



**JINHENG AUTOMOTIVE SAFETY  
TECHNOLOGY HOLDINGS LIMITED**  
錦恆汽車安全技術控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code : 872)



## CONTENTS

	Pages
Corporate Information	02
Chairman's Statement	03
Management Discussion and Analysis	05
Biographical Details of Directors and Senior Management	09
Report of the Directors	11
Corporate Governance Report	19
Independent Auditors' Report	27
Consolidated Income Statement	29
Consolidated Statement of Comprehensive Income	30
Consolidated Statement of Financial Position	31
Statement of Financial Position	33
Consolidated Statement of Changes in Equity	34
Consolidated Statement of Cash Flows	35
Notes to the Consolidated Financial Statements	37
Five Years Summary	104



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Li Feng, *Chairman*  
Mr. Xing Zhanwu, *Chief Executive Officer*  
Mr. Yang Donglin  
Mr. Foo Tin Chung, *Victor, Financial Controller*

#### Non-Executive Director

Mr. Li Hong

#### Independent Non-Executive Directors

Mr. Hui Hung Kwan  
Mr. Chen Li Zhou  
Mr. Zhu Tong

### COMPANY SECRETARY

Mr. Foo Tin Chung, *Victor, CPA, CPA (Aust.)*

### AUTHORISED REPRESENTATIVES

Mr. Li Feng  
Mr. Foo Tin Chung, *Victor, CPA, CPA (Aust.)*

### COMPLIANCE OFFICER

Mr. Foo Tin Chung, *Victor, CPA, CPA (Aust.)*

### QUALIFIED ACCOUNTANT

Mr. Foo Tin Chung, *Victor, CPA, CPA (Aust.)*

### AUDIT COMMITTEE

Mr. Hui Hung Kwan  
Mr. Chen Li Zhou  
Mr. Zhu Tong

### NOMINATION COMMITTEE

Mr. Xing Zhanwu  
Mr. Hui Hung Kwan  
Mr. Zhu Tong

### REMUNERATION COMMITTEE

Mr. Xing Zhanwu  
Mr. Chen Li Zhou  
Mr. Zhu Tong

### REGISTERED OFFICE

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

### WEB SITE OF THE COMPANY

[www.jinhengholdings.com](http://www.jinhengholdings.com)

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

Unit 2, Building 38  
No. 2 Jing Yuan North Street  
Beijing Economic Technological  
Development Area  
Beijing, PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 605  
6th Floor  
Beautiful Group Tower  
77 Connaught Road Central  
Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited  
4/F, Royal Bank House  
24 Shedden Road, George Town  
Grand Cayman KY1-1110  
Cayman Islands

### PRINCIPAL BANKERS

The Bank of East Asia  
Bank of Communication  
Bank of China

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
46th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### AUDITORS

HLB Hodgson Impey Cheng Limited  
Chartered Accountants  
Certified Public Accountants  
31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central, Hong Kong

### LEGAL ADVISER

*As to Cayman Island Law:*  
Conyers Dill & Pearman, Cayman  
Cricket Square, Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### STOCK QUOTE

872

## CHAIRMAN'S STATEMENT

### TO OUR SHAREHOLDERS

On behalf of the Board of Directors ("the Board"), I am pleased to present the audited financial results of Jinheng Automotive Safety Technology Holdings Limited ("the Company") and its subsidiaries ("the Group") for the financial year ended 31 December 2012.

### BUSINESS REVIEW

For the year ended 31 December 2012, the Group recorded turnover of the Company was approximately HK\$261.0 million, while it was approximately HK\$290.8 million in the same period of last year. During the current financial year, the Group is constructing a new production plant in Tianjian, PRC for the expansion of the production capacities of the automobile engine management system ("EMS") business. Given the reallocation of the EMS production facilities has commenced, the current production capacity and efficiency of EMS was reduced and thus the overall turnover amount reduced. In order to maintain normal operations and returns under the construction period, the Group has put effort in the disposal of more automobile spare parts during the year, which generally contribute lower profit margin than the complete system products.

The current development objective of the Group is to streamline the group structure and consolidate the control on the remaining business. During the review period, the Group has acquired the remaining non-controlling interests of Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd ("Jinheng Jinsida"). Jinheng Jinsida is principally engaged in sale and manufacturing of electronic control unit, which is an essential component of EMS system. The directors of the Company consider that such acquisition may allow the Group to consolidate the control over the Jinheng Jinsida and contribute more return to the Company once the expansion of EMS production facilities completed.

In 2012, the Group is also expanding its sales network and commence business negotiation with a few potential customers. The Group has entered more than 5 new contracts in related to the development and provision of EMS systems and spare parts to new car models, and a few new projects are also under negotiation and are expected to have further progress in the coming future. These new projects may commence commercial production in the coming 2 years and may become the major revenue sources of the Group.

## CHAIRMAN'S STATEMENT

### OUTLOOK AND FUTURE PROSPECTS

The Group has entered into an acquisition agreement to acquire 30% of the equity interest of Ever Tech Holdings Limited in November 2012 (the "Ever Tech Acquisition"). As a result of the Ever Tech Acquisition, the Group may obtain an additional of approximately 14.6% of the equity interest in the EMS business and thus consolidate our control over it. The Directors are optimistic about the future development of this business, as the Group has price advantages over other import products in view of its competitive quality and relatively low labour cost, transportation cost and tax privilege in the PRC. Furthermore, the new plant in Tianjian, PRC is expected to be completed in the coming quarters, and the test-run will be completed in the second half of 2013. It may not only enhance the production capacity and efficiency of the EMS products, but may also improve the research ability of the Group and thus can fulfill the growing demand of customers.

Furthermore, after the completion of the Ever Tech Acquisition, the Group may also obtain 30% equity interest of Handyman Group Limited, which owns certain advanced technology know-how in related to the automobile gearing system and power-control system. The Group planned to make use of its advanced research facilities to further develop these systems with an aim to put them into commercial production. With our existing engine management systems, the Group may be able to manufacture a highly integrated automobile power system. The management of the Company is expected to obtain benefits from the synergy effects which would be generated from this new integrated system, as the Group can fully utilize our expanding production capacities and make use of our developed marketing networks for distributions of these new products.

The directors of the Company believe that there are various business opportunities available in the PRC automobile markets, and we will seek for different investment opportunities to expand our market share in the automobile spare parts industry and consolidate the control on the remaining business. We may also make use of the existing resources to invest in different investment vehicles in order to obtain return at an acceptable risk level.

With the continuous launch of new products and utilize different investment opportunities, the directors of the Company believe that the Group will have improvement in the financial performance and provide fruitful returns to the shareholders of the Company.

### APPRECIATION

On behalf of the Board of Directors, I would like to express my most sincere gratitude towards the continual support from our shareholders and the valuable contributions of our staff. The management team will further continue to fulfill our duties to create more values for our shareholders.

**Li Feng**  
*Chairman*

Hong Kong, 27 March 2013

## MANAGEMENT DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

During the year ended 31 December 2012, the turnover amount and the average gross profit margin of the Group were approximately HK\$261.0 million and approximately 9.8% respectively, while it was approximately HK\$290.8 million and approximately 19.6% respectively in the same period of last year. The changes were mainly due to the production inefficiency of the EMS products, which the production facilities are under expansion and reallocation. In order to maintain normal operations and returns under the construction period, the Group has put effort in the disposal of more automobile spare parts during the year, which generally contribute lower profit margin than the complete system products.

The other revenue of the Group during the year under review was decreased from approximately HK\$46.1 million to approximately HK\$36.5 million. The change was mainly due to the decrease of interest income from promissory notes, which was fully repaid during the second half of 2012.

During the current reporting period, the research and development expenses of the Group were approximately HK\$18.5 million, while it was approximately HK\$14.6 million in the same period of last year. In 2012, even though certain projects were closed to the final stage, the Group also commenced a few new development projects and thus the research and development expenses increased by approximately HK\$3.9 million.

For the year ended 31 December 2012, the distribution costs of the Group were approximately HK\$7.1 million, which was increased by approximately HK\$1.1 million in compared with the same period of last year. The increment was mainly due to Group has focused on the expansion of distribution channel and negotiation with new customers.

In 2012, the administrative expenses of the Group were approximately HK\$34.9 million, which was increased by approximately 7.4% as compared with 2011. This is mainly due to the construction of new plants in Tianjian, PRC reached the final stage and more expenses were incurred to speed up the progress.

The finance costs during the current year under review were decreased by approximately 38.0% to approximately HK\$5.0 million as compared to the same period of 2011. This was mainly due to the Group is adjusting the combination of the financing vehicles in order to substantially reduce the finance costs.

For the year ended 31 December 2012, the income tax expenses of the Group was approximately HK\$33.9 million, while it was approximately HK\$4.4 million in the same period of last year. This is due to an one-off income tax expense in related to the disposal of the entire equity interest of Jinheng (BVI) Limited in 2010. Even the transaction object is an oversea entity, the related PRC tax authority considered to lift the veil and deemed it as a disposal of the PRC operations, and thus charged the Group of approximately HK\$32.2 million income tax expense. As a result the Group recorded approximately HK\$33.6 million loss attributable to owners of the Company, while it was profit of approximately HK\$8.2 million attributable to the owners of the Company in the same period of last year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2012, the Group had bank and cash balances of approximately HK\$260.0 million (31 December 2011: approximately HK\$45.4 million) and net current assets of approximately HK\$346.3 million, which decreased by approximately HK\$190.8 million as compared with the last fiscal year. The change was mainly due to the contribution in constructing new production plant. The total non-current assets of the Group were approximately HK\$343.7 million in 2012, while it was approximately HK\$211.5 million in the last year.

As at 31 December 2012, the Group had non-current liabilities of approximately HK\$21.7 million, which represent the deferred tax liabilities.

The Group also had short-term bank loans of HK\$43.9 million which included bank loans with an aggregate amount of approximately HK\$21.8 million with fixed interest rates ranging from 6.56% to 8.83% per annum, a bank loan with an amount of approximately HK\$9.3 million with variable interest rate at lending rate of The People's Bank of China per annum, and discounted bills of HK\$12.8 million (equivalent to approximately RMB10.3 million) which were not yet matured at the year end date. The short-term bank loans were primarily used to finance short-term cash flows for our operations.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a treasury policy and allowed the Group to invest its surplus funds in different investment grade debt securities or other investment vehicles. The Group currently placed the surplus funds as deposits in Hong Kong and PRC banks.

Most of the trading transactions, assets and liabilities of the Group were denominated in Renminbi, Hong Kong dollars, US dollars or, to a lesser extent, Euro. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2012, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

### CHARGE ON GROUP ASSETS

As at 31 December 2012, the Group has pledged certain patents and leasehold land of approximately HK\$37.7 million, and certain discounted bills with recourse totaling HK\$12.8 million were secured by the related bills receivable and were repayable within one year.

### GEARING RATIO

The Group's gearing ratio, which was derived from the total liabilities to total assets, decreased to 20.4% in 2012 from 20.9% in 2011.

### FUTURE PLANS FOR MATERIAL INVESTMENTS

Except for those set out in the "Subsequent Events" in this report, the Group had authorized but not contracted for capital expenditure commitments of approximately HK\$12.3 million in respect of acquisition of fixed assets as at 31 December 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS

### MATERIAL ACQUISITIONS AND DISPOSALS

In February 2012, the Group has entered into an agreement to acquire the remaining 35.29% equity interest of Jinheng Jinsida at a consideration of approximately RMB10.55 million. The acquisition was completed in June 2012.

In November 2012, the Group has entered into an agreement to acquire 30% equity interest of Ever Tech Holdings Limited at a consideration of HK\$40 million. The acquisition is subject to the approval from independent shareholders in the extraordinary general meeting to be held on 12 April 2013.

### SIGNIFICANT INVESTMENT

There was no other significant investment during the year.

### CONTINGENT LIABILITIES

As at 31 December 2012, the directors of the Company were not aware of any material contingent liabilities.

### SUBSEQUENT EVENTS

On 8 January 2013, the Group entered into a conditional sale and purchase agreement with Elmira Shipping and Trading S.A. as vendor in relation to the acquisition of a property located at Unit 3507, Fortune Plaza, Building No. 3 and No. 4, No. 7 East 3rd Ring Middle Road, Chaoyang District, Beijing, the PRC at a consideration of approximately RMB26.1 million by the Group.

### FOREIGN EXCHANGE EXPOSURE

Since almost all transactions of the Group are denominated either in Renminbi, Hong Kong dollars, US dollars, or to a lesser extent, Euro and the exchange rates of such currencies were stable over the years under review, the Directors believe that such exposure does not have any significant adverse effect to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

### EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group employed approximately 466 staff in the PRC and Hong Kong, representing an increase of 20 staff from 31 December 2011. The increase in staff was mainly from the PRC operations. The Group's remuneration to employees, including directors' emoluments, increased by approximately HK\$4.3 million to approximately HK\$30.5 million for the current fiscal year.

The Group reviews employee remuneration from time to time and salary increment is normally approved annually or by special adjustment depending on length of services and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

### RETIREMENT SCHEMES

The Group maintains a mandatory provident fund (the "MPF Scheme") for all qualifying employees in Hong Kong. The Group's and employee's contributions to the MPF Scheme are based on 5% of the relevant income of the relevant employee (up to a cap of monthly relevant income of HK\$25,000) and in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations.



## MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the relevant local government authorities in Shenyang, Shanxi, Beijing and Tianjian, the PRC whereby the Group is required to make contributions to the Schemes at the rate ranging from 19% to 22% of the eligible employees’ salaries.

## CAPITAL STRUCTURE

The Company was listed on GEM of the Stock Exchange on 9 December 2004 through offering a total of 95,970,000 shares, in which 86,372,000 shares are placing shares and a public offering of 9,598,000 new shares. The 86,372,000 placing shares comprising 71,402,000 new shares and 14,970,000 sale shares. The net proceeds from this offering, after deduction for relevant expenses, is approximately HK\$80.5 million. On 12 November 2008, the Company withdrew the listing of its shares on GEM and listed its entire issued share capital by way of transfer on the Main Board of the Stock Exchange.

On 29 March 2006, 4,560,000 share options were exercised to subscribe for 4,560,000 ordinary shares in the Company at a consideration of approximately HK\$1.7 million. On 15 January 2007, 4,560,000 share options were exercised to subscribe for 4,560,000 ordinary shares in the Company at a consideration of approximately HK\$1.7 million. On 16 January 2008, 2,280,000 share options were exercised to subscribe for 2,280,000 ordinary shares, in the Company at a consideration of approximately HK\$0.9 million. On 10 September 2008, 400,000 share options were exercised to subscribe for 400,000 ordinary shares in the Company at a consideration of approximately HK\$0.4 million. On 23 July 2010, 37,300,000 share options were exercised to subscribe for 37,300,000 ordinary shares in the Company at a consideration of approximately HK\$42.4 million.

On 7 August 2007, 40,000,000 ordinary shares of the Company were issued pursuant to the top-up placing of shares to not less than six investors. On 18 February 2008, 10,700,000 ordinary shares of the Company were issued as the consideration for the acquisition of Winner Investment Limited.

On 12 March 2010, the Company has issued 13,888,888 shares to a convertible note holder as a result of the exercise of the conversion right of convertible note with nominal value HK\$12,500,000. On 14 June 2010, the Company has issued 19,160,000 shares to convertible note holders as a result of the exercise of the conversion right of convertible notes with nominal value HK\$17,244,000.

A total of 132,848,888 new shares were issued as a result of these transactions. The number of total issued share capital of the Company becomes 513,848,888 shares as of the date of this report.

## COMPETING INTEREST

None of the directors or the management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Li Feng**, aged 51, is the chairman of the Company. Mr. Li, joined the Group in 1997 and is responsible for the overall general management of the Group. Mr. Li graduated from the Beijing University of Aeronautics and Astronautics in 1983 with a bachelor's degree in missile designing. From 1983 to 1996, Mr. Li was employed at Taiyuan Aero-Instruments Co., Ltd. ("Taiyuan Aero") as engineer. Mr. Li was entitled to an annual remuneration of HK\$840,000.

**Mr. Xing Zhanwu**, aged 49, brother of Mr. Xing Zhanwen, is the chief executive officer of the Company. Mr. Xing joined the Group in 1997 and is responsible for the Group's sales and marketing as well as the Group's overall business development. Mr. Xing graduated from Northwestern Polytechnical University with a bachelor's degree in machinery manufacture engineering in 1984. From July 1984 to August 1996, Mr. Xing had worked at Taiyuan Aero as engineer. In January 1997, Mr. Xing joined the Group as general manager and led the Group to succeed in two pioneering airbag system development projects with FAW Car Company Limited ("FAW") and Dongtong Peugeot Citroën. Mr. Xing was entitled to an annual remuneration of HK\$840,000.

**Mr. Yang Donglin**, aged 47, is responsible for the overall technical and research and development of the Group. Mr. Yang graduated from Northwestern Polytechnical University in 1985 with a bachelor's degree in aircrafts designing. Mr. Yang had worked at Taiyuan Aero as engineer from 1985 to 1999. In 1997, Mr. Yang joined the Group and represented the Group in technical exchange programmes with overseas experts. Mr. Yang held the position of senior technician in a number of Group's airbag system development projects. Mr. Yang was entitled to an annual remuneration of HK\$258,000 per annum.

**Mr. Foo Tin Chung, Victor**, aged 44, is the financial controller, qualified accountant, company secretary and compliance officer of the Company. Mr. Foo holds a bachelor's degree in accounting and information system in the University of New South Wales in Australia and completed his master degree in business administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is primarily responsible for the development of the Group's financial strategies, accounting and financial reporting and internal control procedures. He has over sixteen years' experience in the finance and accounting fields and held management position of listed groups in Hong Kong and was an auditor of an international audit firm. He joined the Group in July 2004 as the full time qualified accountant. Mr. Foo was entitled to an annual remuneration of HK\$741,000. Mr. Foo is currently an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited, a company listed on the Stock Exchange.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### NON-EXECUTIVE DIRECTOR

**Mr. Li Hong**, aged 50, joined the Group in 2001. Mr. Li graduated from the Beijing University of Aeronautics and Astronautics with a bachelor's degree in metal materials in 1983. In 1994, Mr. Li graduated from the Beijing University of Aeronautics and Astronautics with a master's degree in corrosion and protection. From 1983 to 1996, Mr. Li was employed at Taiyuan Aero. Mr. Li is also a director of Taiyuan Daheng General Electric Appliance Manufacturing Company Limited. There is no service agreement between the Company and Mr. Li. The emoluments payable to Mr. Li is HK\$210,000 per annum. The appointment terms of Mr. Li were fixed for a term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Hui Hung Kwan**, aged 41, has over 10 years of experience in the finance and accounting fields. Mr. Hui holds a bachelor's degree in business administration (hons) with a major in accounting in the Chinese University of Hong Kong. Mr. Hui is a member of the Hong Kong Institute of Certified Public Accountants and is a fellow member of the Association of Chartered Certified Accountants. Mr. Hui will be the financial controller of China Allen Holdings Limited with effective from April 2013. He was a chief financial officer of a company listed on the main board of Singapore Exchange Securities Trading Limited, and he also worked in an audit firm in Hong Kong. There is no service agreement between the Company and Mr. Hui. The emoluments payable to Mr. Hui is HK\$120,000 per annum. The appointment term of Mr. Hui was fixed for a term of three years and be subject to normal retirement and re-election by shareholders of the Company pursuant to the Articles and Association of the Company.

**Mr. Chen Li Zhou**, aged 33, is currently general manager of investment management in China Fortune International Trust Co., Ltd. Mr. Chen holds a master degree in business administration from Peking University. Mr. Chen was appointed as an independent non-executive Director in November 2012. There is no service agreement between the Company and Mr. Chen. The emoluments payable to Mr. Chen is HK\$80,004 per annum which is determined by the Board with reference to his duties and responsibilities with the Company. The appointment terms of Mr. Chen were fixed for a term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company. Mr. Chen is currently an independent non-executive director of Shandong Loften Aluminium Foil Co., Ltd., a company listed on the Shenzhen Stock Exchange.

**Mr. Zhu Tong**, aged 41, is currently the assistant general manager of China Dragon Securities Co. Ltd. Mr. Zhu graduated from the Research Institute of the People's Bank of China in 1998 with a master's degree in international finance. Mr. Zhu was appointed as an independent non-executive Director in March 2004. There is no service agreement between the Company and Mr. Zhu. The emoluments payable to Mr. Zhu is HK\$80,004 per annum. The appointment terms of Mr. Zhu were fixed for a term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company.

### SENIOR MANAGEMENT

**Mr. Hao Dianqing**, aged 61, is the vice president of the Group. He joined the Group in May 2003. Mr. Hao is responsible for the overall operation of Shanxi Winner. In 1985, Mr. Hao graduated from Beijing Institute of Aeronautics with an associate's degree in system and management engineering. In 2000, Mr. Hao graduated from the Zheng Zhou Institute of Aeronautic Technology with a bachelor's degree in accounting.

**Mr. Zhu Jiangbin**, aged 54, joined the Group in October 1999 and is currently the deputy general manager of Beijing Great Idea. Mr. Zhu graduated from Northwestern Polytechnical University with a bachelor's degree in 1981. Prior to joining the Group, Mr. Zhu was employed at Taiyuan Aero.

## REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report together with the audited financial statements of Jinheng Automotive Safety Technology Holdings Limited (“the Company”) and its subsidiaries (together with the “Group”) for the year ended 31 December 2012.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in production and sales of automotive safety products and other automotive components in the People’s Republic of China (“the PRC”). The principal activities and other particulars of its subsidiaries are set out in note 24 to the consolidated financial statements.

The Group’s turnover for the year is principally attributable to the sales of automotive safety products and other automotive components to customers net of sales tax and value added tax. An analysis of the turnover from the principal activities during the financial year is set out in note 7 to the consolidated financial statements.

### FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2012 and the state of the Company’s and the Group’s affairs as at that date are set out in the financial statements on pages 29 to 33.

### DIVIDENDS

Pursuant to a resolution passed at a directors’ meeting on 27 March 2013, a final dividend of 1.5 HK cents per share totalling HK\$7,707,733 was recommended to be paid to shareholders of the Company, subject to shareholders’ approval at the forthcoming annual general meeting.

### CHARITABLE DONATIONS

No donation was made by the Group during the year (2011: HK\$Nil).

### FIXED ASSETS

Details of movements in fixed assets are set out in note 20 to the consolidated financial statements.

### RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 39 to the consolidated financial statements.

### SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 39(a) to the consolidated financial statements.

### SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the Directors and based on the information publicly available to the Company, there is a sufficient public float as required by the Listing Rules.

## REPORT OF THE DIRECTORS

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the law in the Cayman Islands.

### BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2012 are set out in notes 33 and 34 to the consolidated financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	27.9%	
Five largest customers in aggregate	86.6%	
The largest supplier		7.0%
Five largest suppliers in aggregate		19.9%

Save as disclosed above and so far as the Board are aware, neither the directors, their associates nor any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

### DIRECTORS

The directors during the financial year and up to the date of this report were:

#### Executive directors

Mr. Li Feng  
 Mr. Xing Zhanwu  
 Mr. Yang Donglin  
 Mr. Foo Tin Chung, Victor

#### Non-executive director

Mr. Li Hong

#### Independent non-executive directors

Mr. Hui Hung Kwan  
 Mr. Huang Shilin (passed away on 12 November 2012)  
 Mr. Zhu Tong  
 Mr. Chen Li Zhou (appointed on 15 November 2012)

In accordance with Articles 86(3) and 87(1) of the Articles of Association, the following Directors, namely, Messrs. Li Feng, Foo Tin Chung, Victor, Zhu Tong and Chen Li Zhou will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, would offer themselves for re-election.

## REPORT OF THE DIRECTORS

### DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company. The employment of each executive directors under their respective service contracts is for a term of three years subject to termination by either party to the contract serving written notice to the other to terminate such employment to take effect 3 months from the date of serving such notice. All executive directors are also entitled to a discretionary bonus calculated as a percentage of the audited consolidated net profits of the Group attributable to shareholders of the Company. The percentage shall be determined by the board of directors but in any case the aggregate amount payable for each financial year to all the executive directors of the Company shall not exceed 4% of such profit.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

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

As at 31 December 2012, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

#### Long positions in issued shares

Name of director	Capacity	Number of shares	Approximate percentage of shareholding
Li Feng	Beneficial owner	200,000	0.04%
	Interest of a controlled corporation (Note)	(Note)	(Note)
Xing Zhanwu	Interest of a controlled corporation (Note)	(Note)	(Note)
Li Hong	Interest of a controlled corporation (Note)	(Note)	(Note)
Yang Donglin	Interest of a controlled corporation (Note)	(Note)	(Note)
Foo Tin Chung, Victor	Beneficial owner	4,800,000	0.93%
	Interest of a controlled corporation (Note)	(Note)	(Note)

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

#### Long positions in issued shares *(continued)*

*Note:* As at 31 December 2012, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited ("Applaud Group") which held approximately 39.88% in the Company:

Shareholder	Number of shares held in Applaud Group	%
Li Feng	5,129	55.36
Li Hong	1,464	15.80
Xing Zhanwu	674	7.27
Yang Donglin	868	9.37
Foo Tin Chung, Victor	1,130	12.20
<b>Total</b>	<b>9,265</b>	<b>100</b>

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

### SHARE OPTION SCHEMES

The Company has a share option scheme which was adopted on 19 June 2009 ("2009 Share Option Scheme"). A summary of principal terms of the 2009 Share Option Scheme was disclosed in the circular of the Company issued on 29 April 2009.

The total number of securities available for issue under the 2009 Share Option Scheme as at 31 December 2011 was 44,350,000 shares which represented approximately 8.6% of the issued share capital of the Company as at 31 December 2012.

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## REPORT OF THE DIRECTORS

### SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2012, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

	Capacity	Number of ordinary shares of the Company held	Approximately percentage of the total issued shares of the Company
Applaud Group Limited	Beneficial owner	204,940,802	39.88%

#### Short positions in shares

No short positions of other persons and substantial shareholders in the shares of the Company were recorded in the register.

#### Short positions in underlying shares

No short positions of other persons and substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 31 December 2012, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year save and except for the agreements as stated in section headed "Connected Transactions" in the Prospectus and "Continuing Connected Transactions" in this report.

### ADOPTED CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2012, the Company has adopted the code set out in the Appendix 10 of the Listing Rules for securities transactions by Directors. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the adopted code regarding securities transactions by directors.



## REPORT OF THE DIRECTORS

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each independent non-executive Director an annual confirmation for independence pursuant to Rule 3.13 of the Listing Rules. The independent non-executive Directors have confirmed that they are independent.

### PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2012, the Company has purchased a total of 776,000 ordinary shares of the Company on the Stock Exchange at an aggregate cash consideration of HK\$306,760 with the highest and lowest price paid per Share being HK\$0.40 and HK\$0.39 respectively, and are under preparation for cancellation. The Shares were repurchased on the market pursuant to the repurchase mandate granted by the Shareholders at the annual general meeting of the Company held on 18 June 2012, with a view that it would enhance shareholders' value in the long term.

### RELATED PARTY TRANSACTIONS

Related party transactions, inclusive of those constituting the connected transaction or continuing connected transaction, entered into by the Group for the year ended 31 December 2012, are disclosed in note 42 to the financial statements and the section "Continuing Connected Transactions" in the report of the directors below. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 42 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

### CONTINUING CONNECTED TRANSACTIONS

#### The Great Idea Supply Agreement – Continuing Connected Transactions

On 10 July 2010, Beijing Jinheng Great Idea Automotive Electronic Systems Co., Ltd. ("Beijing Great Idea") and Jinzhou Jinheng Automotive Safety System Co., Limited, ("Jinzhou Jinheng") entered into a supply contract (the "Great Idea Supply Agreement") for a term ending on 31 December 2012 pursuant to which Beijing Great Idea (or its associated companies) will manufacture and sell automotive electronic systems and spare parts to Jinzhou Jinheng (or its associated companies). Jinzhou Jinheng indicated that the estimated maximum value of orders to be placed by Jinzhou Jinheng (the "Great Idea Annual Cap") for the three years ending 31 December 2012 would not exceed RMB50.0 million, RMB70.0 million and RMB90.0 million respectively. Mr. Zhao Qingjie ("Mr. Zhao") is interested in approximately 19% of the issued share capital of Wonder Auto Technology Inc. ("Wonder Auto Technology") and is a director of Wonder Auto Technology, which is a company wholly and beneficially owns Jinzhou Jinheng. Notwithstanding Mr. Zhao has resigned as executive Director on 27 October 2010, Mr. Zhao shall remain a connected person of the Company for the 12 months following his resignation under the Listing Rules. In addition, upon completion of the Disposal, Jinzhou Jinheng will become an indirect wholly owned subsidiary of Wonder Auto Technology. As such, Jinzhou Jinheng will become a connected person of the Company under the Listing Rules. During the period between January to October 2011 (which Mr. Zhao was a connected person of the Company), the transaction amount under Great Idea Supply Agreement is approximately HK\$30,479,163. After October 2011, Jinzhou Jinheng and Mr. Zhao were ceased to be the connected person of the Company, and any transactions between Beijing Great Idea and Jinzhou Jinheng should not be connected transactions under the Listing Rules.

## REPORT OF THE DIRECTORS

### CONTINUING CONNECTED TRANSACTIONS *(continued)*

#### The Winner Supply Agreement – Continuing Connected Transactions

On 10 July 2010, Shanxi Winner Auto-Parts Limited (“Shanxi Winner”) and Jinzhou Jinheng entered into a supply contract (the “Winner Supply Agreement”) for a term ending on 31 December 2012 pursuant to which Shanxi Winner (or its associated companies) will manufacture and sell safety airbag inflators and other automotive components to Jinzhou Jinheng (or its associated companies). Jinzhou Jinheng indicated that the estimated maximum value of orders to be placed by Jinzhou Jinheng (the “Winner Annual Cap”) for the three years ending 31 December 2012 would not exceed RMB190.0 million, RMB250.0 million and RMB320.0 million respectively. Mr. Zhao is interested in approximately 19% of the issued share capital of Wonder Auto Technology and is a director of Wonder Auto Technology, which is a company wholly and beneficially owns Jinzhou Jinheng. Notwithstanding Mr. Zhao has resigned as executive Director on 27 October 2010, Mr. Zhao shall remain a connected person of the Company for the 12 months following his resignation under the Listing Rules. In addition, upon completion of the Disposal, Jinzhou Jinheng will become an indirect wholly owned subsidiary of Wonder Auto Technology. As such, Jinzhou Jinheng will become a connected person of the Company under the Listing Rules. During the period between January to October 2011 (which Mr. Zhao was a connected person of the Company), the transaction amount under Winner Supply Agreement is approximately HK\$79,582,442. After October 2011, Jinzhou Jinheng and Mr. Zhao were ceased to be the connected person of the Company, and any transactions between Shanxi Winner and Jinzhou Jinheng should not be connect transactions under the Listing Rules.

#### Waiver from the Stock Exchange

The Stock Exchange has granted a waiver to the Company from strict compliance with the continuing connected transaction requirements pursuant to the Listing Rules in respect of the Great Idea Supply Agreement and the Winner Supply Agreement for the three financial year ending 31 December 2012.

For the continuing connected transactions entered between January to October 2011, the independent non-executive directors of the Company have reviewed and confirmed that these transactions were entered into:

- (i) in the ordinary and usual course of the business of the Group;
- (ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and
- (iii) in accordance with the Great Idea Supply Agreement and Winner Supply Agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## REPORT OF THE DIRECTORS

### CONTINUING CONNECTED TRANSACTIONS *(continued)*

#### Waiver from the Stock Exchange *(continued)*

The Auditors of the Company have reviewed the continuing connected transactions entered between January to October 2011 and confirmed in a letter (the "Letter") to the Board (a copy of which has been provided to the Stock Exchange). The Auditors of the Company have:

- (i) found that the continuing connected transactions have received the approval of the Board of Directors of the Company;
- (ii) obtained the relevant agreements governing each of the continuing connected transactions from management;
- (iii) found that the prices charged for each of the transactions selected were in accordance with the pricing terms set out in the relevant agreements governing such transactions or where the related agreement did not clearly specify a price, the prices charged were consistent with the prices charged for comparable transactions that were identified by management; and
- (iv) found that the continuing connected transactions have not exceeded the cap amounts disclosed in previous announcements dated 11 July 2010 made by the Company in respect of each of the continuing connected transactions.

### AUDITORS

In March 2012, the practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited which has been appointed as the auditors of the Company by the shareholders at the annual general meeting held on 18 June 2012.

The consolidated financial statements for the year ended 31 December 2011 were audited by HLB Hodgson Impey Cheng.

On 29 December 2010, HLB Hodgson Impey Cheng was appointed by the Board to fill the casual vacancy created by Li, Tang Chen & Co.

Previously on 30 November 2009, Li, Tang Chen & Co. was appointed by the Board to fill the casual vacancy created by KPMG.

Apart from the foregoing, there were no other changes in auditors of the Company in any of the proceeding three years.

HLB Hodgson Impey Cheng Limited will retire and a resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint them as auditors of the Company.

By order of the board

**Li Feng**  
*Chairman*

Hong Kong, 27 March 2013

## CORPORATE GOVERNANCE REPORT

The Code on Corporate Governance Practices (the “Former Code”) was revised and renamed as the Corporate Governance Code (the “Revised Code”) on 1 April 2012 contained in Appendix 14 to the Listing Rules.

The Company is committed to adopting and maintaining a high standard of corporate governance practices and procedures. The Company has complied with all the code provisions of the Former Code for the period from 1 January 2012 to 31 March 2012 and of the Revised Code for the period from 1 April 2012 to 31 December 2012 contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2012, except the following:

Code provision A.6.7 of the Revised Code stipulates that independent non-executive directors of the Company and other non-executive directors of the Company should attend general meetings. Mr. Li Hong, being an non-executive directors of the Company, and Mr. Zhu Tong and Mr. Huang Shilin, being independent non-executive directors of the Company, were unable to attend the annual general meeting of the Company held on 18 June 2012 as they were out town for other businesses.

According to the Listing Rules, the Company should have (i) at least three independent non-executive Directors, (ii) at least three members in the audit committee, and (iii) the remuneration committee should comprise a majority of independent non-executive directors. Following the passed away of Mr. Huang Shilin on 12 November 2012, and the appointment of his successor Mr. Chen Li Zhou was effective on 15 November 2012, there were 3 days which the Company did not fully comply with the Listing Rules requirement mentioned above.

### THE BOARD

The Board is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors’ responsibilities to create value for shareholders and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith. The management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

The Board comprises 8 Directors, including 4 executive Directors and 4 non-executive Directors, 3 of whom being independent non-executive Directors, in compliance with the requirement of Listing Rules which states that “every board of directors of an issuer must include at least 3 independent non-executive directors”.

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realizing the strategies and goals of the Group;
- being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;
- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to interim and annual reports of the Company, other price sensitive announcements published according to the Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information disclosable under statutory requirements;
- whilst executive Directors/chief executives, who oversee the overall business of the Company, are responsible for the daily operations of the Company, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy;

## CORPORATE GOVERNANCE REPORT

### THE BOARD *(continued)*

- the management is well informed of its power with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company; and
- regularly reviewing its own functions and the powers conferred upon executive Directors/chief executives to ensure appropriate arrangements are in place.

### COMMITMENTS

The full Board meets at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the non-executive Directors, including independent non-executive Directors, are actively sought by the Company if they are unable to attend the meeting in person.

### EXPERIENCE

Executive and non-executive Directors possess administrative leadership, diversified expertise and extensive industrial management experience. Independent non-executive Directors possess extensive expertise, experience and judging capability in various fields, in particular the appropriate accounting qualifications possessed by Mr. Hui Hung Kwan. During its decision-making process, the Board holds in high regard the views of the independent non-executive Directors, which serve as the effective direction of the Group's operations.

### BOARD MEETING

Members of the Board, who are well-informed of their duties and responsibilities, held a total of 6 meetings during the year 2012. The Directors are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

Proposals considered and approved by the Board during the period under review mainly included:

- financial performance and results of each period as well as review of corporate governance measures;
- a proposal to seek approval from shareholders in general meeting for distribution of final dividends to shareholders;
- a proposal to seek approval from shareholders in general meeting for re-election and re-appointment of Directors;
- a proposal to seek approval from shareholders in general meeting for re-appointment the Company's auditors and fixing their remuneration;
- a proposal to seek approval from shareholders in general meeting for issuance new shares and repurchases shares;

## CORPORATE GOVERNANCE REPORT

### BOARD MEETING *(continued)*

- appointment and resignation of members of the Board;
- appointment and resignation of auditors of the Company; and
- other material disposal and acquisition and capital expenditure.

Details of Directors' attendance at Board meetings and general meeting held in 2012 are set out as follows:

	Attendance	
	Annual General Meeting	Board
<b>Executive Directors</b>		
Mr. Li Feng	1/1	6/6
Mr. Xing Zhanwu	1/1	6/6
Mr. Yang Donglin	0/1	6/6
Mr. Foo Tin Chung, Victor	1/1	6/6
<b>Non-Executive Director</b>		
Mr. Li Hong	0/1	6/6
<b>Independent Non-Executive Directors</b>		
Mr. Hui Hung Kwan	1/1	6/6
Mr. Huang Shilin (passed away on 12 November 2012)	0/1	5/5
Mr. Zhu Tong	0/1	6/6
Mr. Chen Li Zhou (appointed on 15 November 2012)	0/0	1/1

### CODE FOR DEALING IN SECURITIES OF THE COMPANY

Details of Directors' interests in securities of the Company have been historically disclosed in each of the published results announcements of the Company. The Company has adopted a model code of practice for securities dealings by Directors on terms no less exacting than the required standard of dealings. The Company has confirmed, after making specific enquiries with the Directors in accordance with the code of practice, that all the Directors have complied with the standard of dealings and model code of practice in relation to securities dealings by Directors for the period under review.

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under A.2.1 of the Revised Code, "the roles of chairman and chief executive officer should be separate and should not be performed by the same individual". Concurrently, Mr. Li Feng is the Chairman of the Board and Mr. Xing Zhanwu is the chief executive officer of the Company.

The roles of the Chairman and the Chief Executive Officer are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Li, as Chairman of the Board, with his strategic vision, provides leadership to the Board and gives direction in the development of the Group, which is of added benefit to the check and balance mechanism of the Group. Mr. Xing, as the Chief Executive Officer, focuses on the day-to-day management of the Group's business, and leads the management team of the Group.

## CORPORATE GOVERNANCE REPORT

### APPOINTMENT OF DIRECTORS

During their terms of office, the Directors all carried out their work in a dedicated, diligent and proactive manner with reasonable prudence. Meanwhile, they carried out the duties of directors imposed by the Company Law, the Articles of Association of the Company and the Listing Rules, complied with the relevant requirements, strictly implemented resolutions of general meetings, promoted the continuous and healthy development of the Company's operations, pressed for the improvement of the governance standard of the Company and exerted the decision-making function of the Board in its full swing. In this regard, on the annual general meeting held on 18 June 2012, Mr. Yang Donglin, Mr. Li Hong and Mr. Hui Hung Kwan were re-elected and re-appointed and subject to rotation and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company.

None of the independent non-executive Directors holds any other offices in the Company or any of its subsidiaries. Within the meaning of the laws and regulations issued by relevant securities regulatory authorities, none of them is interested in any shares of the Company. The Company has received from each of the independent non-executive Directors a written confirmation of his independence under Rule 3.13 of the Listing Rules.

Names and biography of the Directors are set out on pages 9 to 10 of this annual report and also made available on the Company's website.

### AUDIT COMMITTEE

The audit committee of the Company is primarily responsible for reviewing the financial reporting process, internal control system and the completeness of financial reports of the Company. The audit committee of the Company comprises three independent non-executive Directors, namely Mr. Hui Hung Kwan, Mr. Chen Li Zhou and Mr. Zhu Tong, with Mr. Hui Hung Kwan as the chairman. During the year, the Company convened two meetings of the audit committee. The audit committee of the Company, together with the senior management of the Company and external auditors, has reviewed the accounting principles and methods adopted by the Group and discussed, inter alia, matters relating to internal control and financial statements of the Company (i.e. half-yearly and annual results) prepared in accordance with the generally accepted accounting principles of Hong Kong and has also made relevant recommendations.

Details of attendance of members at meetings of the audit committee held in 2012 are set out as follows:

	<b>Attendance</b>
Mr. Hui Hung Kwan	2/2
Mr. Huang Shilin (passed away on 12 November 2012)	2/2
Mr. Zhu Tong	2/2
Mr. Chen Li Zhou (appointed on 15 November 2012)	0/0

### INTERNAL CONTROLS

The Directors have conducted an annual review of the effectiveness of the system of internal control of the Company and its subsidiaries, which has covered major and material controls in areas of financial, operations, compliance and risk management of the Company.

## CORPORATE GOVERNANCE REPORT

### REMUNERATION COMMITTEE

The remuneration committee was established in November 2005. The remuneration committee of the Company comprises executive Director Mr. Xing Zhanwu and independent non-executive Directors Mr. Zhu Tong and Mr. Chen Li Zhou, with Mr. Zhu Tong as the chairman. The committee performs its functions, which primarily include assisting the Board in the overall management of the remuneration practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the incentives for the Directors and senior management, in accordance with the Revised Code.

The remuneration policies and incentive mechanism applicable to the Directors and senior management were discussed and the overall remuneration system of the Company were further refined and reasonable recommendations were made to the Board in the meeting.

Details of attendance of members at meeting of the remuneration committee held in 2012 are set out as follows:

	Attendance
Mr. Zhu Tong	1/1
Mr. Huang Shilin (passed away on 12 November 2012)	1/1
Mr. Xing Zhanwu	1/1
Mr. Chen Li Zhou (appointed on 15 November 2012)	0/0

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The main aims of the Company's remuneration policy are:

- to ensure that none of the Directors or any of their associates should determine their own remuneration;
- the remuneration should be broadly aligned with companies with which the Company competes for human resources;
- the Group should aim to attract and retain executives and to motivate them to pursue appropriate growth strategies whilst take into account individual performance and should avoid paying more than necessary for such purpose; and
- the remuneration should reflect the performance, complexity of duties and responsibility of the individual.

### NOMINATION COMMITTEE

The nomination committee was established in November 2005. The nomination committee of the Company comprises executive Director Mr. Xing Zhanwu and independent non-executive Director Mr. Zhu Tong and Mr. Hui Hung Kwan, with Mr. Hui Hung Kwan as the chairman. The committee performs its functions, which primarily includes assisting the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors in accordance with the Revised Code. During the year, the nomination committee has considered the past performance, qualification, general market conditions and the Company's Articles of Association in seeking and recommending candidates for directorship.



## CORPORATE GOVERNANCE REPORT

### NOMINATION COMMITTEE *(continued)*

Details of attendance of members at meeting of the nomination committee held in 2012 are set out as follows:

	Attendance
Mr. Hui Hung Kwan	1/1
Mr. Zhu Tong	1/1
Mr. Xing Zhanwu	1/1

### ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts for each financial period by the management. Subsequent to each reporting period, interim or annual financial highlights and business review are published as soon as possible (or in accordance with the Listing Rules, as the case may be) to disclose all information that are necessary for shareholders to assess the performance, financial conditions and prospects of the Company.

The Board has the responsibility to regularly review the internal control and risk management systems of the Company to ensure their effectiveness and efficiency. With the support of the internal audit team, the practices, processes, expenses and internal control of the Company and its subsidiaries are reviewed on a regularly basis. Matters of importance reported by the internal audit team are monitored regularly by the management to ensure remedial measures are implemented as appropriate. The Board and senior management may also require the internal audit team to conduct auditing procedures on special scopes of importance and report significant findings to the Board and the audit committee.

During the period under review, the performance and remuneration of external auditors were reviewed. Auditors' remuneration payable to external auditors by the Group amounted to HK\$0.6 million.

### INVESTOR RELATIONS

The Company is committed to a policy of open and regular communication and reasonable disclosure of information to its shareholders. Information of the Company is disseminated to the shareholders in the following manner:

- delivery of the interim and annual results and reports to all shareholders;
- publication of announcements on the interim and annual results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and
- the general meeting of the Company is also an effective communication channel between the Board and shareholders.

## CORPORATE GOVERNANCE REPORT

### INVESTOR RELATIONS *(continued)*

The Company maintains effective communications with its shareholders, investors and analysts through, inter alia:

- establishing dedicated personnel for liaison with investors and analysts by answering their questions;
- arranging on-site visits to the production facilities of the Company to enhance their timely understanding of the situations and latest development of the Company's business operations;
- gathering, in a timely manner, opinions and comments from analysts and investors on the operations of the Company, compiling reports thereon at regular intervals and selectively adopting them in the Company's operations;
- making available information on the Company's website, including description of the Company, Board and corporate governance, results of the Company, financial highlights, promotional materials and press releases of the Company, etc.; and
- actively communicating with various parties, in particular, convening briefing sessions, press conferences and individual meeting with institutional investors upon the announcement of interim and annual results and making decisions on material investments. The Company also participates in a range of investor activities and communicates on one-on-one basis with its investors regularly.

### TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each Director receives comprehensive, formal and tailored induction on the first occasion of his appointment so as to ensure the he has appropriate understanding of the business and operations of the Company and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

The Company is committed to arranging and funding suitable training to all Directors for their continuous professional development. Each Director is briefed and updated from time to time to ensure that he is fully aware of his responsibilities under the Listing Rules and applicable legal and regulatory requirements and the governance policies of the Group. All Directors also understand the importance of continuous professional development and are committed to participating any suitable training to develop and refresh their knowledge and skills.

## CORPORATE GOVERNANCE REPORT

### SHAREHOLDERS' RIGHTS

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

Any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders of the Company or not less than 100 shareholders can put forward any proposed resolution or the business to be dealt with at general meetings of the Company by depositing a requisition in writing at the principal office of the Company. The requisition must be signed by the relevant shareholder(s).

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Unit 605, Beautiful Group Tower,  
77 Connaught Road Central,  
Hong Kong  
Email: [jinheng\\_hk@jinhengholdings.com](mailto:jinheng_hk@jinhengholdings.com)

Shareholders may also make enquiries with the Board at the general meetings of the Company.

### CONSTITUTIONAL DOCUMENTS

In 2012, the Company adopted certain amendments on the Articles of the Company in order to bring the Articles of the Company in line with the amendments made to the Listing Rules that came into effect on 1 January 2012 or on 1 April 2012 respectively. The amended Articles of the Company is available on the websites of the Company and the Stock Exchange.

## INDEPENDENT AUDITORS' REPORT



Chartered Accountants  
Certified Public Accountants

31/F, Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

### INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF JINHENG AUTOMOTIVE SAFETY TECHNOLOGY HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Jinheng Automotive Safety Technology Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 103, which comprise the consolidated and Company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standard on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## INDEPENDENT AUDITORS' REPORT

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**HLB Hodgson Impey Cheng Limited**

Chartered Accountants

Certified Public Accountants

**Hon Koon Fai, Alex**

Practising Certificate Number: P05029

Hong Kong, 27 March 2013

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 HK\$	2011 HK\$
Turnover	7	261,047,793	290,767,562
Cost of sales		(235,378,413)	(233,731,094)
Gross profit		25,669,380	57,036,468
Other revenue	8	36,477,993	46,058,287
Other net loss	9	(2,017,018)	(25,949,082)
Research and development expenses	10	(18,547,971)	(14,617,858)
Distribution costs		(7,135,193)	(6,053,463)
Administrative expenses		(34,915,030)	(32,495,748)
(Loss)/profit from operations		(467,839)	23,978,604
Finance costs	12	(4,955,085)	(7,987,414)
Share of losses of jointly controlled entities	25	–	(185,760)
(Loss)/profit before taxation	13	(5,422,924)	15,805,430
Taxation	14	(33,856,646)	(4,353,806)
(Loss)/profit for the year		(39,279,570)	11,451,624
<b>(Loss)/profit for the year attributable to:</b>			
Owners of the Company		(33,571,296)	8,169,030
Non-controlling interests		(5,708,274)	3,282,594
		(39,279,570)	11,451,624
<b>(Loss)/earnings per share</b>			
– Basic	19	(6.53) HK cents	1.59 HK cents
– Diluted		(6.53) HK cents	1.59 HK cents

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK\$	2011 HK\$
<b>(Loss)/profit for the year</b>	<b>(39,279,570)</b>	11,451,624
<b>Other comprehensive income for the year, net of income tax:</b>		
Exchange differences on translating financial statements of subsidiaries outside Hong Kong	1,170,708	13,853,356
<b>Total comprehensive (loss)/income for the year</b>	<b>(38,108,862)</b>	25,304,980
<b>Total comprehensive (loss)/income for the year attributable to:</b>		
Owners of the Company	(32,624,806)	17,772,852
Non-controlling interests	(5,484,056)	7,532,128
	<b>(38,108,862)</b>	25,304,980

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK\$	2011 HK\$
<b>Non-current assets</b>			
Fixed assets			
– Property, plant and equipment	20	72,217,388	75,244,601
– Interests in leasehold land held for own use under operating leases	20	37,720,661	14,601,285
Deposits paid for acquisition of property, plant and equipment		91,257,272	24,130,373
Construction in progress	21	67,050,260	8,692,904
Intangible assets	22	70,119,432	83,514,090
Goodwill	23	5,336,984	5,297,450
		<b>343,701,997</b>	<b>211,480,703</b>
<b>Current assets</b>			
Inventories	27	42,559,808	45,470,908
Trade receivables, prepayments and other receivables	28	182,381,783	581,809,333
Loan receivable	29	11,000,400	11,000,400
Cash and cash equivalents	30	259,974,508	45,401,132
		<b>495,916,499</b>	<b>683,681,773</b>
Asset classified as held for sale	31	–	25,176,074
		<b>495,916,499</b>	<b>708,857,847</b>
<b>Current liabilities</b>			
Trade and other payables	32	82,774,652	120,988,055
Current tax payable	26	379,541	556,846
Bank loans	33	43,868,159	36,506,173
Other loans	34	22,562,189	13,703,704
		<b>149,584,541</b>	<b>171,754,778</b>
<b>Net current assets</b>		<b>346,331,958</b>	<b>537,103,069</b>
<b>Total assets less current liabilities</b>		<b>690,033,955</b>	<b>748,583,772</b>



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK\$	2011 HK\$
<b>Non-current liabilities</b>			
Deferred tax liabilities	26	21,657,738	20,965,558
<b>Net assets</b>			
		668,376,217	727,618,214
<b>Capital and reserves</b>			
Share capital	39	5,138,489	5,138,489
Reserves	39	627,507,330	670,030,895
<b>Total equity attributable to owners of the Company</b>			
		632,645,819	675,169,384
<b>Non-controlling interests</b>			
		35,730,398	52,448,830
<b>Total equity</b>			
		668,376,217	727,618,214

Approved and authorised for issue by the board of directors on 27 March 2013

**Xing Zhanwu**  
Director

**Foo Tin Chung, Victor**  
Director

The accompanying notes form an integral part of these consolidated financial statements.

## STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 HK\$	2011 HK\$
<b>Non-current assets</b>			
Investments in subsidiaries	24	37,265,316	37,265,316
<b>Current assets</b>			
Prepayments and other receivables	28	532,879,937	633,045,278
Cash and cash equivalents	30	52,085,238	18,839,648
		<b>584,965,175</b>	<b>651,884,926</b>
<b>Current liabilities</b>			
Other payables and accruals	32	5,333,799	12,427,897
<b>Net current assets</b>		<b>579,631,376</b>	<b>639,457,029</b>
<b>Net assets</b>		<b>616,896,692</b>	<b>676,722,345</b>
<b>Capital and reserves</b>			
Share capital	39	5,138,489	5,138,489
Reserves	39	611,758,203	671,583,856
<b>Total equity</b>		<b>616,896,692</b>	<b>676,722,345</b>

Approved and authorised for issue by the board of directors on 27 March 2013

**Xing Zhanwu**  
Director

**Foo Tin Chung, Victor**  
Director

The accompanying notes form an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company									
	Share capital	Share premium	Statutory				Retained profits	Sub-total	Non-controlling interests	Total
			surplus reserve	Exchange reserve	Other reserve					
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
At 1 January 2011	5,138,489	249,722,557	4,358,331	16,781,453	(26,927,346)	416,030,781	665,104,265	41,940,512	707,044,777	
Profit for the year	-	-	-	-	-	8,169,030	8,169,030	3,282,594	11,451,624	
Other comprehensive income for the year, net of income tax:										
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	-	9,603,822	-	-	9,603,822	4,249,534	13,853,356	
Total comprehensive income for the year	-	-	-	9,603,822	-	8,169,030	17,772,852	7,532,128	25,304,980	
Dividend paid during the year	-	-	-	-	-	(7,707,733)	(7,707,733)	-	(7,707,733)	
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	2,976,190	2,976,190	
Appropriations to statutory reserve	-	-	2,013,384	-	-	(2,013,384)	-	-	-	
At 31 December 2011 and 1 January 2012	5,138,489	249,722,557	6,371,715	26,385,275	(26,927,346)	414,478,694	675,169,384	52,448,830	727,618,214	
Loss for the year	-	-	-	-	-	(33,571,296)	(33,571,296)	(5,708,274)	(39,279,570)	
Other comprehensive income for the year, net of income tax:										
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	-	-	-	946,490	-	-	946,490	224,218	1,170,708	
Total comprehensive income/(loss) for the year	-	-	-	946,490	-	(33,571,296)	(32,624,806)	(5,484,056)	(38,108,862)	
Acquisition of additional interest in a subsidiary	-	-	-	-	(1,888,386)	-	(1,888,386)	(11,234,376)	(13,122,762)	
Repurchase of ordinary shares	-	-	-	-	(302,640)	-	(302,640)	-	(302,640)	
Dividend paid during the year	-	-	-	-	-	(7,707,733)	(7,707,733)	-	(7,707,733)	
Appropriations to statutory reserve	-	-	773,679	-	-	(773,679)	-	-	-	
At 31 December 2012	5,138,489	249,722,557	7,145,394	27,331,765	(29,118,372)	372,425,986	632,645,819	35,730,398	668,376,217	

## CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2012*

	2012 HK\$	2011 HK\$
<b>Operating activities</b>		
(Loss)/profit before taxation	(5,422,924)	15,805,430
Adjustments for:		
– Depreciation	11,173,987	8,997,825
– Amortisation of intangible assets	16,327,674	9,473,631
– Amortisation of land held for own use under an operating leases	1,439,079	1,091,972
– Finance costs	4,955,085	7,987,414
– Bank interest income	(322,789)	(214,512)
– Interest income from promissory notes	(17,134,239)	(26,981,118)
– Share of losses of jointly controlled entities	–	185,760
– Loss on disposal of property, plant and equipment	187,470	812,739
– Gain on disposal of interest in leasehold land held for own use under an operating leases	–	(239,459)
– Net changes in fair value of convertible preferred shares	–	(6,386,506)
– Loss on purchase of convertible preferred shares	–	6,386,506
– Exchange loss	2,526,075	–
– Reversal of impairment loss in respect of trade receivables	(696,527)	(404,470)
– Impairment loss recognised in respect of asset classified as held for sale	–	25,629,325
<b>Operating profit before changes in working capital</b>	<b>13,032,891</b>	<b>42,144,537</b>
Decrease/(increase) in inventories	2,911,100	(14,503,583)
Decrease/(increase) in trade receivables, prepayments and other receivables	4,675,380	(16,871,059)
Decrease in trade and other payables	(39,896,503)	(73,056,544)
<b>Cash used in operations</b>	<b>(19,277,132)</b>	<b>(62,286,649)</b>
PRC income tax paid	(34,118,365)	(2,211,025)
<b>Net cash used in operating activities</b>	<b>(53,395,497)</b>	<b>(64,497,674)</b>
<b>Investing activities</b>		
Payment for purchase of property, plant and equipment	(7,816,951)	(20,033,904)
Payment for construction in progress	(81,967,562)	(8,692,904)
Payment for acquisition of intangible assets	(2,464,958)	(3,738,792)
Increase in deposits paid for acquisition of property, plant and equipment	(67,126,899)	(3,480,075)
Proceeds from disposal of jointly controlled entities	25,176,074	–
Proceeds from disposal of property, plant and equipment	–	248,759
Proceeds from disposal of interest in leasehold land held for own use under an operating lease	8,207,452	–
Proceeds received from maturity of promissory notes	384,070,860	66,364,689
Bank interest received	322,789	214,512
Interest received from promissory notes	18,740,173	25,375,184
<b>Net cash generated from investing activities</b>	<b>277,140,978</b>	<b>56,257,469</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 HK\$	2011 HK\$
<b>Financing activities</b>		
Proceeds from new bank loans	47,450,248	40,209,876
Repayment of bank loans	(40,088,262)	(53,914,821)
Proceeds from other loans	22,562,189	13,703,704
Repayment of other loans	(13,703,704)	(13,676,709)
Repurchase of ordinary shares	(302,640)	–
Payment for acquisition of additional interests in a subsidiary	(13,122,762)	–
Repayment of purchase of convertible preferred shares	–	(69,776,395)
Bank loan interest paid	(4,847,154)	(7,987,414)
Capital contribution from non-controlling interests	–	2,976,190
Dividends paid	(7,707,733)	(7,707,733)
<b>Net cash used in financing activities</b>	<b>(9,759,818)</b>	<b>(96,173,302)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>213,985,663</b>	<b>(104,413,507)</b>
Effect of foreign exchange rate changes	587,713	8,597,450
<b>Cash and cash equivalents at 1 January</b>	<b>45,401,132</b>	<b>141,217,189</b>
<b>Cash and cash equivalents at 31 December</b>	<b>259,974,508</b>	<b>45,401,132</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 26 February 2004 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company were listed on the Growth Enterprises Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 9 December 2004. On 12 November 2008, the Company withdrew the listing of its shares on GEM and listed its entire issued share capital by way of transfer on the Main Board of the Stock Exchange.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 24 to the consolidated financial statements.

At 31 December 2012, the directors consider the immediate parent and ultimate controlling party of the Company and its subsidiaries (together referred to as the “Group”) to be Applaud Group Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) except when otherwise indicated.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for annual periods beginning on or after 1 January 2012.

HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The directors anticipate that the application of these new HKFRSs has no material impact on the results and the financial position of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle <sup>2</sup>
HKFRS 1 (Amendments)	Government Loan <sup>2</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
HKFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>4</sup>
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements Disclosure of Interests in Other Entities: Transition Guidance <sup>2</sup>
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities <sup>3</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>1</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>3</sup>
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

<sup>1</sup> effective for annual periods beginning on or after 1 July 2012

<sup>2</sup> effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> effective for annual periods beginning on or after 1 January 2014

<sup>4</sup> effective for annual periods beginning on or after 1 January 2015

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group’s financial assets and financial liabilities (e.g. the Group’s available-for-sale investments may have to be measured at fair value at the end of subsequent reporting periods, with changes in the fair value being recognised in profit or loss). Regarding the Group’s financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### **New and revised standards on consolidation, joint arrangements, associates and disclosures**

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided all of these standards are applied at the same time.

The directors anticipate that the application of these five standards will have no impact to the Group’s consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

#### HKFRS 7 and HKAS 32 (Amendments) Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### **HKAS 1 (Amendments) Presentation of Items of Other Comprehensive Income**

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

#### **Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012**

The Annual Improvements to HKFRSs 2009 – 2011 Cycle include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to HKFRSs include:

- amendments to HKAS 1 Presentation of Financial Statements;
- amendments to HKAS 16 Property, Plant and Equipment; and
- amendments to HKAS 32 Financial Instruments: Presentation.

#### **HKAS 1 (Amendments)**

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

#### Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in June 2012 (Continued)

##### HKAS 16 (Amendments)

The amendments to HKAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in HKAS 16 and as inventory otherwise. The directors do not anticipate that the amendments to HKAS 16 will have a significant effect on the Group’s consolidated financial statements.

##### HKAS 32 (Amendments)

The amendments to HKAS 32 clarify that income tax on distributions to holders of an equity instrument and transaction costs of an equity transaction should be accounted for in accordance with HKAS 12 *Income Taxes*. The directors anticipate that the amendments to HKAS 32 will have no effect on the Group’s consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (“the Listing Rules”). A summary of the significant accounting policies adopted by the Group is set out below.

#### (b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries and the Group’s interest in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that certain financial instruments are stated at fair value. Historical cost is generally based on the fair value of the consideration of given in exchange for assets.

The functional currencies of the Company and its subsidiaries in the People’s Republic of China (the “PRC”) are HK\$ and Renminbi respectively. For the purposes of presenting the consolidated financial statements, the Group adopted HK\$ as its presentation currency.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (b) Basis of preparation of the consolidated financial statements (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4 to the consolidated financial statements.

#### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

##### *Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (c) Basis of consolidation (Continued)

##### *Changes in the Group's ownership interests in existing subsidiaries (Continued)*

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interest in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

#### (d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

#### (e) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of jointly controlled entity's net assets. The consolidated income statement includes the Group's share of post acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognised for the year, whereas the Group's share of the post-acquisition post-tax items of the jointly controlled entity's other comprehensive income is recognised in the consolidated statement of comprehensive income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (e) Jointly controlled entities (Continued)

When the Group's share of losses exceeds its interest in the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity. For this purpose, the Group's interest in the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's statement of financial position, its investments in jointly controlled entities are stated at cost less impairment losses.

#### (f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

#### (g) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (g) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.	
– Machinery and equipment	3-10 years
– Motor vehicles	10 years
– Office equipment	5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

#### (h) Construction in progress

Construction in progress represents buildings under construction and equipment pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest charges during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificates by the relevant authorities in the PRC.

#### (i) Intangible assets (other than goodwill)

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

*Internally-generated intangible assets – development costs*

Expenditure on development activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated.

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible assets will generate probable future economic benefits;

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (i) Intangible assets (other than goodwill) (Continued)

##### *Internally-generated intangible assets – development costs (Continued)*

- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

##### *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at fair value at the acquisition date (which is regarded as their cost).

##### *Derecognition of intangible assets*

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measure as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Amortisation of capitalised development cost is charged to profit or loss over the estimated life cycle (not more than 5 years) of the relevant products. Amortisation of other intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives as follows:

- |                       |             |
|-----------------------|-------------|
| – Acquired technology | 5-8 years   |
| – Patents             | 10-18 years |

Both the period and method of amortisation are reviewed annually.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (j) Impairment of assets

##### (i) *Impairment of investments in equity securities and other receivables*

Investments in equity securities (other than investments in subsidiaries) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in jointly controlled entities recognised using the equity method, the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount. The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.
- For unlisted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (j) Impairment of assets (Continued)

##### (i) Impairment of investments in equity securities and other receivables (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade receivables, prepayments and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

##### (ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- intangible assets;
- investments in subsidiaries;
- goodwill; and
- asset classified as held for sale.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (j) Impairment of assets (Continued)

##### (ii) Impairment of other assets (Continued)

###### – Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

###### – Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

###### – Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

##### (iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34 *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (k) Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### *The Group as lessee*

Assets held under finance assets are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the consolidated income statement.

Rental payable under operating leases are charged to the consolidated income statement on a straight-line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

##### *Leasehold land for own use*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (include any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "interest in leasehold land held for own use under operating lease" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

#### (l) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and other costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) Trade receivables and other receivables

Trade receivables and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

#### (n) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

#### (o) Convertible preferred shares

Convertible preferred shares that are redeemable on a specific date or at the options of the shareholders and whose dividend payments are discretionary are accounted for as compound financial instruments which contain both a liability component and an equity component. The liability together with the embedded derivative components are accounted for as derivative financial instruments. Transactions costs that related to the issue of the convertible preferred shares are recognised immediately in profit or loss. Dividends on convertible preferred shares are recognised as distributions within equity.

If the preferred shares are converted, the carrying amounts of the preferred shares at the time of conversion are transferred to share capital and share premium as consideration for the shares issued. If the preferred shares are redeemed, any difference between the amount paid and the carrying amounts of preferred shares is recognised in profit or loss.

#### (p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Bills discounted with recourse are not derecognised from the statement of financial position until actual settlement on maturity, and the related advances from banks in respect of discounted bills are classified as secured bank loans.

#### (q) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

#### (s) Employee benefits

##### (i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

##### (ii) *Equity-settled share-based payments*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial or trinomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

##### (iii) *Termination benefits*

Termination benefits are recognised when, and only when the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (t) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

#### (u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### (v) Government grant

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that become 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 recognised in profit or loss in the period in which they become receivable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (w) Current assets and liabilities

Current assets are expected to be realised within twelve months of the end of the reporting period or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the end of the reporting period or in the normal course of the Group's operating cycle.

#### (x) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

#### (y) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

##### *Financial assets*

The Group's financial assets are classified into loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (y) Financial instruments (Continued)

##### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

##### *Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument. A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
  - such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
  - the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
  - if forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the "other income".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (y) Financial instruments (Continued)

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

An impairment loss is recognised in consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment losses were recognised, subject to a restriction that the carrying amount of the asset at the date the impairment losses reversed do not exceed what the amortised cost would have been had the impairment losses not been recognised.

##### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

##### *Other financial liabilities*

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

##### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

##### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statement.

Financial liabilities are removed from the Group's consolidated statement of financial position when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (z) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(iii) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(iv) *Experiment fee income*

Experiment fee income is recognised when the related experiment services are rendered.

#### (aa) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items of statement of financial position, including goodwill arising on consolidation of operations outside Hong Kong on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences recognised in equity which relate to that operation outside Hong Kong is included in the calculation of profit or loss on disposal.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (ab) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

#### (ac) Related parties

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

- (1) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (2) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (1).
  - (vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (ad) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### 4. ACCOUNTING ESTIMATES AND JUDGMENTS

The methods, estimates and judgments the directors use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgments, on matters that are inherently uncertain. Notes 5 and 23 contain information about the assumptions and the risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

#### (a) Depreciation and amortisation

Property, plant and equipment (see note 20) and intangible assets except for development costs (see note 22) are depreciated and amortised on a straight-line basis over their estimated useful lives. The Group annually reviews the useful life of an asset and its residual value, if any. The useful life is based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

#### (b) Valuation of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product-by-product basis at the end of each reporting period and assess the need for write down of inventories.

#### (c) Allowance for impairment of doubtful debts

Allowance for impairment of doubtful debts are assessed and provided based on the directors' regular review of ageing analysis and evaluation of collectibility. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the allowance for impairment of doubtful debts would affect profit or loss in future years.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 4. ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

#### (d) Impairment losses for property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are assessed at the end of each reporting period to identify indications that they may be impaired. If any such indication exists, the recoverable amount of the property, plant and equipment and intangible assets (including goodwill) is estimated. The recoverable amount of the property, plant and equipment and intangible assets is based on value-in-use calculations. These calculations are determined based on cash flow projections with reasonable assumptions that represent management's best estimate of the range of economic conditions over the remaining useful life of the assets. Changes in facts and circumstances may result in revisions to whether an indication of impairment exists and revised estimates of recoverable amounts, which would affect profit or loss in future years.

#### (e) Capitalisation and amortisation of development costs

Costs incurred on development projects relating to the design and testing of new or improved airbag systems are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the costs can be measured reliably. It is normally referred to when the Group has signed sales contracts with auto makers for the airbag systems under development, costs are identifiable and there is an ability to sell or use the airbag system that will generate probable future economic benefits. The determination of the commercial and technological feasibility of the project and the ability to sell or use the airbag system involves management's judgment and estimation. If there are significant changes from previous estimates, any write-off of capitalised development costs would affect profit or loss in future periods.

The development costs are amortised over the estimated life cycle of the relevant products. The Group annually reviews the estimated life cycle of the relevant products. The estimated life cycle is based on the Group's historical experience with similar products and taking into account anticipated market changes. The amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

#### (f) Income taxes

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are transactions during the ordinary course of business, for which calculations of the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

#### (g) Estimated impairment of goodwill

The Group performs annual tests on whether there has been impairment of goodwill in accordance with the accounting policy stated in note 3 to the consolidated financial statements. The recoverable amounts of cash generating units are determined based on value-in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

#### Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan receivable, cash and cash equivalents, trade and other payables, bank loans and other loans. Details of these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Categories of financial instruments

	The Group		The Company	
	2012 HK\$	2011 HK\$	2012 HK\$	2011 HK\$
<b>Financial assets</b>				
Loans and receivables (including cash and cash equivalents)	431,520,677	631,953,981	574,636,925	651,884,926
<b>Financial liabilities</b>				
Amortised costs	149,205,000	171,197,932	5,333,799	12,427,897

#### Financial risk factors

The Group is exposed to a variety of financial risks: credit, liquidity, interest rate and currency risks arise in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below.

#### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Credit evaluations are performed on all customers requiring credit over a certain amount. The Group generally grants a credit period of not more than 90 to 180 days from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and credit worthiness, extend the credit period upon customers' request. Debtors with balances that are more than 12 months overdue are requested to settle all outstanding balance before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the end of the reporting period, the Group has a certain level of concentrations of credit risk as 46% (2011: 38%) and 55% (2011: 66%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

The Group does not provide any guarantee which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables and bills receivable are set out in note 28 to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

#### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

The following table details the remaining contractual maturities at the end of the reporting period of the Group and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date of the Group and the Company can be required to pay:

#### The Group

At 31 December 2012

	Weighted average effective interest rate %	On demand or within 1 year HK\$	Over 1 year HK\$	Total undiscounted cash flow HK\$	Total carrying amount HK\$
<b>Non-derivative financial liabilities</b>					
Trade and other payables	–	82,774,652	–	82,774,652	82,774,652
Bank loans	7.43	45,382,012	–	45,382,012	43,868,159
Other loans	1.73	22,842,527	–	22,842,527	22,562,189
		150,999,191	–	150,999,191	149,205,000

#### The Company

At 31 December 2012

	Weighted average effective interest rate %	On demand or within 1 year HK\$	Over 1 year HK\$	Total undiscounted cash flow HK\$	Total carrying amount HK\$
<b>Non-derivative financial liabilities</b>					
Amounts due to subsidiaries	–	4,423,215	–	4,423,215	4,423,215
Other payables and accruals	–	910,584	–	910,584	910,584
		5,333,799	–	5,333,799	5,333,799

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

#### (b) Liquidity risk (Continued)

##### The Group

At 31 December 2011

	Weighted average effective interest rate %	On demand or within 1 year HK\$	Over 1 year HK\$	Total undiscounted cash flow HK\$	Total carrying amount HK\$
<b>Non-derivative financial liabilities</b>					
Trade and other payables	–	120,988,055	–	120,988,055	120,988,055
Bank loans	7.79	37,576,229	–	37,576,229	36,506,173
Other loans	–	13,703,704	–	13,703,704	13,703,704
		172,267,988	–	172,267,988	171,197,932

##### The Company

At 31 December 2011

	Weighted average effective interest rate %	On demand or within 1 year HK\$	Over 1 year HK\$	Total undiscounted cash flow HK\$	Total carrying amount HK\$
<b>Non-derivative financial liabilities</b>					
Amounts due to subsidiaries	–	6,063,872	–	6,063,872	6,063,872
Other payables and accruals	–	6,364,025	–	6,364,025	6,364,025
		12,427,897	–	12,427,897	12,427,897

#### (c) Currency risk

The Group has minimal exposures to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the respective subsidiaries. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

#### (d) Interest rate risk

##### (i) Exposure to interest rate risk

The Group's exposure to the risk of changes in market interest rate relates primarily to its short-term interest-bearing bank loans. Borrowings at floating rates expose the Group to cash flow interest-rate risk.

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

##### (ii) Sensitivity analysis

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's loss for the year would increase/decrease by HK\$82,109 (2011: the Group's profit for the year would decrease/increase by HK\$67,658). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank loans

#### (e) Fair values

*The fair value of financial assets and liabilities are determined as follows:*

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- the fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate to their fair value.

*Fair value measurements recognised in the consolidated statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value observable:

- Level 1 fair values measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair values measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair values measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable data (unobservable inputs).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

#### (e) Fair values (Continued)

*Fair value measurements recognised in the consolidated statement of financial position (Continued)*

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value during the year ended 31 December 2012.

The movement during the year ended 31 December 2011 in the balance of Level 3 fair value measurement is as follows:

	Redemption and conversion components embedded in convertible preferred shares HK\$
At 1 January 2011	80,572,775
Change in fair value recognised in profit or loss	(6,386,506)
Release upon on purchase	(74,186,269)
At 31 December 2011	–

There were no transfers between Levels 1, 2 and 3 in both years.

### 6. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for purposes of resource allocation and assessment of segment performance focuses on types of goods delivered.

The Group is engaged in the principal business of production and sales of automotive related products. For management purposes, the Group operates in one business unit based on its products, and has one reportable segment.

Information about products is set out in note 7 on these consolidated financial statements.

#### Information about geographical areas

As the Group's business fundamentally participates in one geographical location classified by the location of assets, i.e. the PRC, no separate geographical information based on the location of assets is presented.

The Group's operations are mainly located in the PRC. All of the Group's turnover is derived from customers based in the PRC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 6. SEGMENT INFORMATION (CONTINUED)

#### Information about major customers

For the year ended 31 December 2012, revenue generated from four (2011: three) customers of the Group amounting to HK\$208,496,065 (2011: HK\$264,985,415) has individually accounted for over 10% of the Group's total revenue. No other single customers contributed 10% or more to the Group's revenue for both 2012 and 2011.

Revenue from major customers of them amounted to 10% or more of the Group's turnover, are set out below:

	2012 HK\$	2011 HK\$
Customer A	72,887,950	126,836,778
Customer B	63,915,829	79,857,230
Customer C	32,050,836	58,291,407
Customer D	39,641,450	–

### 7. TURNOVER

The principal activities of the Group are production and sales of automotive safety products and other automotive components in the PRC.

Turnover recognised during the year was analysed as follows:

	2012 HK\$	2011 HK\$
Sales of automotive safety system components and other automotive components	185,798,193	164,385,305
Sales of electronic airbag systems	75,249,600	126,382,257
	<b>261,047,793</b>	<b>290,767,562</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 8. OTHER REVENUE

	2012 HK\$	2011 HK\$
Experiment fee income	–	14,560,241
Interest income from promissory notes	17,134,239	26,981,118
Bank interest income	322,789	214,512
Subsidy income ( <i>Note</i> )	10,320,418	–
Sub-contracting income	5,346,518	2,504,830
Sundry income	3,354,029	1,797,586
	<b>36,477,993</b>	<b>46,058,287</b>

*Note:*

During the year ended 31 December 2012, subsidy income mainly represents the reward for innovative and high-end technology enterprise in the PRC. Subsidy income received by the Group is recognised in the consolidated income statement when received and no specific conditions have been required to fulfill. The subsidy income recognised during the year are non-recurring. There are no unfulfilled conditions or contingencies relating to those subsidy income.

### 9. OTHER NET LOSS

	2012 HK\$	2011 HK\$
Reversal of impairment loss in respect of trade receivables	696,527	404,470
Gain on disposal of interest in leasehold land held for use under an operating lease	–	239,459
Net foreign exchange loss	(2,526,075)	(150,947)
Loss on disposal of property, plant and equipment	(187,470)	(812,739)
Impairment loss recognised in respect of asset classified as held for sale	–	(25,629,325)
Net fair value change on convertible preferred shares	–	6,386,506
Loss on purchase of convertible preferred shares	–	(6,386,506)
	<b>(2,017,018)</b>	<b>(25,949,082)</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 10. RESEARCH AND DEVELOPMENT EXPENSES

	2012 HK\$	2011 HK\$
Research and development costs incurred	21,012,929	18,356,650
Less: development costs capitalised during the year (note 22)	(2,464,958)	(3,738,792)
	<b>18,547,971</b>	<b>14,617,858</b>

### 11. STAFF COSTS

	2012 HK\$	2011 HK\$
Salaries, wages and bonuses	26,178,041	21,621,334
Contributions to retirement benefits schemes and welfare	4,293,340	4,548,666
	<b>30,471,381</b>	<b>26,170,000</b>

### 12. FINANCE COSTS

	2012 HK\$	2011 HK\$
Interest expense on bank loans wholly repayable within five years	3,301,914	4,026,206
Interest expense on other loans	107,931	669,846
Discounting charges on discounted bills	1,545,240	3,291,362
	<b>4,955,085</b>	<b>7,987,414</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 13. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

	2012 HK\$	2011 HK\$
Auditors' remuneration	600,000	600,000
Depreciation of property, plant and equipment	11,173,987	8,997,825
Amortisation of leasehold land held for own use under operating leases	1,439,079	1,091,972
Amortisation of intangible assets (note 22)		
– Acquired technology	–	846,167
– Development costs	11,823,580	4,215,622
– Patents	4,504,094	4,411,842
Operating lease charges in respect of rented properties	1,843,146	4,009,844

### 14. TAXATION

#### (a) Income tax in the consolidated income statement represents:

	2012 HK\$	2011 HK\$
<b>Current tax</b>		
PRC enterprise income tax (note 26(a))	1,366,373	2,584,671
<b>Under provision in prior years</b>		
Income tax in related to disposal of business	32,162,766	–
PRC enterprise income tax (note 26(a))	411,921	–
<b>Deferred tax</b>		
Origination and reversal of temporary differences (note 26(b))	(84,414)	1,769,135
<b>Total income tax expense</b>	<b>33,856,646</b>	<b>4,353,806</b>

Note:

The Company has received notification from the PRC tax department, in which the Company is required to pay approximately RMB26.4 million (approximately HK\$32.2 million) income tax in relation to the disposal of 100% equity interest of Jinheng (BVI) Limited in 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 14. TAXATION (CONTINUED)

**(a) Income tax in the consolidated income statement represents: (Continued)**

Pursuant to the income tax rules and regulations of the PRC, provision for PRC income tax of the Group is calculated based on the following rates:

	Note	2012	2011
Shenyang Jinheng Jinsida Automotive Electronic Co., Limited ("Jinheng Jinsida")	(i) and (ii)	12.5%	12%
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Limited ("Beijing Great Idea")	(i) and (ii)	12.5%	12%
Troitec Automotive Electronics Co., Ltd ("Troitec")	(i) and (ii)	12.5%	12%
Shanxi Winner Auto-Parts Limited ("Shanxi Winner")	(iii)	15%	15%
Tianjian Troitec Automotive Electronic Co., Ltd ("Tianjian Troitec")	(iii)	15%	25%

Notes:

- (i) This company is entitled to a tax concession period in which they are fully exempted from the PRC income tax for 2 years starting from their first profit-making year after net off accumulated tax losses, followed by a 50% reduction in the PRC income tax for the next 3 years ("tax holidays").

Any unutilised tax holidays will continue until expiry while tax holidays were deemed to start from 1 January 2008, even if the entity was not yet turning to a profit after net off its accumulated tax losses. Beijing Great Idea, Jinheng Jinsida and Troitec are in the fifth year of their tax holidays.

- (ii) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. According to the New Tax Law, from 1 January 2008, the standard corporate income tax rate for enterprises in the PRC was reduced from 33% to 25%. Further, the State Council released the Implementation Rules to the Corporate Income Tax Law on 6 December 2007 and the Notice on the Implementation Rules of the Grandfathering Relief under the Corporate Income Tax Law (Guo Fa 2007 No.39) on 26 December 2007 (collectively, the "Implementation Rules").

Under the New Tax Law and the Implementation Rules, an entity established before 16 March 2007 that was entitled to preferential tax treatments prior to the promulgation of the New Tax Law is subject to transitional tax rates commencing in 2008 ("Transitional Tax Rate") before the new corporate income tax rate of 25% applies. The Transitional Tax Rate is 18%, 20%, 22% and 24% in 2008, 2009, 2010 and 2011 respectively. In 2012 and onwards, the entity will be subject to income tax at a rate of 25%.

- (ii) Shanxi Winner and Tianjian Troitec are an "encouraged hi-tech enterprise" and entitles to reduce the tax rate to 15% from 2011 to 2013 and 2012 to 2014 respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 14. TAXATION (CONTINUED)

**(a) Income tax in the consolidated income statement represents: (Continued)**

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year.

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

**(b) Reconciliation between income tax and accounting profit at applicable tax rates**

	2012 HK\$	2011 HK\$
(Loss)/profit before taxation	(5,422,924)	15,805,430
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	(2,255,042)	4,450,537
Under provision of tax in prior years	32,574,687	235,261
Tax effect of non-deductible expenses	416,802	4,192,752
Tax effect of non-taxable revenue	(2,871,816)	(4,527,350)
Tax effect of tax concessions	1,461,800	(3,277,423)
Tax effect of unrecognised temporary differences and tax losses	4,677,594	2,473,923
Tax effect of share of profits of subsidiaries (note i)	(147,379)	806,106
<b>Taxation</b>	<b>33,856,646</b>	<b>4,353,806</b>

Note:

(i) Tax effect of share of profits of subsidiaries

Hong Kong enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% on dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. During the year ended 31 December 2012, withholding tax of HK\$147,379 has been credited to consolidated income statement (2011: charged to consolidated income statement HK\$806,106).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 15. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2012

	Fees HK\$	Salaries, allowance and benefits in kind HK\$	Discretionary bonuses HK\$	Share- based payments HK\$	Contributions to retirement benefit schemes HK\$	Total HK\$
<b>Executive directors</b>						
Mr. Li Feng	-	840,000	-	-	-	840,000
Mr. Xing Zhanwu	-	840,000	-	-	-	840,000
Mr. Yang Donglin	-	258,000	-	-	-	258,000
Mr. Foo Tin Chung, Victor	-	741,000	-	-	13,750	754,750
<b>Non-executive directors</b>						
Mr. Li Hong	210,000	-	-	-	-	210,000
<b>Independent non-executive directors</b>						
Mr. Huang Shilin (passed away on 12 November 2012)	66,670	-	-	-	-	66,670
Mr. Zhu Tong	80,004	-	-	-	-	80,004
Mr. Hui Hung Kwan	120,000	-	-	-	-	120,000
Mr. Chen Li Zhou (appointed on 15 November 2012)	13,334	-	-	-	-	13,334
<b>Total</b>	<b>490,008</b>	<b>2,679,000</b>	<b>-</b>	<b>-</b>	<b>13,750</b>	<b>3,182,758</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 15. DIRECTORS' REMUNERATION (CONTINUED)

Details of directors' remuneration are as follows: (Continued)

Year ended 31 December 2011

	Fees HK\$	Salaries, allowance and benefits in kind HK\$	Discretionary bonuses HK\$	Share- based payments HK\$	Contributions to retirement benefit schemes HK\$	Total HK\$
<b>Executive directors</b>						
Mr. Li Feng	-	840,000	-	-	-	840,000
Mr. Xing Zhanwu	-	840,000	-	-	-	840,000
Mr. Yang Donglin	-	258,000	-	-	-	258,000
Mr. Foo Tin Chung, Victor	-	741,000	-	-	12,000	753,000
<b>Non-executive directors</b>						
Mr. Li Hong	210,000	-	-	-	-	210,000
<b>Independent non-executive directors</b>						
Mr. Huang Shilin	80,004	-	-	-	-	80,004
Mr. Zhu Tong	80,004	-	-	-	-	80,004
Mr. Hui Hung Kwan	120,000	-	-	-	-	120,000
<b>Total</b>	<b>490,008</b>	<b>2,679,000</b>	<b>-</b>	<b>-</b>	<b>12,000</b>	<b>3,181,008</b>

There were no amounts paid during the year to the directors in connection with their retirement from employment with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

During the years ended 31 December 2011 and 2012, the executive director of the Company, Mr. Xing Zhanwu, was also the chief executive officer of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 16. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2011: three) are directors whose emoluments are disclosed in note 15. The aggregate of the emoluments in respect of the other individual for the years ended 31 December 2011 and 2012 is as follows:

	2012 HK\$	2011 HK\$
Salaries and other emoluments	287,000	724,877
Contribution to retirement scheme	13,075	9,300
	<b>300,075</b>	<b>734,177</b>

The above individual's emoluments in 2012 were within the band of HK\$1 to HK\$1,000,000.

There were no amounts paid during the year to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

### 17. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company includes a loss of HK\$51,815,280 (2011: profit of HK\$21,031,597) which has been dealt with in the financial statements of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 18. DIVIDENDS

(a) Dividends attributable to the year

	2012 HK\$	2011 HK\$
Final dividend proposed after the end of the reporting period of 1.5 HK cents per share (2011: 1.5 HK cents per share)	7,707,733	7,707,733

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Final dividends attributable to the previous financial year, approved and paid during the year

	2012 HK\$	2011 HK\$
Final dividend in respect of the previous financial year, approved and paid during the year of 1.5 HK cents per share (2011: 1.5 HK cents per share)	7,707,733	7,707,733

### 19. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of HK\$33,571,296 (2011: profit of HK\$8,169,030) and the weighted average of 513,848,888 (2011: 513,848,888) ordinary shares in issue during the year.

(b) Diluted (loss)/earnings per share

For the years ended 31 December 2011 and 2012, diluted (loss)/earnings per share are the same as the basic (loss)/earnings per share as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2011 and 2012.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 20. FIXED ASSETS

#### The Group

	Buildings held for own use HK\$	Machinery and equipment HK\$	Motor vehicles HK\$	Office equipment HK\$	Sub-total HK\$	Interest in leasehold land held for own use under an operating leases HK\$	Total HK\$
<b>Cost:</b>							
At 1 January 2011	20,315,405	49,831,649	7,262,468	10,247,056	87,656,578	25,715,116	113,371,694
Additions	–	13,977,630	4,899,956	1,156,318	20,033,904	–	20,033,904
Transfer from construction in progress (note 21)	–	661,409	–	–	661,409	–	661,409
Exchange alignment	1,065,053	2,957,643	212,316	514,400	4,749,412	1,315,772	6,065,184
Disposals	–	(518,207)	(819,272)	(624,683)	(1,962,162)	(8,342,853)	(10,305,015)
At 31 December 2011 and 1 January 2012	21,380,458	66,910,124	11,555,468	11,293,091	111,139,141	18,688,035	129,827,176
Additions	–	6,646,829	487,937	682,185	7,816,951	–	7,816,951
Transfer from construction in progress (note 21)	–	–	–	–	–	24,320,384	24,320,384
Exchange alignment	168,761	624,273	67,514	90,411	950,959	418,641	1,369,600
Disposals	(18,519)	(170,940)	(277,723)	(13,226)	(480,408)	–	(480,408)
At 31 December 2012	21,530,700	74,010,286	11,833,196	12,052,461	119,426,643	43,427,060	162,853,703
<b>Accumulated depreciation:</b>							
At 1 January 2011	2,059,187	18,449,373	770,536	4,668,815	25,947,911	3,221,397	29,169,308
Charge for the year	994,038	5,956,981	673,751	1,373,055	8,997,825	1,091,972	10,089,797
Exchange alignment	210,628	1,291,586	91,933	255,321	1,849,468	148,241	1,997,709
Written back on disposal	–	(145,520)	(622,295)	(132,849)	(900,664)	(374,860)	(1,275,524)
At 31 December 2011 and 1 January 2012	3,263,853	25,552,420	913,925	6,164,342	35,894,540	4,086,750	39,981,290
Charge for the year	1,014,676	8,152,863	988,321	1,018,127	11,173,987	1,439,079	12,613,066
Exchange alignment	48,450	307,395	21,881	55,940	433,666	180,570	614,236
Written back on disposal	(2,222)	(67,931)	(218,602)	(4,183)	(292,938)	–	(292,938)
At 31 December 2012	4,324,757	33,944,747	1,705,525	7,234,226	47,209,255	5,706,399	52,915,654
<b>Carrying amounts:</b>							
At 31 December 2012	17,205,943	40,065,539	10,127,671	4,818,235	72,217,388	37,720,661	109,938,049
At 31 December 2011	18,116,605	41,357,704	10,641,543	5,128,749	75,244,601	14,601,285	89,845,886

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 20. FIXED ASSETS (CONTINUED)

- (a) At 31 December 2012, the Group's interests in leasehold land and buildings are held by the subsidiaries in the PRC, which represent the land use rights together with the buildings thereon situated in Shanxi and Tianjian in the PRC.

At 31 December 2011, the Group's interests in leasehold land and buildings are held by the subsidiaries in the PRC, which represent the land use rights together with the buildings thereon situated in Shanxi in the PRC.

- (b) At 31 December 2012, leasehold lands with carrying amount of HK\$37,720,661 (2011: HK\$14,601,285) are situated outside Hong Kong under medium-term leases.
- (c) At 31 December 2012, the carrying amount of leasehold land of the Group pledged for the Group's bank loans amounted to HK\$37,720,661 (2011: Nil).

### 21. CONSTRUCTION IN PROGRESS

#### The Group

	2012 HK\$	2011 HK\$
<b>Cost:</b>		
At 1 January	8,692,904	630,284
Exchange alignment	710,178	31,125
Additions	81,967,562	8,692,904
Transfer to fixed assets ( <i>note 20</i> )	(24,320,384)	(661,409)
At 31 December	67,050,260	8,692,904

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 22. INTANGIBLE ASSETS

#### The Group

	Acquired technology HK\$	Development costs HK\$	Patents HK\$	Total HK\$
<b>Cost:</b>				
At 1 January 2011	4,991,031	48,115,405	75,390,589	128,497,025
Exchange alignment	265,464	2,376,069	3,722,993	6,364,526
Additions	–	3,738,792	–	3,738,792
At 31 December 2011 and 1 January 2012	5,256,495	54,230,266	79,113,582	138,600,343
Exchange alignment	42,098	432,296	590,398	1,064,792
Additions	–	2,464,958	–	2,464,958
At 31 December 2012	5,298,593	57,127,520	79,703,980	142,130,093
<b>Accumulated amortisation:</b>				
At 1 January 2011	4,184,685	23,130,987	16,155,127	43,470,799
Exchange alignment	225,643	1,009,461	906,719	2,141,823
Charge for the year	846,167	4,215,622	4,411,842	9,473,631
At 31 December 2011 and 1 January 2012	5,256,495	28,356,070	21,473,688	55,086,253
Exchange alignment	42,098	343,964	210,672	596,734
Charge for the year	–	11,823,580	4,504,094	16,327,674
At 31 December 2012	5,298,593	40,523,614	26,188,454	72,010,661
<b>Carrying amounts:</b>				
At 31 December 2012	–	16,603,906	53,515,526	70,119,432
At 31 December 2011	–	25,874,196	57,639,894	83,514,090

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 22. INTANGIBLE ASSETS (CONTINUED)

Acquired technology comprises the following:

A non-refundable licence fee was paid to KOR Electronic Technical Consultancy Limited ("KETC") in accordance with the License and Technical Assistance Agreement signed in January 2006, pursuant to which KETC agreed to supply technical services and granted a licence to Jinheng Jinsida for use of the know-how for the production of electronic control units in the PRC. Acquired technology is amortised over the directors' estimated useful life of 5 years.

Development costs represent costs incurred to develop tailor-made safety airbag systems and engine management systems.

Patents represent the registration fee of technologies developed by Troitec Automotive Electronic Co., Ltd., which have been registered with the relevant government authorities to restrict the access of such technologies by third parties. The directors consider that the estimated useful life of the patents of Troitec Automotive Electronic Co., Ltd. to be 18 years.

Amortisation charges for the year of HK\$12,110,975 (2011: HK\$9,353,525) and HK\$4,216,699 (2011: HK\$120,106) are included in "cost of sales" and "research and development expenses" respectively.

### 23. GOODWILL

#### The Group

	2012 HK\$	2011 HK\$
At 1 January	5,297,450	5,048,158
Exchange alignment	39,534	249,292
At 31 December	5,336,984	5,297,450

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 23. GOODWILL (CONTINUED)

#### Impairment tests for cash-generating units containing goodwill

Goodwill acquired has been allocated to the cash generating unit ("CGU") of the single operating segment "Production and sales of automotive related products".

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are based on value-in-use calculations which is determined by the discounted cash flow method. The data from the Group's detailed planning is used to project cash flows of the subsidiaries (cash generating units) to which the goodwill related for 1 to 5 years ending 31 December 2013 to 2017. For the years following the detailed planning period, the assumed growth rates with range from 12% to 16% are used which comply with general expectations for the relevant CGU. The present value of cash flows is calculated by discount rates of 15.56%. The gross profit margin is approximately of 25%.

Management determined the budgeted gross profit margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

The recoverable amounts of the CGU are higher than their carrying amounts based on value-in-use calculations. Accordingly, no impairment loss on goodwill is recognised in the consolidated income statement.

### 24. INVESTMENTS IN SUBSIDIARIES

#### The Company

	2012 HK\$	2011 HK\$
Unlisted shares, at cost	37,265,316	37,265,316

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 24. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries as at 31 December 2012 are as follows:

Name of company	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities and place of operation
			Group's effective interest %	Held by the Company %	Held by subsidiary %	
Shenyang Jinheng Jinsida Automotive Electronic Co., Ltd. ("Jinheng Jinsida")	The PRC, limited liability company	HK\$25,500,000	100	–	100	Production and sales of automotive electronic products in the PRC
Jinheng Automotive Electronic (Hong Kong) Limited ("Jinheng Electronic HK")	Hong Kong, limited liability company	HK\$100	100	–	100	Investment holding in Hong Kong
Great Idea Group Limited ("Great Idea")	Hong Kong, limited liability company	HK\$1	100	–	100	Investment holding in Hong Kong
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Ltd. ("Beijing Great Idea")	The PRC, limited liability company	HK\$130,000,000	100	–	100	Production and sales of automotive Electronic parts in the PRC
Jinheng Engine Limited ("Jinheng Engine")	British Virgin Islands, limited liability company	US\$1	100	100	–	Investment holding in Hong Kong
Jay Trumps Investments Limited ("Jay Trumps")	British Virgin Islands, limited liability company	US\$100	100	100	–	Trading of automotive spare parts in the PRC
Jinheng Automotive Electronic (BVI) Limited ("Jinheng Electronic BVI")	British Virgin Islands, limited liability company	US\$1	100	100	–	Investment holding in Hong Kong
Auto Full International Limited ("Auto Full")	Hong Kong, limited liability company	HK\$100	100	–	100	Investment holding in Hong Kong
Jinheng EMS (BVI) Limited ("Jinheng EMS (BVI)")	British Virgin Islands, limited liability company	US\$1	100	–	100	Investment holding in Hong Kong
Smooth Ever Limited ("Smooth Ever")	British Virgin Islands, limited liability company	US\$1	100	100	–	Investment holding in Hong Kong

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 24. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities and place of operation
			Group's effective interest %	Held by the Company %	Held by subsidiary %	
First Able Group Limited ("First Able")	Hong Kong, limited liability company	HK\$1	100	–	100	Investment holding in Hong Kong
Honest Bright Group Limited ("Honest Bright")	British Virgin Islands, limited liability company	US\$1,000	51.2	–	51.2	Investment holding in Hong Kong
Properline Investments Limited ("Properline")	Hong Kong, limited liability company	HK\$1	51.2	–	51.2	Investment holding in Hong Kong
Sure Lucky Investments Limited ("Sure Lucky")	Hong Kong, limited liability company	HK\$1	51.2	–	51.2	Investment holding in Hong Kong
Troitec Automotive Electronic Co., Ltd. ("Troitec")	The PRC, limited liability company	RMB64,600,000	51.2	–	51.2	Production and sales of automotive components in the PRC
Tianjian Troitec Automotive Electronics Co., Ltd. ("Tianjian Troitec")*	The PRC, limited liability company	RMB50,000,000	41.0	–	41.0	Production and sales of automotive components in the PRC
Tai Tong Investments Limited ("Tai Tong")	British Virgin Islands, limited liability company	US\$3	100	100	–	Investment holding in Hong Kong
Harvest Full International Limited ("Harvest Full")	Hong Kong, limited liability company	HK\$1	100	–	100	Investment holding in Hong Kong
Shiny Bright Holdings Limited ("Shiny Bright")	British Virgin Islands, limited liability company	US\$77,753	51.2	–	51.2	Investment holding in Hong Kong
Shanxi Winner Auto-Parts Limited ("Shanxi Winner")	The PRC, limited liability company	RMB30,040,000	60	–	60	Production and sales of automotive components in the PRC
Winner Investment Limited ("Winner Investment")	Hong Kong, limited liability company	HK\$10,000	100	–	100	Investment holding in Hong Kong

Note:

The Group is able to constitute control over Tianjian Troitec because it has the power to appoint four directors out of the five directors of that company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 25. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2012 HK\$	2011 HK\$
Share of net assets	–	33,199,100
Amount due to a jointly controlled entity	–	(210,475)
Goodwill	–	17,816,774
	–	50,805,399
Less: Transfer to the asset classified as held for sale ( <i>note 31</i> )	–	(50,805,399)
	–	–

During the year ended 31 December 2011, the following Group's interest in jointly control entity was transferred to the asset classified as held for sale:

Name of jointly controlled entity	Place of incorporation and kind of legal entity	Particulars of registered and paid up capital	Proportion of ownership interest			Principal activities and place of operation
			Group's effective interest %	Held by the Company %	Held by subsidiary %	
YanTai Vast Co., Ltd. ("YanTai Vast")	The PRC, limited liability company	RMB40,000,000	50	–	50	Manufacture and sales of cylinder liners and spare parts of automobile engines in the PRC

Summary financial information in respect of the Group's effective interest on jointly controlled entities before transferred to the asset classified as held for sale:

	2012 HK\$	2011 HK\$
Non-current assets	–	40,150,539
Current assets	–	100,735,902
Non-current liabilities	–	(3,881,179)
Current liabilities	–	(103,806,162)
Net assets	–	33,199,100
Income	–	64,715,132
Expenses	–	(64,900,892)
Loss for the year	–	(185,760)
Other comprehensive income, net of income tax	–	1,454,586



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current tax payable in the consolidated statement of financial position represents:

#### The Group

	2012 HK\$	2011 HK\$
At 1 January	556,846	183,200
Provision for PRC income tax for the year (note 14)	1,366,373	2,584,671
Under provision for PRC enterprise income tax in prior year (note 14)	411,921	–
Income tax in relation to disposal of business (note 14)	32,162,766	–
Income tax paid in relation to disposal of business	(32,162,766)	–
PRC income tax paid	(1,955,599)	(2,211,025)
At 31 December	379,541	556,846

(b) Deferred tax (assets)/liabilities recognised

#### The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Development costs HK\$	Acquired technology and patents HK\$	Fixed assets HK\$	Tax losses HK\$	Unremitted earnings HK\$	Others HK\$	Total HK\$
At 1 January 2011	6,844,498	14,808,866	1,707,425	(7,265,766)	889,772	1,279,818	18,264,613
Charged/(credit) to consolidated income statement (note 14)	(869,270)	(551,481)	(81,919)	639,307	806,106	1,826,392	1,769,135
Exchange alignment	384,024	731,302	93,589	(338,152)	–	61,047	931,810
At 31 December 2011 and 1 January 2012	6,359,252	14,988,687	1,719,095	(6,964,611)	1,695,878	3,167,257	20,965,558
Charged/(credit) to consolidated income statement (note 14)	(1,981,777)	(563,012)	(24,117)	2,356,105	(147,379)	275,766	(84,414)
Exchange alignment	(29,126)	667,450	78,383	(11,864)	–	71,751	776,594
At 31 December 2012	4,348,349	15,093,125	1,773,361	(4,620,370)	1,548,499	3,514,774	21,657,738

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 26. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

**(b) Deferred tax (assets)/liabilities recognised (Continued)**

Others represent temporary differences arising from different expense recognition criteria between accounting and tax basis.

	2012 HK\$	2011 HK\$
Net deferred tax liabilities recognised on the statement of financial position	21,657,738	20,965,558

**(c) Deferred tax assets not recognised**

In accordance with the accounting policy set out in note 3, the Group has not recognised deferred tax assets in respect of cumulative tax loss of HK\$73,018,604 (2011: HK\$77,248,688) as it is not probable the future taxable profits against which the loss can be utilised will be available in relevant tax jurisdiction and entity. The tax loss will expire in the coming two to five years (2011: three to five years).

There were no unrecognised deferred taxation for the Company as at 31 December 2012 and 2011.

### 27. INVENTORIES

	The Group	
	2012 HK\$	2011 HK\$
Raw materials	25,619,538	26,999,023
Work-in-progress	2,385,515	6,093,535
Finished goods	12,503,455	10,786,236
Spare parts and consumables	2,051,300	1,592,114
	42,559,808	45,470,908

The amount of inventories recognised as an expense amounted to HK\$175,381,215 during the year ended 31 December 2012 (2011: HK\$182,702,085).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 28. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$
Trade receivables	93,976,265	135,303,930	–	–
Less: allowance for doubtful debts	(432,162)	(1,128,689)	–	–
	<b>93,544,103</b>	134,175,241	–	–
Bills receivable	43,953,714	38,000,782	–	–
	<b>137,497,817</b>	172,176,023	–	–
Amounts due from subsidiaries	–	–	522,551,687	245,728,757
Promissory note receivables	–	385,635,311	–	385,635,311
Deposits and prepayments	21,836,014	6,256,884	10,328,250	–
Other receivables	23,047,952	17,741,115	–	1,681,210
	<b>182,381,783</b>	581,809,333	<b>532,879,937</b>	633,045,278

The amounts due from subsidiaries are unsecured, interest free and receivable on demand.

The Company and the promissory note issuer (the “Note Issuer”) entered into a deed of modification, pursuant to which the Company and the Note Issuer have conditionally agreed to amend the existing terms of the promissory note, including the inclusion of interest rate (bearing no interest amount to 8% per annum) and the extension of maturity date (being 12 March 2011 extend to 12 June 2012), with effect from the 12 March 2011. As at 31 December 2011, the promissory note receivables are interest-bearing at the rate of 8% per annum accrued daily on the outstanding principal amount on 365-day year basis (2012: Nil) and mature on 12 June 2012. The promissory note is secured by entire issued share capital of Jinheng (BVI) Limited.

At 31 December 2012, HK\$12,773,632 (2011: HK\$8,780,580) of trade and bill receivables were pledged to a bank to secure short-term bank loans as set out in note 33 to the consolidated financial statement.

All of the trade and other receivables (including the amounts due from subsidiaries) are expected to be recovered within one year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 28. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

#### (a) Aging analysis

The aging analysis of trade receivables, based on the invoice date, and net of allowance for doubtful debts, is as follows:

	The Group	
	2012 HK\$	2011 HK\$
Within 3 months	73,033,908	112,423,075
Over 3 months but less than 6 months	7,847,824	13,166,757
Over 6 months but less than 12 months	7,772,641	8,585,409
Over 12 months	4,889,730	–
	<b>93,544,103</b>	<b>134,175,241</b>

Trade receivables and bills receivables are due within 90 to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 5.

#### (b) Impairment of trade receivables and bills receivable

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The aging analysis of the Group's trade receivables which are impaired is presented as follows:

	The Group	
	2012 HK\$	2011 HK\$
Overdue by:		
Over 12 months	432,162	1,128,689

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 28. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

#### (b) Impairment of trade receivables and bills receivable (continued)

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group	
	2012 HK\$	2011 HK\$
At 1 January	1,128,689	1,533,159
Impairment loss recognised/(reversed)	(696,527)	(404,470)
At 31 December	432,162	1,128,689

At 31 December 2012, the Group's trade receivables of HK\$432,162 (2011: HK\$1,128,689) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties. Consequently, specific allowances for doubtful debts of HK\$432,162 (2011: HK\$1,128,689) were recognised. The Group does not hold any collateral over these balances.

#### (c) Trade receivables that are not impaired

The aging analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2012 HK\$	2011 HK\$
Neither past due nor impaired	73,033,908	112,423,076
Overdue by:		
Less than 3 month	7,847,824	13,166,757
3 to 12 month	7,772,641	8,585,408
More than 12 months	4,889,730	–
	20,510,195	21,752,165
Total	93,544,103	134,175,241

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 28. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

#### (c) Trade receivables that are not impaired (continued)

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

### 29. LOAN RECEIVABLE

At 31 December 2012, a loan of HK\$11,000,400 (2011: HK\$11,000,400) was advanced to a minority shareholder of Honest Bright. The loan receivable carries interest at 2.5% (2011: 2.5%) per annum and is recoverable on demand. The loan receivable is secured by the 48.8% (2011: 48.8%) equity interests in Honest Bright held by this minority shareholder.

### 30. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2012 HK\$	2011 HK\$	2012 HK\$	2011 HK\$
Cash and cash equivalents in the statement of financial position and statement of cash flows	259,974,508	45,401,132	52,085,238	18,839,648

Cash and cash equivalents of the Group of HK\$34,473,009 (2011: HK\$10,473,125) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

### 31. ASSET CLASSIFIED AS HELD FOR SALE

	The Group	
	2012 HK\$	2011 HK\$
Asset related to interests in jointly controlled entity	–	25,176,074

Note:

On 28 December 2011, the Group entered into sale and purchase agreement with independent third parties to disposal of its 50% equity interests of Yantai Vast for cash consideration of RMB20,600,000 (equivalent to approximately of HK\$25,432,000). Impairment loss of HK\$25,629,325 was recognised on reclassification of the interests in jointly controlled entity to asset classified as held for sale during the year ended 31 December 2011. The disposal was completed on 27 April 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 32. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$
Trade payables	48,195,090	69,452,194	–	–
Amounts due to subsidiaries	–	–	4,423,215	6,063,872
Other payables and accruals	34,579,562	51,535,861	910,584	6,364,025
	<b>82,774,652</b>	<b>120,988,055</b>	<b>5,333,799</b>	<b>12,427,897</b>

At 31 December 2012, included in other payables and accruals are amount due to a related company of HK\$10,000,000 (2011: HK\$10,000,000) (see note 42 (c)).

At 31 December 2012, included in other payables are deferred income of HK\$815,310 (2011: HK\$558,445), HK\$3,047,264 (2011: HK\$2,951,807) and HK\$447,761 (2011: HK\$6,457,831) related to government grant received for subsidising the construction of production plants and product development for subsidiaries in Beijing, Shanxi and Tianjian respectively, the PRC.

The amounts due to subsidiaries were unsecured, interest free and repayable on demand.

All of the trade and other payables are expected to be settled within one year.

An aging analysis of trade payables is as follows:

	The Group	
	2012	2011
	HK\$	HK\$
Within 3 months	20,067,348	57,147,234
Over 3 months but less than 6 months	20,404,972	6,805,716
Over 6 months but less than 12 months	4,396,906	963,589
Over 1 year	3,325,864	4,535,655
	<b>48,195,090</b>	<b>69,452,194</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 33. BANK LOANS

The bank loans are repayable as follows:

	The Group	
	2012 HK\$	2011 HK\$
<b>Current</b>		
Short term bank loans:		
– secured (notes (a) and (b))	43,868,159	20,456,790
– unsecured (note (c))	–	16,049,383
	<b>43,868,159</b>	<b>36,506,173</b>

The maturities of above bank loans are as follows:

	2012 HK\$	2011 HK\$
Carrying amount repayable:		
On demand or within one year	43,868,159	36,506,173
Less: amounts shown under current liabilities	(43,868,159)	(36,506,173)
	–	–

At 31 December 2012 and 2011, terms of bank loans were summarised as follows:

- (a) At 31 December 2012, the short-term secured bank loans of HK\$12,773,632 and HK\$8,992,537 which carry interest rate of 6.56% and 8.83% per annum respectively. At 31 December 2011, the short term bank loans of HK\$6,790,123 which carry interest rate of 5.61% per annum.

At 31 December 2012, the short term secured bank loans of HK\$9,328,358 which carry variables interest rate at lending rate of The People's Bank of China per annum

At 31 December 2012, the loan was secured by Group's certain patents and leasehold land of HK\$37,720,661 (2011: trade receivables of HK\$8,780,580).

- (b) Included in short-term secured bank loans are discounted bills with recourse of HK\$12,773,632 (2011: HK\$13,666,667) are secured by the related bills receivables.
- (c) At 31 December 2011, there was an unsecured bank loan of HK\$12,345,679 and HK\$3,703,704 carries interest at 6.56% and variables interest rate at lending rate of The People's Bank of China respectively per annum.

Further details of the Group's management of liquidity risk are set out in note 5.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 34. OTHER LOANS

At 31 December 2012, other loans of HK\$18,656,716 (2011: HK\$13,703,704) were obtained from independent third party, which are unsecured, repayable within one year and non-interest bearing.

At 31 December 2012, other loans of HK\$3,905,473 were obtained from independent third parties, which are unsecured, repayable within one year and carry interest rate of 10% per annum.

### 35. CONVERTIBLE PREFERRED SHARES

On 23 May 2008, Honest Bright, a subsidiary of the Group, agreed to sell 3,793,353 Series A-1 Preferred Shares of its subsidiary, Shiny Bright, at a consideration of RMB100,000,000 to certain investors (“the Investors”) (“the Transactions”). During the year ended 31 December 2010, RMB10,000,000 has been paid to the holders of the preferred shares to reduce the original purchase price to RMB90,000,000 with no change in any term of the preferred shares. The preferred shares are, at the option of the holder, convertible into ordinary shares of Shiny Bright at one on one basis, subject to adjustment under certain events. The holders of preferred shares are entitled to receive noncumulative dividends at the rate equal to the greater of (i) 8% per annum of the relevant purchase price of preferred shares, or (ii) the dividends which would be declared and paid on each ordinary share of Shiny Bright into which the Series A-1 Preferred Shares may then be converted. The holders of the preferred shares may under certain events elect to cause Shiny Bright to redeem the preferred shares at the purchase price plus a specified return.

During the year ended 31 December 2011, the Group has completed the acquisition of all Series A-1 Preferred Shares of Shiny Bright (the “Preferred Shares”) from the holders of the Preferred Shares at a consideration of HK\$80,572,775.

The convertible preferred shares were split into liability with embedded derivative and equity components of HK\$102,473,404 and Nil respectively upon initial recognition by recognising the liability with embedded derivative component at its fair value and attributing to the equity component of the residual amount. The liability with embedded derivative component is classified as financial liability recognised initially at fair value and the fair value is remeasured at the end of each reporting period.

The movements of convertible preferred shares during the year are as follows:

	2012 HK\$	2011 HK\$
At 1 January	–	80,572,775
Release upon purchase	–	(74,186,269)
Change in fair value	–	(6,386,506)
At 31 December	–	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 36. CONTINGENT LIABILITIES

At 31 December 2012 and 2011, the Group and the Company did not have any significant contingent liabilities.

### 37. EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the “Schemes”) organised by the relevant local government authorities in Shanxi, Beijing, Shenyang and Tianjian, whereby the Group is required to make contributions to the Schemes at rates ranging from 19% to 22% of the eligible employees’ salaries.

The Group also operates a Mandatory Provident Fund Scheme (“the MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of \$25,000. Contributions to the plan vest immediately.

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

### 38. SHARE OPTION SCHEME

The 2009 Share Option Scheme was adopted by the shareholders of the Company in the 2008 annual general meeting held on 19 June 2009 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company to a maximum of 44,350,000 shares. This share option scheme shall be valid and effective for a period of 10 years ending on 19 June 2019 after which no further options will be granted. The exercise price of options may be determined by the board at its absolute discretion but in any event will not be less than the higher of:

- (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day;
- (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five consecutive business days immediately preceding the date of grant; and
- (iii) the nominal value of a share.

No options had been granted or remained outstanding for each of the years ended 31 December 2012 and 2011.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 39. CAPITAL AND RESERVES

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital HK\$	Share premium HK\$	Capital reserve HK\$	Retained profits HK\$	Total HK\$
At 1 January 2011	5,138,489	249,722,557	–	408,537,435	663,398,481
Profit for the year	–	–	–	21,031,597	21,031,597
Dividends paid during the year	–	–	–	(7,707,733)	(7,707,733)
At 31 December 2011 and 1 January 2012	5,138,489	249,722,557	–	421,861,299	676,722,345
Loss for the year	–	–	–	(51,815,280)	(51,815,280)
Repurchase of ordinary shares	–	–	(302,640)	–	(302,640)
Dividends paid during the year	–	–	–	(7,707,733)	(7,707,733)
<b>At 31 December 2012</b>	<b>5,138,489</b>	<b>249,722,557</b>	<b>(302,640)</b>	<b>362,338,286</b>	<b>616,896,692</b>

#### (a) Share capital

(i) *Authorised and issued share capital*

	2012		2011	
	Number of shares	HK\$	Number of shares	HK\$
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	10,000,000,000	100,000,000	10,000,000,000	100,000,000
<i>Issued:</i>				
At 1 January and 31 December	513,848,888	5,138,489	513,848,888	5,138,489

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 39. CAPITAL AND RESERVES (CONTINUED)

#### (b) Nature and purpose of reserves

(i) *Share premium*

The application of the share premium account is governed by the Company Law of Cayman Islands.

(ii) *Statutory surplus reserve*

The subsidiaries in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting rules and regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of their registered capital.

(iii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies.

(iv) *Other reserve*

Other reserve of the Group comprises the following:

- the fair value of existing share of net identifiable assets of a jointly controlled entity or an associate acquired over its carrying amount of net identifiable assets of subsidiaries at date of which control is obtained by the Group;
- the excess of purchase consideration on acquisition of non-controlling interests over the carrying value of share of net assets acquired in accordance with the accounting policy adopted for subsidiaries and non-controlling interests; and
- gain on deemed disposal or partial disposal of subsidiaries where the Group's interest in a subsidiary is increased without losing control in accordance with the accounting policy adopted for subsidiaries and non-controlling interests.

#### (c) Distributability of reserves

The Company had distributable reserves of HK\$612,060,843 at 31 December 2012 (2011: HK\$671,583,856), which include the Company's share premium and retained profits. After the end of the reporting period, the directors proposed a final dividend of 1.5 HK cents per ordinary share (2011: 1.5 HK cents per ordinary share), amounting to HK\$7,707,733 (2011: HK\$7,707,733). This dividend has not been recognised as a liability at the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 39. CAPITAL AND RESERVES (CONTINUED)

#### (d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. Net debt is calculated as aggregate of bank loans, convertible notes and other loans less cash and cash equivalents. Adjusted capital comprises all components of equity and convertible preferred shares.

During year ended 31 December 2012, the Group has complied with all the externally imposed capital requirements. The Group also has a strategy to maintain the net debt-to-adjusted capital ratio at or below 60% (2011: 60%).

The net debt-to-adjusted capital ratio at 31 December 2012 was as follows:

	Note	The Group		The Company	
		2012 HK\$	2011 HK\$	2012 HK\$	2011 HK\$
Bank loans	33	43,868,159	36,506,173	–	–
Other loans	34	22,562,189	13,703,704	–	–
		66,430,348	50,209,877	–	–
Less: Cash and cash equivalents	30	(259,974,508)	(45,401,132)	(52,085,238)	(18,839,648)
Net debt		(193,544,160)	4,808,745	(52,085,238)	(18,839,648)
Total equity		668,376,217	727,618,214	616,896,692	676,722,345
Net debt-to-adjusted capital ratio		N/A	0.7%	N/A	N/A

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 40. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

During the year ended 31 December 2012, the Group acquired 35.3% equity interest in Jinheng Jinsida from a third party for a cash consideration of RMB10,550,700. The Group then increased its ownership in Jinheng Jinsida from 64.7% to 100%. The Group recognised a decrease in non-controlling interests of approximately HK\$11,234,376 and decrease in other reserve of approximately HK\$1,888,386 respectively.

### 41. COMMITMENTS AND CONTINGENCIES

- (a) Capital commitments outstanding at 31 December 2012 and 2011 not provided for in the consolidated financial statements were as follows:

	The Group	
	2012 HK\$	2011 HK\$
Contracted for property, plant and equipment but not provide for	12,251,384	5,957,633

- (b) At 31 December 2012 and 2011, the total future minimum lease payments under non-cancellable operating lease were payable as follows:

	The Group		The Company	
	2012 HK\$	2011 HK\$	2012 HK\$	2011 HK\$
Within 1 year	1,422,703	1,616,420	113,707	255,840
After 1 year but within 5 years	163,625	1,565,071	–	138,580
	1,586,328	3,181,491	113,707	394,420

The Group leases a number of properties and office equipment under operating leases for a period of 1 to 2 years (2011: 1 to 3 years).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 42. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions disclosed elsewhere in these consolidated financial statements, the Group entered into the following material related party transactions during the year.

#### (a) Recurring

	The Group	
	2012 HK\$	2011 HK\$
Sales of airbag systems or other automotive components to:		
– Jinzhou Jinheng Automotive Safety System Co., Limited (“Jinzhou Jinheng”)	–	126,836,778

The directors of the Company are of the opinion that the sales of airbag system or other automotive component to Jinzhou Jinheng were conducted in the normal course of business.

In addition, remuneration for key management personnel, including amounts paid to the Company’s directors as disclosed in note 15 and certain highest paid employee as disclosed in note 16, is as follows:

	The Group	
	2012 HK\$	2011 HK\$
Short-term employee benefits	3,456,008	3,893,885
Post-employment benefits	26,825	21,300
	<b>3,482,833</b>	3,915,185

Total remuneration is included in “staff costs” (see note 11).

#### (b) Non-recurring

During the year ended 31 December 2011, Jinheng EMS (BVI), an indirect wholly-owned subsidiary of the Company, purchased 2,028,368 Series A-1 Preferred Shares of Shiny Bright at a consideration of HK\$80,572,775, from Orchid Asia IV, L.P. and Orchid Asia IV Co-Investment, Limited, which are minority shareholders of Shiny Bright based on the enlarged issued ordinary share of Shiny Bright on an as-if-fully converted basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

### 42. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

#### (c) Amounts due to a related company

Name of a related company	The Group	
	2012 HK\$	2011 HK\$
Ever Tech Holdings Limited ("Ever Tech")	10,000,000	10,000,000

The amount due to Ever Tech is unsecured, interest free and are expected to be settled within one year. Ever Tech is a minority shareholder of Honest Bright which is a subsidiary of the Company. This amount is included in "Trade and other payables" in the consolidated statement of financial position (*see note 32*).

### 43. EVENTS AFTER THE REPORTING PERIOD

On 8 January 2013, the Group entered into a conditional sale and purchase agreement with Elmira Shipping and Trading S.A. as vendor in relation to the acquisition of property located at Unit 3507, Fortune Plaza, Building No. 3 and No. 4, No. 7 East 3rd Ring Middle Road, Chaoyang District, Beijing, the PRC at a consideration of approximately RMB26.1 million by the Group. For more details, please refer to the Company's announcement dated 8 January 2013.

### 44. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2013.



## FIVE YEARS SUMMARY

For the year ended 31 December 2012

	2008	2009	2010	2011	2012
	HK\$	HK\$	HK\$	HK\$	HK\$
<b>OPERATING RESULTS</b>					
Turnover	647,454,790	974,737,866	815,690,559	290,767,562	261,047,793
Profit/(loss) from operations	61,379,878	63,981,834	691,706,065	23,978,604	(467,839)
Finance costs	(24,590,418)	(25,741,674)	(16,237,700)	(7,987,414)	(4,955,085)
Share of profit/(loss) of jointly controlled entities	4,307,788	(788,911)	(1,050,178)	(185,760)	–
<b>Profit/(loss) before taxation</b>	<b>41,097,248</b>	<b>37,451,249</b>	<b>674,418,187</b>	<b>15,805,430</b>	<b>(5,422,924)</b>
Taxation	(8,763,162)	(8,249,830)	(11,901,712)	(4,353,806)	(33,856,646)
<b>Profit/(loss) for the year</b>	<b>32,334,086</b>	<b>29,201,419</b>	<b>662,516,475</b>	<b>11,451,624</b>	<b>(39,279,570)</b>
<b>Attributable to:</b>					
Owners of the Company	38,744,980	21,227,178	665,489,888	8,169,030	(33,571,296)
Non-controlling interests	(6,410,894)	7,974,241	(2,973,413)	3,282,594	(5,708,274)
<b>Profit/(loss) for the year</b>	<b>32,334,086</b>	<b>29,201,419</b>	<b>662,516,475</b>	<b>11,451,624</b>	<b>(39,279,570)</b>
<b>Earnings/(loss) per share</b>					
– Basic	8.77 cents	4.79 cents	1.38 dollars	1.59 cents	(6.53)cents
– Diluted	5.04 cents	4.77 cents	1.36 dollars	1.59 cents	(6.53)cents
<b>Assets and liabilities</b>					
Non-current assets	612,547,709	615,380,386	248,931,390	211,480,703	343,701,997
Net current assets/(liabilities)	(89,568,148)	563,242	476,378,000	537,103,069	346,331,958
Total assets less current liabilities	522,979,561	615,943,628	725,309,390	748,583,772	690,033,955
Non-current liabilities	(31,667,889)	(97,845,666)	(18,264,613)	(20,965,558)	(21,657,738)
<b>NET ASSETS</b>	<b>491,311,672</b>	<b>518,097,962</b>	<b>707,044,777</b>	<b>727,618,214</b>	<b>668,376,217</b>
<b>Capital and reserves</b>					
Share capital	4,435,000	4,435,000	5,138,489	5,138,489	5,138,489
Reserves	425,402,002	441,085,790	659,965,776	670,030,895	627,507,330
Total equity attributable to owners of the Company	429,837,002	445,520,790	665,104,265	675,169,384	632,645,819
Non-controlling interests	61,474,670	72,577,172	41,940,512	52,448,830	35,730,398
<b>TOTAL EQUITY</b>	<b>491,311,672</b>	<b>518,097,962</b>	<b>707,044,777</b>	<b>727,618,214</b>	<b>668,376,217</b>