and bear interest at 4.78% for USD denominated amounts and 6.6%–6.9% on RMB denominated amounts. These loans are expected to be repaid prior to the Company's Listing.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

17 BORROWINGS (continued)

Note:

(f) Finance lease obligations

(i) Gross finance leases liabilities — minimum lease payments:

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Within 1 year	17	267	430
Between 1 and 2 years	17	304	430
Between 2 and 5 years	3	778	652
	37	1,349	1,512
Less: future finance charges	(3)	(177)	(169)
	34	1,172	1,343

(ii) Present value of finance lease obligations:

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Within 1 year	15	260	344
Between 1 and 2 years	16	224	382
Between 2 and 5 years	3	688	617
	34	1,172	1,343

18 RETIREMENT BENEFITS AND COMPENSATIONS

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Pension defined benefit plans (note (a))	9,039	10,507	13,557
Extended disability benefits (note (b))	7,444	8,103	9,732
Workers compensation (note (c))	1,296	2,827	3,509
	17,779	21,437	26,798
Less: non-current portion	(16,825)	(20,296)	(25,077)
Current portion	954	1,141	1,721

(a) *Pension — defined benefit plans*

The Group sponsors various defined benefit plans that generally provide benefits based on negotiated amounts for each year of eligible service. The Group's most significant plans are under regulatory frameworks in Mexico, Germany, France and US. The US Executive Retirement Plan ("US ERP") is a frozen plan established on December 1, 2010 as part of the acquisition of business. The plans had no amendments, curtailments or settlements affecting the defined benefit obligation.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)

(a) *Pension — defined benefit plans (continued)*

The Group employs Mercer (U.S.) Inc., an independent qualified actuary, to measure pension costs using the projected unit credit method. The amounts recognized in balance sheets are determined as follows:

	December 31, 2010			December 31, 2011			December 31, 2012		
	Non-U.S. plans	U.S. ERP	Total	Non-U.S. plans	US ERP	Total	Non-U.S. plans	US ERP	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Present value of funded obligations (note (i))	8,445	1,397	9,842	9,654	1,586	11,240	12,764	1,663	14,427
Fair value of plan assets (note (ii))	(803)	—	(803)	(733)	—	(733)	(870)	—	(870)
Deficit of funded plans	7,642	1,397	9,039	8,921	1,586	10,507	11,894	1,663	13,557

(i) Movement in the present value of defined benefit obligations:

	For the period from November 4, 2010 to December 31, 2010			For the year ended December 31, 2011			For the year ended December 31, 2012		
	Non-U.S. plans	US ERP	Total	Non-U.S. plans	US ERP	Total	Non-U.S. plans	US ERP	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Opening balance	—	—	—	8,445	1,397	9,842	9,654	1,586	11,240
Acquisition of business	8,436	1,420	9,856	—	—	—	—	—	—
Current service cost	60	—	60	732	—	732	863	—	863
Interest cost	48	5	53	591	71	662	664	67	731
(Gains)/losses from changes in financial assumptions	(99)	(28)	(127)	484	118	602	1,221	179	1,400
Experience losses/(gains)	—	—	—	575	—	575	810	(169)	641
Exchange differences	—	—	—	(898)	—	(898)	605	—	605
Benefits paid	—	—	—	(275)	—	(275)	(1,053)	—	(1,053)
Ending balance	8,445	1,397	9,842	9,654	1,586	11,240	12,764	1,663	14,427

II. NOTES ON THE FINANCIAL INFORMATION (continued)

18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)

(a) Pension — defined benefit plans (continued)

(ii) Movement in the fair value of plan assets:

	For the period from November 4, 2010 to December 31, 2010			For the year ended December 31, 2011			For the year ended December 31, 2012		
	Non-U.S. plans	US ERP	Total	Non-U.S. plans	US ERP	Total	Non-U.S. plans	US ERP	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Opening balance	—	—	—	803	—	803	733	—	733
Acquisition of business	787	—	787	—	—	—	—	—	—
Interest income	5	—	5	63	—	63	57	—	57
Return on plan assets, excluding amounts included in interest income	11	—	11	(48)	—	(48)	25	—	25
Employer contributions	—	—	—	275	—	275	1,053	—	1,053
Exchange differences	—	—	—	(85)	—	(85)	55	—	55
Benefits paid	—	—	—	(275)	—	(275)	(1,053)	—	(1,053)
Ending balance	803	—	803	733	—	733	870	—	870

Plan assets comprise as follows:

	As at December 31,		
	2010	2011	2012
Equities	35%	33%	36%
Bonds	40%	38%	31%
Cash	25%	29%	33%
	100%	100%	100%

Amounts recognized in other comprehensive income:

	For the period from November 4, 2010 to December 31, 2010		For the year ended December 31, 2011		For the year ended December 31, 2012	
	Non-US plans	US ERP	Non-US plans	US ERP	Non-US plans	US ERP
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Gains/(losses) from changes in financial assumptions	99	28	(484)	(118)	(1,221)	(179)
Experience (losses)/gains	—	—	(575)	—	(810)	169
Return on plan assets, excluding amounts included in interest income	11	—	(48)	—	25	—
Total	110	28	(1,107)	(118)	(2,006)	(10)

II. NOTES ON THE FINANCIAL INFORMATION (continued)

18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)

(a) Pension — defined benefit plans (continued)

Amount recognized in income statement:

	For the period from November 4, 2010 to December 31, 2010		For the year ended December 31, 2011		For the year ended December 31, 2012	
	Non-US plans	US ERP	Non-US plans	US ERP	Non-US plans	US ERP
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Current service cost	60	—	732	—	863	—
Interest cost	43	5	528	71	607	67
Total	103	5	1,260	71	1,470	67
Included in:						
Cost of sales	37	—	928	—	863	—
Engineering and product development costs	34	—	86	—	359	—
Selling and distribution costs	4	—	4	—	7	—
Administrative expenses	28	5	242	71	241	67

Principal actuarial assumptions used were as follows:

	December 31, 2010		December 31, 2011		December 31, 2012	
	Non-US plans	US ERP	Non-US plans	US ERP	Non-US plans	US ERP
Discount rate	7.08%	5.10%	6.74%	4.25%	5.58%	2.83%
Salary increase rate	4.40%	NA	4.43%	NA	3.71%	NA
Price inflation rate	3.40%	NA	3.43%	NA	3.41%	NA
Pension increase rate	2.00%	NA	2.00%	NA	2.00%	NA

II. NOTES ON THE FINANCIAL INFORMATION (continued)

18 RETIREMENT BENEFITS AND COMPENSATIONS (continued)

(a) Pension — defined benefit plans (continued)

Sensitivity analysis on (decrease)/increase of pension obligations:

	December 31, 2010		December 31, 2011		December 31, 2012	
	Non-US plans	US ERP	Non-US plans	US ERP	Non-US plans	US ERP
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
1% increase in discount rate	(7,326)	(1,271)	(8,412)	(1,454)	(11,022)	(1,534)
1% decrease in discount rate	9,817	1,539	11,196	1,733	14,969	1,806
1% increase in salary increase rate	9,414	NA	10,624	NA	14,217	NA
1% decrease in salary increase rate	(7,683)	NA	(8,823)	NA	(11,638)	NA

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation the same actuarial method has been applied in arriving at the pension liability recognized in the balance sheet.

(b) Extended disability benefits

Costs associated with extended disability benefits provided to injured employees in US are accrued throughout the duration of active employment. Workforce demographic data and historical experience are utilised to develop projections of time frames and related expenses for these post-employment benefits.

(c) Workers compensation

The Group is self-insured for certain levels of workers' compensation for hourly workforce and accrues estimated costs for filed claims based upon an actuarially determined estimate. Workers' compensation liability includes benefits related to medical, dental and vision benefits.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

19 PROVISIONS

	As at December 31,								
	2010			2011			2012		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Restructuring (note (a))	32,763	—	32,763	1,589	—	1,589	5,715	—	5,715
Litigation (note (b))	266	—	266	316	—	316	442	—	442
Environmental liabilities (note (c))	115	12,604	12,719	226	12,315	12,541	220	12,284	12,504
Warranties	11,351	13,214	24,565	9,380	15,735	25,115	9,666	22,732	32,398
Decommissioning (note (d))	—	4,657	4,657	—	5,178	5,178	—	5,714	5,714
	44,495	30,475	74,970	11,511	33,228	44,739	16,043	40,730	56,773

Movement of provisions for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 is as follows:

	Restructuring	Litigation	Environmental liabilities	Warranties	Decom-missioning	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At November 4, 2010	—	—	—	—	—	—
Acquisition of business (Note 31)	—	380	12,719	24,020	4,609	41,728
Additions	32,763	—	—	1,237	48	34,048
Payments	—	(114)	—	(747)	—	(861)
Exchange differences	—	—	—	55	—	55
At December 31, 2010	32,763	266	12,719	24,565	4,657	74,970
Additions	1,776	80	—	11,525	578	13,959
Payments	(32,950)	—	(154)	(10,853)	—	(43,957)
Exchange differences	—	(30)	(24)	(122)	(57)	(233)
At December 31, 2011	1,589	316	12,541	25,115	5,178	44,739
Additions	7,446	241	—	16,740	484	24,911
Payments	(3,320)	(142)	(24)	(9,502)	—	(12,988)
Exchange differences	—	27	(13)	45	52	111
At December 31, 2012	5,715	442	12,504	32,398	5,714	56,773

II. NOTES ON THE FINANCIAL INFORMATION (continued)

19 PROVISIONS (continued)

Note:

(a) Restructuring

(i) In 2010, the Listing Business and the United Automobile, Aerospace and Agricultural Implement Workers of America ratified the Nexteer Automotive Memorandum of Understanding ("MOU"). The MOU includes wage and separation provisions to achieve a reduced ongoing wage rate. Effective at the acquisition date, hourly employees were offered a (i) wage level buy-down (mandatory for skilled trade employees and voluntary for other employees), (ii) voluntary retirement incentives, or (iii) buy-out severance option. There is no requirement on subsequent completion of a certain period of service. The amounts recorded for restructuring are related to this program and included in cost of sales in the combined income statement.

(ii) Restructuring costs in 2012 relate to certain layer of management headcount reductions and exit costs in Brazil, Australia and the US.

(b) Litigation

The balance represents a provision primarily for certain labour claims brought against the Group. Management is of the view that, after taking appropriate legal advice, the outcome of these legal claims will not give rise to significant losses beyond the amounts provided at each reporting date.

(c) Environmental liabilities

A provision is recognized for the present value of remediation costs to be incurred for the restoration of the manufacturing sites upon the initial recognition of the related assets.

(d) Decommissioning

This represents asset retirement obligations at certain of the Group's manufacturing sites.

20 DEFERRED REVENUE

The Group periodically receives upfront consideration from customers in connection with engineering and prototyping pre-production, program-specific activities. These revenue amounts are deferred and recognized over the life of the related program, which typically ranges between four and seven years. The carrying amount of deferred revenue is as follows:

	As at December 31,								
	2010			2011			2012		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Prototype and engineering	48	2,005	2,053	1,574	24,024	25,598	6,907	46,034	52,941

Movement of deferred revenue for the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012 are as follows:

	US$'000
At November 4, 2010	—
Additions	2,053
At December 31, 2010	2,053
Additions	24,016
Amortization	(471)
At December 31, 2011	25,598
Additions	30,321
Amortization	(2,978)
At December 31, 2012	52,941

II. NOTES ON THE FINANCIAL INFORMATION (continued)

21 TRADE PAYABLES

Aging analysis of trade payables based on credit terms is as follows:

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Not overdue	217,352	229,829	260,576
Overdue up to 30 days	21,776	17,597	15,588
Overdue 30 to 60 days	10,336	8,645	10,148
Overdue 60 to 90 days	2,035	636	3,000
Overdue over 90 days	3,168	2,980	6,429
	254,667	259,687	295,741

22 OTHER PAYABLES AND ACCRUALS

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Accrued expenses	54,970	47,294	63,415
Deposits from customers	8,996	8,764	6,761
Other taxes payable	4,709	5,778	1,568
Payables to Beijing E-Town (Note 32(c)(i))	20,458	10,458	10,458
Payables to PCM China (Note 32(c)(ii))	975	3,764	3,764
Dividends payable to non-controlling shareholders of subsidiaries	—	10,120	—
Others	1,331	2,725	3,110
	91,439	88,903	89,076
Less: non-current portion	(626)	(1,414)	(3,527)
Current portion	90,813	87,489	85,549

23 OTHER (LOSSES)/GAINS, NET

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
Foreign exchange (losses)/gains	(393)	11,036	(3,349)
Others	(245)	(2,098)	(12)
	(638)	8,938	(3,361)

II. NOTES ON THE FINANCIAL INFORMATION (continued)

24 EXPENSE BY NATURE

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
Raw materials used	89,145	1,320,418	1,264,615
Changes in inventories of finished goods and work-in-progress	(13,336)	(13,404)	(12,243)
Employee benefit costs (Note 25)	32,039	386,625	341,868
Temporary labour costs	13,559	41,972	31,472
Restructuring costs (Note 19)	32,763	1,776	7,446
Supplies and tools	10,389	142,815	119,207
Depreciation on property, plant and equipment (Note 6)	3,740	53,273	53,283
Amortization on			
— land use rights (Note 7)	2	25	25
— intangible assets (Note 8)	—	675	4,562
Impairment charges on			
— inventories	327	3,095	4,844
— receivables (Note 11)	35	1,141	1,570
Utilities	3,190	39,548	39,128
Transportation expenses	1,045	27,214	11,328
Operating lease expenses	830	10,380	10,690
Warranty expenses (Note 19)	1,237	11,525	16,740
Auditors' remuneration	128	1,292	3,528
Acquisition-related costs (Note 31)	12,320	—	—
Listing expenses	—	—	6,634
Others	25,925	139,119	175,821
Total cost of sales, engineering and product development costs, selling and distribution, and administrative expenses	213,338	2,167,489	2,080,518

II. NOTES ON THE FINANCIAL INFORMATION (continued)

25 EMPLOYEE BENEFIT COSTS

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
Salary expenses	27,593	310,055	299,275
Pension costs — defined contribution plans	1,058	16,508	19,777
Pension costs — defined benefit plans (Note 18)	108	1,331	1,537
Other employee costs	3,280	58,731	21,279
	32,039	386,625	341,868

(a) Share-based compensation

On December 11, 2012, the Group adopted a deferred incentive compensation plan, pursuant to which the plan participants are awarded incentive compensation that is derived from the appreciation in the combined value of certain subsidiaries of the Group between December 31, 2010 and the earlier of December 31, 2015 (the "continuous employment payment event") and the completion of an initial public offering of the Company (the "IPO payment event"). The compensation will be paid to the participants who complete a period of service up to January 15, 2016 under the continuous employment payment event or, in case of IPO payment event, the completion of the initial public offering of the Company, whichever is earlier.

The fair value of the liability of the above-mentioned incentive compensation granted on December 11, 2012 determined using the Black-Scholes Model with inputs including the risk-free interest rate of 0.36%, expected dividend yield of 0%, and expected volatility of the value of comparable companies of 35%, was US$15,600,000, of which US$433,000 of the benefit was earned during the year ended December 31, 2012.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

25 EMPLOYEE BENEFIT COSTS (continued)

(b) Directors' emoluments

The remuneration of each director for the period from November 4, to December 31, 2010 is set out below:

Name	Fees	Salary	Discretionary bonus (note (i))	Other benefits (note (ii))	Employer's contribution to retirement plan	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Mr. Guibin Zhao*	—	—	—	—	—	—
Mr. Yi Fan	—	—	—	—	—	—
Mr. Jian Zhu	—	—	—	—	—	—
Mr. Michael Paul Richardson	—	32	54	—	—	86
Mr. Qunhui Luo	—	—	—	—	—	—
Mr. Hing Lun Tsang	—	—	—	—	—	—
Mr. Kevin Cheng Wei	—	—	—	—	—	—
Mr. Jianjun Liu	—	—	—	—	—	—
	—	32	54	—	—	86

The remuneration of each director for the year ended December 31, 2011 is set out below:

Name	Fees	Salary	Discretionary bonus (note (i))	Other benefits (note (ii))	Employer's contribution to retirement plan	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Mr. Guibin Zhao*	60	—	40	—	—	100
Mr. Yi Fan	50	—	13	—	—	63
Mr. Jian Zhu	—	150	13	—	—	163
Mr. Michael Paul Richardson	—	380	274	57	18	729
Mr. Qunhui Luo	—	—	—	—	—	—
Mr. Hing Lun Tsang	—	—	—	—	—	—
Mr. Kevin Cheng Wei	—	—	—	—	—	—
Mr. Jianjun Liu	—	—	—	—	—	—
	110	530	340	57	18	1,055

II. NOTES ON THE FINANCIAL INFORMATION (continued)

25 EMPLOYEE BENEFIT COSTS (continued)

(b) Directors' emoluments (continued)

The remuneration of each director for the year ended December 31, 2012 is set out below:

Name	Fees	Salary	Discretionary bonus (note (i))	Other benefits (note (ii))	Employer's contribution to retirement plan	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Mr. Guibin Zhao*	150	—	101	—	—	251
Mr. Yi Fan	70	—	34	—	—	104
Mr. Jian Zhu	—	120	59	17	—	196
Mr. Michael Paul Richardson	—	412	363	81	18	874
Mr. Qunhui Luo	—	—	—	—	—	—
Mr. Hing Lun Tsang	—	—	—	—	—	—
Mr. Kevin Cheng Wei	—	—	—	—	—	—
Mr. Jianjun Liu	—	—	—	—	—	—
	220	532	557	98	18	1,425

* *Chief executive of the Company*

Notes:

(i) Discretionary bonus comprises annual incentive compensation plan which is payable within one year from the year-end; and deferred compensation plans to be settled when all the conditions are met and with approval by the board of directors (certain of which with estimates based upon the extent of meeting certain performance targets).

(ii) Other benefits include payments made for dental, disability and healthcare covers; and contributions to social security, health-saving and 401K accounts.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

25 EMPLOYEE BENEFIT COSTS (continued)

(c) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the period from November 4, to December 31, 2010 and each of the years ended December 31, 2011 and 2012 include one, one and one director respectively whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals are as follows:

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
Salaries and allowances	187	1,902	1,614
Discretionary bonuses	379	1,194	872
Other benefits	6	417	1,731
Post-employment benefits	—	48	71
	572	3,561	4,288

The emoluments of the remaining individuals fell within the following bands:

	Number of individuals		
Nil-HK$500,000 (Nil–US$65,000)	1	—	—
HK$1,000,000–HK$1,500,000 (US$128,000–US$193,000)	2	—	—
HK$1,500,000–HK$2,000,000 (US$193,000–US$257,000)	1	—	—
HK$5,000,000–HK$5,500,000 (US$643,000–US$707,000)	—	3	—
HK$6,000,000–HK$6,500,000 (US$774,000–US$839,000)	—	—	1
HK$7,500,000–HK$8,000,000 (US$967,000–US$1,031,000)	—	—	1
HK$8,500,000–HK$9,000,000 (US$1,097,000–US$1,161,000)	—	—	1
HK$10,000,001–HK$10,500,000 (US$1,282,000–US$1,346,000)	—	—	1
HK$12,000,000–HK$12,500,000 (US$1,542,000–US$1,606,000)	—	1	—

II. NOTES ON THE FINANCIAL INFORMATION (continued)

26 FINANCE COSTS, NET

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
Finance income			
Interest on bank deposits	72	838	562
Finance costs			
Interest expense on bank borrowings			
— Wholly repayable within 5 years	934	10,001	16,274
— Not wholly repayable within 5 years	—	—	2,048
Interest expense on other borrowings			
— Wholly repayable within 5 years	15	170	—
	949	10,171	18,322
Interest on finance leases	—	64	69
Guarantee fees	737	7,472	7,818
Other finance costs	58	368	1,140
	1,744	18,075	27,349
Less: amount capitalized in qualifying assets (Notes 6 and 8)	—	(1,473)	(5,058)
	1,744	16,602	22,291
Finance costs, net	1,672	15,764	21,729

27 INCOME TAX (CREDIT)/EXPENSE

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
Current income tax	588	6,177	6,236
Deferred income tax credit (Note 9)	(881)	(773)	(2,669)
	(293)	5,404	3,567

Taxation on the Group's profits has been calculated on the estimated assessable profits for the period/year at the statutory rates of 25%, 19% and 35% in the PRC, Poland and U.S. respectively from where the Group's profits were mainly generated.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

27 INCOME TAX (CREDIT)/EXPENSE (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the combined entities as follows:

	For the period from November 4, to December 31, 2010	For the year ended December 31, 2011	For the year ended December 31, 2012
	US$'000	US$'000	US$'000
(Loss)/profit before income tax	(58,960)	73,437	62,194
Tax calculated at rates applicable to profits in respective countries	(19,707)	17,277	20,507
Expenses not deductible for tax purposes	428	13,014	8,025
Tax credits (note (i))	—	(4,636)	(1,331)
Preferential rates due to tax holidays (note (ii))	(785)	(10,100)	(4,470)
Tax losses and deductible temporary differences for which no deferred tax was recognized	19,734	—	—
Recognition of previously unrecognized tax losses and deductible temporary differences	—	(12,429)	(24,075)
Others	37	2,278	4,911
Tax (credit)/charge	(293)	5,404	3,567

Notes:

(i) Mainly represents tax benefits granted to research and development activities in US.

(ii) Derived mainly from profits subject to income tax exemption up to 2020 for the Group's investment in Special Economic Zones in Poland according to the relevant Polish tax rules.

28 (LOSS)/EARNINGS PER SHARE

No (loss)/earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Group reorganization and the preparation of the results for the Relevant Periods on a combined basis as disclosed in Note 1.2.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

29 COMBINED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

	For the period from November 4, to December 31, 2010	For the year ended December 31, 2011	For the year ended December 31, 2012
	US$'000	US$'000	US$'000
(Loss)/profit before income tax	(58,960)	73,437	62,194
Adjustments for:			
Finance costs	1,744	16,602	22,291
Depreciation on property, plant and equipment	3,740	53,273	53,283
Amortization on land use rights and intangible assets	2	700	4,587
Impairment charges on inventories and receivables	362	4,236	6,414
Exchange differences	—	(8,117)	2,022
Others	—	(312)	2,948
	(53,112)	139,819	153,739
Changes in working capital:			
— Decrease/(increase) in receivables	21,466	(15,746)	(32,926)
— Decrease/(increase) in inventories	9,255	(8,413)	(22,102)
— Increase/(decrease) in payables and accruals	36,074	(7,041)	20,675
— Increase/(decrease) in provisions	33,242	(30,231)	12,034
— Increase in retirement benefits and compensations	187	2,712	3,346
— Increase in deferred revenue	2,053	23,545	27,343
Net cash generated from operations	49,165	104,645	162,109

(b) Major non-cash transactions

(i) During the period from November 4, 2010 to December 31, 2010 and each of the years ended December 31, 2011 and 2012, the Group purchased property, plant and equipment which were recorded in payables in the amounts of US$8,379,000, US$9,774,000 and US$38,422,000 respectively.

(ii) During the year ended December 31, 2011, certain subsidiaries declared dividends of US$10,189,000 to their non-controlling shareholders of which US$344,000 and US$3,129,000 were paid in 2011 and 2012 respectively and the remaining US$6,951,000, which was reinvested in the subsidiaries in 2012, was excluded from financing activities in the combined statement of cash flows.

(iii) The capital contribution into PCM US and PCM Singapore was US$110,000,000 of which US$10,000,000 was a non-cash transaction during the period from November 4, 2010 to December 31, 2010. This US$10,000,000 related to a deposit for the acquisition of business and was paid directly to General Motors by Beijing E-Town and thus recorded as a related party payable of the Group as at December 31, 2010.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

30 COMMITMENTS

(a) Capital commitments

The Group has capital commitments of US$43,394,000, US$191,710,000 and US$201,617,000 as at December 31, 2010, 2011 and 2012 respectively to purchase property, plant and equipment which are contracted but not provided for.

(b) Purchase commitments

The Group entered into a purchase agreement with a supplier to purchase an annual volume amounting to US$10,434,000 throughout 2014 representing a total outstanding purchase obligation of US$41,736,000, US$31,302,000 and US$20,867,000 as at December 31, 2010, 2011 and 2012 respectively. The Group expects to meet these commitments through normal purchases to be used in production through the commitment date.

(c) Operating lease commitments

The Group's future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Up to 1 year	7,950	8,825	9,924
1 to 5 years	18,569	24,891	26,314
Over 5 years	6,012	5,747	3,600
	32,531	39,463	39,838

31 BUSINESS COMBINATION

As mentioned in Section II. Note 1.1(a)(i), on November 30, 2010, PCM China acquired the entire equity interests in GM Global Steering and thereby the operations of the Listing Business.

Details of the total purchase price of US$465,000,000 are as below:

	US$'000
— Bank borrowings by PCM US (Note 17(a))	190,000
— Bank borrowings by PCM Singapore (Note 17(a))	126,000
— Cash of PCM China	110,000
— Consideration payable by installments to General Motors	39,000
	465,000

II. NOTES ON THE FINANCIAL INFORMATION (continued)

31 BUSINESS COMBINATION (continued)

The following table summarises the consideration paid, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the acquisition date:

	US$'000
Property, plant and equipment	265,844
Land use right	738
Deferred tax assets	15,958
Inventories	160,865
Receivables and prepayments	369,237
Cash and cash equivalents	108,219
Restricted bank deposits	760
Total identifiable assets acquired	921,621
Borrowings	(52,867)
Deferred tax liabilities	(9,530)
Payables and accruals	(331,858)
Provisions	(41,728)
Total identifiable liabilities assumed	(435,983)
Non-controlling interests	(20,638)
Total consideration	465,000

The acquisition resulted in the recognition of non-controlling interests for two subsidiaries that were not wholly owned by the Group. Non-controlling interests related to the acquisition have been recognized at their fair value at the acquisition date.

In conjunction with the acquisition, the Group incurred a total of US$12,320,000 acquisition-related costs for certain legal, financial and management consulting services which is charged to administrative expenses in the combined income statement.

The revenue and net loss included in the combined income statement from December 1, 2010 to December 31, 2010 contributed by the acquired business was US$156,688,000 and US$44,891,000 respectively.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

32 RELATED PARTY TRANSACTIONS

(a) Key management compensation

The remunerations of the chief executive officer, directors and other key management members were as follows:

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
Basic salaries, other allowances and benefits	248	3,055	3,878
Bonuses	433	1,659	2,215
Others	6	510	2,563
	687	5,224	8,656

These remunerations are determined based on the performance of individuals and market trends.

(b) Transactions with Yubei Steering System Co., Ltd. ("Yubei Steering"), an associate of AVIC

	For the period from November 4, to December 31, 2010	For the year ended December 31,	
		2011	2012
	US$'000	US$'000	US$'000
Purchase of goods	—	10	10

In the opinion of the directors of the Company, the above transactions were carried out in the ordinary course of the Group's business and were determined based on mutually agreed terms and will continue after listing.

II. NOTES ON THE FINANCIAL INFORMATION (continued)

32 RELATED PARTY TRANSACTIONS (continued)

(c) Other transactions

In addition to the related party transactions described in Note 17, the Group recorded the following balances with related parties which are unsecured, non-interest bearing and repayable on demand.

	As at December 31,		
	2010	2011	2012
	US$'000	US$'000	US$'000
Other receivables due from PCM China. . .	10,000	—	—
Other payables due to Beijing E-Town (note (i))	20,458	10,458	10,458
Other payables due to PCM China (note (ii))	975	3,764	3,764

Notes:

(i) At December 31, 2010, this balance mainly comprised:
- US$10,458,000 of outstanding acquisition-related costs paid by Beijing E-Town on the Group's behalf. This balance was repaid in February 2013.
- US$10,000,000 related to an equity contribution by the Group in relation to the acquisition of business (refer to Note 29(b)(iii) for details) which was paid by Beijing E- Town on the Group's behalf. This balance was repaid in 2011.

(ii) Balance represents finance costs paid by PCM China on behalf of PCM US and PCM Singapore which is expected to be settled prior to listing.

33 SUBSEQUENT EVENTS

(a) Pursuant to the written resolution passed by the shareholder of the Company on June 15, 2013, the existing single share at nominal value of US$1.00 was repurchased by the Company, and the unissued authorized share capital of US$50,000 was cancelled. The authorized share capital of the Company was then increased to HK$400,000,000 (equivalent to approximately US$51,546,000) divided into 4,000,000,000 shares at nominal value of HK$0.10 each, and the Company issued one share at nominal value of HK$0.10 to Nexteer Hong Kong.

(b) Pursuant to the written resolution passed by the shareholder of the Company on June 15, 2013, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the proposed share offer as described in the prospectus, the Company will capitalize an amount of HK$167,999,999.90 (equivalent to approximately US$21,649,000), standing to the credit of its share premium account by applying such sum to pay up in full at par a total of 1,679,999,999 shares for allotment and issue to the shareholder as at July 2, 2013.

(c) The Group entered into an asset sale and purchase agreement on April 26, 2013 related to the disposal of, among other assets, a plant in Mexico within the North America operating segment. Management expects minimal net gain or loss on its disposal. The sale of the plant is expected to be completed by June 30, 2013.

III. FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on August 21, 2012. As at December 31, 2012, the Company had cash balance of US$1.00 representing share capital of US$1.00. Except for this, it had no other assets, liabilities or distributable reserves as at that date.

IV. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been prepared for the Company and its subsidiaries in respect to any period subsequent to December 31, 2012. Save as disclosed in this report, no dividend or distribution has been declared or paid by the Company or any of its subsidiaries in respect of any period subsequent to December 31, 2012.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong