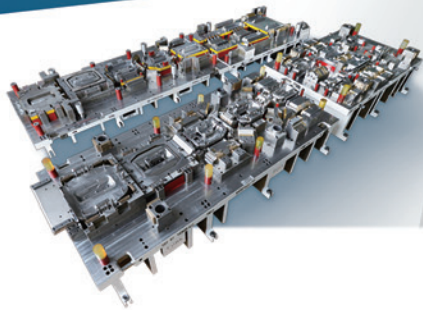


# NEW STYLE NEW START NEW JOURNEY

新格局 新起點 新征途



EVA Precision Industrial Holdings Limited  
億和精密工業控股有限公司

(Incorporated in the Cayman Islands with limited liability)  
(於開曼群島註冊成立之有限公司)

(Stock Code 股份代號: 838)

ANNUAL REPORT 2013 年報

Shenzhen (Shiyan) production base



Shenzhen (Guangming) mould development centre



Zhongshan production base



Shenzhen (Tianliao) production base



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## GROUP PROFILE

EVA Precision Industrial Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company is an investment holding company and its subsidiaries (together the “Group”) are principally engaged in the provision of precision manufacturing services in China, focusing on the production of moulds and components with high quality standard and dimensional accuracy. The Group started its business as a mould producer in 1993, and has been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 11 May 2005. Currently, the Group operates seven production facilities in Shenzhen, Suzhou, Zhongshan, Chongqing and Wuhan.

The Group is a vertically-integrated precision metal and plastic mould and component manufacturing service provider. The Group’s existing services include mainly i) design and fabrication of precision metal stamping and plastic injection moulds; ii) manufacturing of precision metal stamping and plastic injection components by using tailor-made metal stamping and plastic injection moulds; iii) lathing of metal components and iv) assembly of precision metal and plastic components manufactured by the Group into semi-finished products.

The Group’s business model is unique and different to ordinary OEMs/ODMs. Brand owners normally require the Group to jointly co-develop the relevant moulds with them right from their product development stages. Thereafter, the completed moulds would be consigned in the Group’s production plants for future mass production of components and semi-finished products. Because of the high level of skills and technologies required to design and fabricate moulds with high degree of precision and dimensional accuracies, the Group has strong pricing power for its products.

At present, a majority of the Group’s revenue is generated from serving the office automation (“OA”) equipment industry. Whilst the OA equipment industry is expected to continue providing substantial growth momentum to the Group, the Group is also making conscious effort for developing into the fast growing China domestic market, with particular attention given to the huge automotive and high end consumer electronics sector. To this end, the Group’s production facilities in Chongqing and Wuhan are destined for serving the automobile market. In addition, the Group also has a 60% owned subsidiary which engages in micro lending business in China.

## CORPORATE MILESTONE

| Year | Event  |
|------|--|
| 1993 | <p>The Group started its business through the establishment of EVA Limited, a subsidiary of the Group, in Hong Kong. The Group established its first production base in Shenzhen, the PRC in the same year. The Group started its business as a metal stamping mould manufacturer and its business was later extended to the manufacture of metal stamping components.</p>   |
| 2002 | <p>Yihe Precision Hardware (Shenzhen) Co., Ltd., a subsidiary of the Group, was accredited as one of the “300 Enterprises with Highest Growth Potential in Shenzhen” (深圳市300家最具成長性企業) and “Shenzhen Top 10 Industry Practitioner” (深圳行業10強企業) by Shenzhen Enterprises Evaluation Association (深圳市企業評價協會).</p> <p>The first factory building of the Group’s Shenzhen (Shiyan) production base with a construction area of approximately 21,000 sq.m. was completed. The Group’s production lines were moved to the Group’s Shenzhen (Shiyan) production base in the same year.</p>  |
| 2003 | <p>The second factory building of the Group’s Shenzhen (Shiyan) production base with a construction area of approximately 19,000 sq.m. was completed.</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. was awarded with the ISO9001:2000 certification in respect of quality management system and ISO14001:1996 certification in respect of environmental management system by the BSI Group. It was also accredited as:</p> <ul style="list-style-type: none"> <li>– “Hi-Tech Enterprise in Shenzhen” (深圳市高新技術企業) by Shenzhen Science and Technology Bureau (深圳市科學技術局);</li> <li>– “Reliable and Credible Enterprise” (守合同重信用企業) by Shenzhen Municipal Administration for Industry and Commerce (深圳市工商行政管理局); and</li> <li>– “Quality Assurance Honourable Enterprise in the PRC (Brand)” (中國質量承諾誠信經營企業(品牌)) by Quality Assurance Centre for China’s Light Industry Products (中國中輕產品質量保障中心) and Shenzhen Enterprises Evaluation Association (深圳市企業評價協會).</li> </ul> |

## CORPORATE MILESTONE

| Year | Event   |
|------|---|
| 2004 | <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. was granted with the “2003 Excellent Supplier” (二零零三年度優秀供應商) award by Toshiba and “Certificate of Green Activity” by Canon. EVA Limited was granted with “Very Valuable Vendor (Improvement) Award” (VVV獎－進步獎) by Canon.</p> <p>The Group expanded into plastic mould and component manufacturing business through the establishment of EVA Plastic Mould Products (HK) Limited in Hong Kong and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. in Shenzhen. The first production line of the Group’s plastic production line was established and located in the second factory building of the Group’s Shenzhen (Shiyan) production base for trial production.</p>  |
| 2005 | <p>EVA Precision Industrial Holdings Limited was listed on the Main Board of The Stock Exchange of Hong Kong Limited.</p> <p>EVA Limited was granted with “Very Valuable Vendor (2004 Best Assistance) Award” (VVV獎－二零零四年最佳協力獎) and “Very Valuable Vendor (Improvement) Award” (VVV獎－進步獎) by Canon, and “Acclamation Certificate” (表彰狀) by Konica Minolta. Yihe Precision Hardware (Shenzhen) Co., Ltd. was granted with an approval certificate for chemical substances management (CMS) standard by Ricoh. EVA Precision Industrial Holdings Limited was granted with a gratitude trophy by Fuji Xerox.</p> <p>The construction of the third factory building of the Group’s Shenzhen (Shiyan) production base was completed and thereafter the Group’s plastic production line was moved to the third factory building of the Group’s Shenzhen (Shiyan) production base and commenced commercial production.</p> <p>The Group started to establish a production base in Suzhou through the establishment of EVA Precision Industrial (Suzhou) Limited.</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. was granted with “Shenzhen Most Respected and Influential Enterprise” (深圳最受尊敬(最具影響力)企業) award by Shenzhen Enterprises Evaluation Association (深圳市企業評價協會).</p> |

## CORPORATE MILESTONE

| Year | Event   |
|------|---|
| 2006 | <p>The construction of phase one of the Group's production base in Suzhou was completed and commenced production.</p> <p>EVA Limited received "2006 First Round Southern China Quality Very Valuable Vendor Award" (VVV獎—二零零六年第一回華南地區品質準優秀獎) and "Very Valuable Vendor (Remarkable Effort) Award" (VVV獎—敢鬪獎) from Canon.</p> <p>EVA Precision Industrial Holdings Limited and Yihe Precision Hardware (Shenzhen) Co., Ltd. received an approval certificate for chemical substances management (CMS) standard from Epson.</p> <p>Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. and Okuno Precision Metal Co., Limited received an approval certificate for chemical substances management (CMS) standard from Ricoh.</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. received "High and New Technology Project" (高新技術項目) accreditation from Shenzhen Technology and Information Bureau (深圳市科技和信息局) and was accredited as "Enterprise with Highest Growth Potential in Human Resources" (深圳市最具人材成長價值企業) by Shenzhen Human Resources Exchange Services Centre (深圳市人材交流服務中心) and Shenzhen Enterprises Evaluation Association (深圳市企業評價協會).</p> <p>EVA Precision Industrial Holdings Limited was accredited as "Enterprise with Highest Growth Potential in China" (中國最具成長性企業) by China Enterprise Confederation (中國企業聯合會) and China Enterprise Directors Association (中國企業家協會), "Most Creative Enterprise in China" (中國最具創新力企業) by China Marketing Association (中國市場學會) and China Enterprises News Society (中國企業報社) and "2006 Shenzhen Top 100 Enterprise" (二零零六年深圳百強企業) by Shenzhen Enterprise Confederation (深圳市企業聯合會) and Shenzhen Economic Daily (深圳商報).</p> <p>EVA Precision Industrial Holdings Limited was admitted to the "Database of Outstanding Enterprises in China" (中國優秀企業數據庫) by Chinese Enterprises Confederation (中國企業聯合會).</p> <p>EVA Precision Industrial Holdings Limited and its subsidiaries – Yihe Precision Hardware (Shenzhen) Co., Ltd., Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd., Okuno Precision Metal Co., Limited and EVA Precision Industrial (Suzhou) Limited jointly obtained ISO9001:2000 integrated certification from the BSI Group.</p> <p>Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. was awarded with TS16949:2002 certification in respect of the production of automobile parts by the BSI Group.</p> |

## CORPORATE MILESTONE

| Year | Event  |
|------|--|
| 2007 | <p>EVA Limited and Yihe Precision Hardware (Shenzhen) Co., Ltd. received “Encouragement Award”(鼓勵獎), “2006 Supplier Special Improvement Award” (二零零六年供應商特別改善獎) and “Environment Friendly Corporate Certificate” (環保企業証書) from Fuji Xerox.</p> <p>EVA Limited received “2007 Second Round Southern China Quality Very Valuable Vendor Award” (VVV獎—二零零七年第二回華南地區品質準優秀獎) from Canon.</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. received “P-DOAZ (Part-Defect on Arrival Zero) Award” (零部件零缺陷獎) and “Environmental Collaboration Program Certificate”(環保系統証書) from Konica Minolta.</p> <p>EVA Precision Industrial Holdings Limited was accredited as “2007 China’s Manufacturing Top 500” (二零零七年中國製造500強) by World Company Compete Skill Laboratory (世界企業競爭力實驗室), China Industrial and Economic Academy (中國工業經濟研究院) and World Production Review China’s Editorial Office (全球製造評論中文版編輯部).</p> <p>EVA Precision Industrial Holdings Limited received “Corporate Citizen – Responsibility for Society” (企業公民—責任獻社會) award from China Social Welfare Association – China Committee of Corporate Citizenship (中國社會工作協會企業公民委員會).</p> <p>EVA Precision Industrial Holdings Limited received “Best Under a Billion” award from Forbes (Asia) magazine.</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. was accredited as “Shenzhen Most Influential Enterprise” (深圳最具影響力企業) by Shenzhen Enterprises Evaluation Association (深圳市企業評價協會).</p> <p>EVA Precision Industrial Holdings Limited and its subsidiaries – Yihe Precision Hardware (Shenzhen) Co., Ltd., Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd., Okuno Precision Metal Co., Limited and EVA Precision Industrial (Suzhou) Limited jointly obtained ISO14001:2004 integrated certification from the BSI Group.</p> |

## CORPORATE MILESTONE

| Year | Event   |
|------|---|
| 2008 | <p>The Group's mould development centre in Shenzhen commenced commercial operations in the fourth quarter of 2008.</p> <p>EVA Precision Industrial Holdings Limited was accredited as one of the "Top 50 Listed Companies with Highest Investment Value in Guangdong Province" (廣東最具投資價值上市公司50強) and "Top 100 Manufacturing Enterprises in Guangdong Province" (廣東省製造企業100強) by Guangdong Enterprises Confederation (廣東省企業聯合會) and Guangdong Entrepreneurs Association (廣東省企業家協會).</p> <p>EVA Precision Industrial (Suzhou) Limited was accredited as an "Outstanding and Advanced Enterprise" (先進單位) by Suzhou Mould Industry Association (蘇州市模具行業協會).</p> <p>EVA Precision Industrial Holdings Limited and EVA Limited received the certificates of honour for donation from Shenzhen Machinery Association (深圳市機械行業協會) and the Hong Kong Mould and Die Technology Association (香港模具科技協會) respectively for their donations and efforts dedicated to the recovery work of the Sichuan Wenchuan Earthquake.</p> <p>Mr. Zhang Hwo Jie, chairman of the Group, was granted with the "Young Industrialist Award of Hong Kong" (香港青年工業家獎) by the Federation of Hong Kong Industries (香港工業總會).</p> |



## CORPORATE MILESTONE

| Year | Event  |
|------|--|
| 2009 | <p>EVA Plastic Mould Products (HK) Limited and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. received “2008 Golden Quality Award” (2008年度品質金獎) from Konica Minolta.</p> <p>EVA Limited received “2008 E (Environment) Q (Quality) C (Cost) D (Delivery) Remarkable Contribution Award” (二零零八年度E (環境) Q (品質) C (成本) D (納期) 顯著貢獻獎) from Canon.</p> <p>EVA Precision Industrial Holdings Limited received “Distinguished Supplier Award” (傑出供應商獎) from General Electric.</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. was granted with “The First Supplier QCC Forum – Second and Third Class Awards” (第一回供應商QCC發表會二等獎及三等獎) respectively by Kyocera Mita (京瓷美達).</p> <p>EVA Precision Industrial Holdings Limited was also granted with:</p> <ul style="list-style-type: none"> <li>– “Outstanding Enterprise in China Machinery Industry” (中國機械工業優秀企業) award and “Most Influential Brand Name in China Machinery Industry” (中國機械工業最具影響力的品牌) award by China Machinery Industry Federation (中國機械工業聯合會);</li> <li>– “Employee Care Award” (關愛員工獎) by Golden Bee CSR China Honour Roll (金蜜蜂企業社會責任中國榜);</li> <li>– “Great Love in Guangming” (大愛光明) award by the charity committee of Shenzhen Guangming New District;</li> <li>– “Hong Kong Outstanding Enterprises” (香港傑出企業) award by Hong Kong Economic Digest (香港經濟一週); and</li> <li>– “Chairman Enterprise” (會長企業) accreditation by Shenzhen Machinery Association (深圳市機械行業協會)</li> </ul> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. was recognised as a “National High and New Technology Enterprise” (國家級高新技術企業).</p> <p>EVA Precision Industrial (Suzhou) Limited was accredited as a “Star Overseas Chinese Enterprise in Jiangsu Province” (江蘇省明星僑資企業) by the Overseas Chinese Office of the People’s Government of Jiangsu Province (江蘇省人民政府僑務辦公室).</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. was accredited as a “National Excellent Taxpaying and Turnover Performance Enterprise with Foreign Investment” (全國外商投資雙優企業) by China Association of Enterprises with Foreign Investment (中國外商投資企業協會) and Shenzhen Association of Enterprises with Foreign Investment (深圳外商投資企業協會).</p> |

## CORPORATE MILESTONE

| Year | Event  |
|------|--|
| 2010 | <p>The construction of the Group's production base in Zhongshan was completed by end of 2010 and commenced production.</p> <p>EVA Limited received "2009 E (Environment) Q (Quality) C (Cost) D (Delivery) Remarkable Contribution Award" (二零零九年度E(環境) Q(品質) C(成本) D(納期) 顯著貢獻獎) from Canon.</p> <p>EVA Precision Industrial Holdings Limited received:</p> <ul style="list-style-type: none"> <li>- "2009 Shenzhen Top 100 Enterprise" (二零零九年深圳百強企業) accreditation from Shenzhen Enterprise Confederation (深圳市企業聯合會) and Shenzhen Economic Daily (深圳商報);</li> <li>- "Outstanding Culture Building Organisation in Shenzhen" (深圳企業文化建設優秀單位) accreditation from Shenzhen Enterprise Confederation (深圳市企業聯合會) and Shenzhen Media Group (深圳廣播電影電視集團);</li> <li>- "Charity Enterprise Award" (慈善企業獎) from the People's Government of Baoan District, Shenzhen (深圳市寶安區人民政府);</li> <li>- Banner of honour for student sponsorship (助學錦旗) from the School of Mechanical and Electrical Engineering, Shenzhen Polytechnic (深圳職業技術學院機電工程學院);</li> <li>- Certificates of honour for donation from the management committee of Shiyan Town, Baoan District, Shenzhen (寶安區石岩街道辦事處) and the Hong Kong Mould and Die Technology Association (香港模具科技協會) for its donations and efforts dedicated to the recovery work of the Qinghai Yushu Earthquake and the Gansu Zhouqu Landslides; and</li> <li>- "Vice Chairman Enterprise" (副會長企業) accreditation by Shenzhen General Chamber of Commerce (深圳市商業聯合會).</li> </ul> |

## CORPORATE MILESTONE

| Year                    | Event  |
|-------------------------|--|
| <b>2010</b><br>(Cont'd) | <p>Shenzhen EVA Mould Manufacturing Limited was recognised as a qualified supplier (合格供應商) and was granted with “Special Contribution Award” (特殊貢獻獎) by Midea (美的).</p> <p>EVA Precision Industrial Holdings Limited and Yihe Precision Hardware (Shenzhen) Co., Ltd. received “2009 Quality Improvement Award” (二零零九年度品質改善獎) from Konica Minolta.</p> <p>EVA Precision Industrial Holdings Limited received “Product Assembly Service Certification” (成品組裝資格認證) from Kyocera Mita.</p> <p>Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. received “Environmental Collaboration Program Certificate” (環保系統證書) from Konica Minolta.</p> <p>Shenzhen EVA Mould Manufacturing Limited received “Precision Moulds First Class Award” (精模獎 – 一等獎) from China Die and Mould Industry Association (中國模具工業協會).</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. received certificate of honour for donation (捐贈榮譽證書) from Shenzhen Machinery Association (深圳市機械行業協會) and Shenzhen Youth Development Foundation (深圳青少年發展基金會).</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. was accredited as “Shenzhen Municipal Research and Development Centre” (深圳市市級研究開發中心) by Shenzhen Science, Technology, Industry, Trade and Information Committee (深圳市科技工貿和信息化委員會), Shenzhen Development and Reform Commission (深圳市發展改革委員會), Shenzhen Finance Bureau (深圳市財政委員會), National Tax Bureau of Shenzhen (深圳市國家稅務局) and Municipal Tax Bureau of Shenzhen (深圳市地方稅務局).</p> <p>Shenzhen EVA Mould Manufacturing Limited was awarded with ISO/TS16949:2009 certification in respect of the production of automobile parts by the BSI Group.</p> |

## CORPORATE MILESTONE

| Year | Event   |
|------|---|
| 2011 | <p>EVA Precision Industrial Holdings Limited acquired Chongqing Digidie Auto Body Ltd. (重慶數碼模車身模具有限公司) in mid 2011 as part of its strategic plan to expand into the huge China automotive sector.</p> <p>As a wholly-owned subsidiary of the Group, Digidie Stamping Technology (Wuhan) Limited (數碼模沖壓技術(武漢)有限公司) was established in September 2011, targeting at serving international and domestic automobile brand names located in Wuhan and its adjacent cities.</p> <p>The construction of the fourth factory building of the Group's Shenzhen (Shiyan) production base was completed.</p> <p>EVA Precision Industrial Holdings Limited received:</p> <ul style="list-style-type: none"> <li>- "2010 Golden Quality Award" (二零一零年度品質金獎) from Konica Minolta;</li> <li>- "Premiere Partner (2011) Award" (卓越合作夥伴(二零一一年)獎) from Fuji Xerox;</li> <li>- "Qualification Certificate in Factory Monitoring Standard for the Management of Special Chemical Substances" (特定化學物質管理工場監察基準合格證) from Brother;</li> <li>- "2009/2010 Pearl River Delta Environmental Award" (二零零九年／二零一零年珠三角環保大獎) from the Federation of Hong Kong Industries and Hang Seng Bank;</li> <li>- OHSAS18001:2007 certificate in occupational health and safety management system from the BSI Group; and</li> <li>- "2011/2012 Reputable Enterprise in Guangdong Province" (二零一一年／二零一二年廣東省著名企業) award from China Quality Brand Evaluation Centre (中國質量品牌測評中心), the Guangdong Branch of the Society of Social Investigation of China (中國社會調查所廣東分所) and CSA Credit Appraisal Centre (中品評(北京)品牌管理顧問中心).</li> </ul> |

## CORPORATE MILESTONE

| Year                    | Event   |
|-------------------------|---|
| <b>2011</b><br>(Cont'd) | <p>EVA Precision Industrial Holdings Limited entered into joint development programs and became the education, research and production practice bases of Huazhong University of Science and Technology (華中科技大學), Shenzhen Polytechnic (深圳職業技術學院) and Henan University of Technology (河南工業大學). It was also recognised as one of the "100 Model Enterprises in Baoan District for Vocational Training" (寶安區百家企業培訓示範基地) by Shenzhen Baoan District Vocational Abilities Development Bureau (深圳市寶安區職業能力開發局).</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd., Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. and EVA Precision Industrial (Suzhou) Limited received contribution awards for "P-DOAZ (Part-Defect on Arrival Zero)" activities (零部件零缺陷活動) from Konica Minolta.</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. was granted with "The Third Supplier QCC Forum – First Class Award" (第三屆供應商QCC發表會一等獎) by Kyocera Mita. It also received "Certificate of Honor for Donation" (捐贈榮譽證書) and was accredited as "Charity Enterprise" (愛心企業) by Shenzhen Machinery Association (深圳市機械行業協會) and Shenzhen Youth Development Foundation (深圳市青少年發展基金會).</p> <p>Chongqing Digidie Auto Body Ltd. received "China Businessmen Contribution Award" (華商貢獻獎) from The United Front Bureau of Chongqing Municipal Committee of the Communist Party of China (中共重慶市委統戰部), Chongqing Municipal Commission of Economy and Information (重慶市經濟和信息化委員會) and Chongqing Daily (重慶日報報業集團). It was also accredited as "Executive Council Member Enterprise" (常務理事單位) by Chongqing Metal Forming Industry Association (重慶鑄造行業協會).</p> <p>Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. and EVA Precision Industrial (Suzhou) Limited were recognised as "National High and New Technology Enterprises" (國家級高新技術企業).</p> |

## CORPORATE MILESTONE

| Year | Event   |
|------|---|
| 2012 | <p>The construction of the Group's Shenzhen (Tianliao) production base was completed.</p> <p>EVA Precision Industrial (Suzhou) Limited received "2011 Special Contribution Award" (二零一一年度特別貢獻獎) from Canon. It was also granted with "2010-2011 Taxpaying Credibility - Grade A" (二零一零至二零一一年度A級納稅信用等級) certificate by National Tax Bureau of Suzhou (蘇州市國家稅務局) and Municipal Tax Bureau of Suzhou (蘇州地方稅務局).</p> <p>EVA Precision Industrial Holdings Limited received:</p> <ul style="list-style-type: none"> <li>- "AAA Credit Rating Enterprise in China" (中國AAA級信用企業) accreditation from China Cooperative Trade Enterprises Association (中國合作貿易企業協會), China Enterprise Reform and Development Society (中國企業改革與發展研究會) and China Enterprise Credit Evaluation Centre (中國企業信用評價中心);</li> <li>- "2011 Model Enterprise of Trustworthiness in Guangdong Province" (二零一一年廣東省誠信示範企業) accreditation from Guangdong Enterprises Confederation (廣東省企業聯合會) and Guangdong Entrepreneurs Association (廣東省企業家協會);</li> <li>- "2012/2013 Reputable Enterprise in Guangdong Province" (二零一二年/二零一三年廣東省著名企業) accreditation from China Quality Brand Evaluation Centre (中國質量品牌測評中心), China Quality Brand Investigation and Evaluation Committee (中國質量品牌調查測評組委會) and China Quality Brand Promotion Committee (中國質量品牌推進聯合會);</li> <li>- "Outstanding Enterprise in China" (中國傑出企業) accreditation from China Economic Trading Promotion Agency (中國經濟貿易促進會);</li> <li>- "2011 Charity Enterprise" (二零一一年愛心企業) accreditation from Shenzhen Enterprise Confederation (深圳市企業聯合會) and Shenzhen Entrepreneur Association (深圳市企業家協會);</li> <li>- "2012 Shenzhen Top 100 Enterprise" (二零一二年深圳百強企業) accreditation from Shenzhen Enterprise Confederation (深圳市企業聯合會) and Shenzhen Economic Daily (深圳商報); and</li> <li>- "2012 Manufacturing Excellence Achievement Award" (卓越製造業成就大獎) from Hong Kong Federation of Innovative Technologies and Manufacturing Industries (香港創新科技及製造業聯合總會).</li> </ul> |

## CORPORATE MILESTONE

| Year                    | Event   |
|-------------------------|---|
| <b>2012</b><br>(Cont'd) | <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. was recognised as Hong Kong – Guangdong Cleaner Production Partner (Manufacturing) (粵港清潔生產夥伴(製造業)) by The Economic &amp; Information Commission of Guangdong Province (廣東省經濟和信息化委員會) and the Environmental Bureau of the Government of the Hong Kong Special Administrative Region (香港特別行政區政府環保局).</p> <p>Shenzhen EVA Mould Manufacturing Limited and Chongqing Digidie Auto Body Ltd. were recognised as “National High and New Technology Enterprises” (國家級高新技術企業).</p>  |
| <b>2013</b>             | <p>The construction of the Group’s new production base in Wuhan, which targets at automobile business, was completed in late 2013.</p> <p>The Group’s management headquarter moved to the fourth factory building of the Group’s Shenzhen (Shiyan) production base.</p> <p>EVA Precision Industrial Holdings Limited received “Premiere Partner (2013) Award” (卓越合作夥伴(二零一三年)獎) from Fuji Xerox. It was re-elected as the “Chairman Enterprise” (會長企業) by Shenzhen Machinery Association (深圳市機械行業協會).</p> <p>EVA Precision Industrial Holdings Limited and Yihe Precision Hardware (Shenzhen) Co., Ltd. received “2012 Golden Quality Award” (二零一二年度品質金獎) from Konica Minolta.</p> <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. received:</p> <ul style="list-style-type: none"> <li>– “2012 Second Half Best Quality” (二零一二年度下半期最佳品質) award from Toshiba;</li> <li>– “Guangdong Famous Trademark Certificate” (廣東省著名商標證書) from Guangdong Provincial Administration for Industry and Commerce (廣東省工商行政管理局);</li> <li>– “2013 Shenzhen Top 100 Quality Enterprise”(二零一三年度深圳市質量百強企業) accreditation from Shenzhen Enterprise Confederation (深圳市企業聯合會), Shenzhen Entrepreneur Association (深圳市企業家協會), Shenzhen Association for Quality (深圳市質量協會), Shenzhen Performance Excellence Management Foundation (深圳市卓越績效管理促進會), Shenzhen Press Group (深圳報業集團), Shenzhen Media Group (深圳廣播電影電視集團) and “Times Entrepreneur” magazine (「時代商家」雜誌社); and</li> <li>– “New Quality Benchmark in Baoan” (寶安品牌新標杆) award from the People’s Government of Baoan District, Shenzhen (深圳市寶安區人民政府).</li> </ul> |

## CORPORATE MILESTONE

| Year                    | Event  |
|-------------------------|--|
| <b>2013</b><br>(Cont'd) | <p>EVA Precision Industrial (Suzhou) Limited was granted with:</p> <ul style="list-style-type: none"> <li>– “2012 Special Contribution Award” (二零一二年度特別貢獻獎) by Canon;</li> <li>– “Standard Implementation Certificate of Enterprise Credit Management in Jiangsu” (江蘇省企業信用管理貫標證書) by the Leadership Office of Jiangsu Social Credit System Construction Committee (江蘇省社會信用體系建設領導小組辦公室);</li> <li>– “High and New Technology Product Recognition Certificate” (高新技術產品認定證書) by Jiangsu Provincial Department of Science and Technology (江蘇省科學技術廳); and</li> <li>– “Enterprise Research Centre” (企業技術中心) accreditation by the People’s Government of Suzhou (蘇州市人民政府), Suzhou Economic and Information Technology Commission (蘇州市經濟和資訊化委員會), Suzhou Science and Technology Bureau (蘇州市科學技術局) and Suzhou Municipal Development and Reform Commission (蘇州市發展和改革委員會).</li> </ul> <p>Chongqing Digidie Auto Body Ltd. was recognised as a “2012 Excellent Supplier” (二零一二年度優秀供應商) by Dongfeng (東風). It was also granted with “Mould Supplier Certification” (模具供應商認可證書) by FAW-Volkswagen (一汽大眾).</p> <p>Digidie Stamping Technology (Wuhan) Limited was accredited as “2012 Excellent Enterprise of Wuhan Industrial Investment” (二零一二年度武漢市工業投資優秀企業) and “2012 Advanced Organisation with Major Project Development” (二零一二年度重大項目建設先進單位) by the People’s Government of Wuhan (武漢市人民政府).</p> |



## CORPORATE MILESTONE

| Year                    | Event   |
|-------------------------|---|
| <b>2013</b><br>(Cont'd) | <p>Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. received:</p> <ul style="list-style-type: none"> <li>- "The Fifth Supplier QCC Forum – First Class Award" (第五屆供應商QCC成果發表會一等獎) and "2012 Best Partner Vendor" (二零一二年最佳採購夥伴) award from Kyocera Mita;</li> <li>- "2013 Guangdong Top 500 Manufacturing Enterprise" (二零一三年度廣東省製造業企業500強) accreditation from Guangdong Manufacturers Association (廣東省製造業協會) and The Institute of Enterprise Research, Guangdong Academy of Social Sciences (廣東省社會科學院企業研究所);</li> <li>- "2013 Excellent Enterprise in Guangdong Manufacturing Industry" (二零一三年度廣東省製造業優秀企業) accreditation from Guangdong Manufacturers Association (廣東省製造業協會); and</li> <li>- "Enterprise Technology Centre" (企業技術中心) accreditation from Shenzhen Baoan Economic Promotion Bureau (深圳市寶安區經濟促進局).</li> </ul> <p>EVA Precision Industrial (Zhongshan) Limited was granted with "2012 E (Environment) Q (Quality) C (Cost) D (Delivery) Remarkable Contribution Award" (二零一二年E(環境)Q(品質)C(成本)D(納期)顯著貢獻獎) by Canon.</p> <p>Shenzhen Xunneng Precision Technology Limited, a subsidiary of the Group, was recognised as a "National High and New Technology Enterprise" (國家級高新技術企業).</p> |
| <b>2014</b>             | <p>Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. was granted with "2013 Excellent Supplier" (二零一三年度優秀供應商) award by Konica Minolta.</p> <p>EVA Precision Industrial (Suzhou) Limited was granted with "2013 Excellent Supplier Award" (二零一三年度優秀供應商獎) by Canon.</p> <p>EVA Precision Industrial Holdings Limited received "2012/2013 Pan Pearl River Delta Environmental Award" (二零一二年／二零一三年泛珠三角環保大獎) from the Federation of Hong Kong Industries and Hang Seng Bank.</p>  |

## FINANCIAL HIGHLIGHTS

|   |          | <u>2013</u>             | 2012             | 2011             | 2010             | 2009             |
|---|----------|-------------------------|------------------|------------------|------------------|------------------|
| <b>OPERATING RESULTS</b>  |          |                         |                  |                  |                  |                  |
| Turnover  | HK\$'000 | <u><b>2,655,715</b></u> | <u>2,367,023</u> | <u>1,977,845</u> | <u>1,703,099</u> | <u>1,026,097</u> |
| Earnings before interest and taxation (EBIT) (Note 1)                               | HK\$'000 | <u><b>93,629</b></u>    | <u>103,774</u>   | <u>244,439</u>   | <u>356,671</u>   | <u>48,786</u>    |
| Earnings before interest, taxation, depreciation and amortisation (EBITDA) (Note 1) | HK\$'000 | <u><b>291,930</b></u>   | <u>253,884</u>   | <u>346,470</u>   | <u>445,037</u>   | <u>130,363</u>   |
| Profit attributable to equity holders of the Company                                | HK\$'000 | <u><b>55,427</b></u>    | <u>70,889</u>    | <u>210,379</u>   | <u>302,664</u>   | <u>31,519</u>    |
| <b>FINANCIAL POSITION</b>   |          |                         |                  |                  |                  |                  |
| Cash generated from operations  | HK\$'000 | <u><b>173,184</b></u>   | <u>226,910</u>   | <u>259,371</u>   | <u>319,595</u>   | <u>258,970</u>   |
| Net current assets (liabilities)  | HK\$'000 | <u><b>660,995</b></u>   | <u>659,458</u>   | <u>430,963</u>   | <u>432,808</u>   | <u>(14,953)</u>  |
| Shareholders' equity  | HK\$'000 | <u><b>2,102,257</b></u> | <u>2,013,650</u> | <u>2,030,929</u> | <u>1,581,066</u> | <u>896,816</u>   |
| <b>PER SHARE DATA</b>   |          |                         |                  |                  |                  |                  |
| Earnings per share  |          |                         |                  |                  |                  |                  |
| – Basic (Note 2 and 4)  | HK cents | <u><b>3.3</b></u>       | <u>4.1</u>       | <u>12.8</u>      | <u>21.3</u>      | <u>2.4</u>       |
| – Diluted (Note 3 and 4)  | HK cents | <u><b>3.2</b></u>       | <u>4.1</u>       | <u>12.7</u>      | <u>20.2</u>      | <u>2.3</u>       |
| <b>OTHER KEY STATISTICS</b>   |          |                         |                  |                  |                  |                  |
| Earnings before interest, taxation, depreciation and amortisation (EBITDA) margin   | (%)      | <u><b>11.0</b></u>      | <u>10.7</u>      | <u>17.5</u>      | <u>26.1</u>      | <u>12.7</u>      |
| Net profit margin   | (%)      | <u><b>2.1</b></u>       | <u>3.0</u>       | <u>10.6</u>      | <u>17.8</u>      | <u>3.1</u>       |
| Return on shareholders' equity  | (%)      | <u><b>2.6</b></u>       | <u>3.5</u>       | <u>10.4</u>      | <u>19.1</u>      | <u>3.5</u>       |
| Net debt-to-equity ratio (Note 5)   | (%)      | <u><b>17.7</b></u>      | <u>7.9</u>       | <u>Net cash</u>  | <u>Net cash</u>  | <u>18.7</u>      |

## FINANCIAL HIGHLIGHTS

- Note 1: Earnings before interest and taxation and earnings before interest, taxation, depreciation and amortisation are calculated before taking into account share of loss of investments accounted for using the equity method.
- Note 2: Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of 1,318,888,000 ordinary shares, 1,419,912,000 ordinary shares, 1,640,697,000 ordinary shares, 1,733,043,000 ordinary shares and 1,679,760,000 ordinary shares in issue during the year ended 31 December 2009, 2010, 2011, 2012 and 2013 respectively.
- Note 3: Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of 1,387,340,000 ordinary shares, 1,501,750,000 ordinary shares, 1,652,069,000 ordinary shares, 1,742,133,000 ordinary shares and 1,741,406,000 ordinary shares for the years ended 31 December 2009, 2010, 2011, 2012 and 2013 respectively adjusted to assume conversion of all dilutive potential ordinary shares (i.e. share options and warrants). A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options and warrants.
- Note 4: On 27 May 2011, the Company issued bonus shares on the basis of 1 bonus share for every 1 existing share pursuant to a shareholders' resolution passed at the Company's annual general meeting on 20 May 2011. Accordingly, the basic and diluted earnings per share as shown above were also adjusted to reflect the impact of bonus share issue on earnings per share.
- Note 5: Net debt-to-equity ratio is calculated based on the total balance of bank borrowings and finance lease liabilities less cash and bank balances divided by shareholders' equity.

## CORPORATE INFORMATION

**EXECUTIVE DIRECTORS**

Mr. Zhang Hwo Jie (*Chairman*)  
 Mr. Zhang Jian Hua (*Vice Chairman*)  
 Mr. Zhang Yaohua (*Chief Executive Officer*)

**INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE**

Mr. Leung Tai Chiu (*Chairman*)  
 Mr. Choy Tak Ho  
 Mr. Lam Hiu Lo

**NOMINATION COMMITTEE**

Mr. Zhang Hwo Jie (*Chairman*)  
 Mr. Choy Tak Ho  
 Mr. Lam Hiu Lo

**REMUNERATION COMMITTEE**

Mr. Choy Tak Ho (*Chairman*)  
 Mr. Zhang Hwo Jie  
 Mr. Lam Hiu Lo

**HEAD OFFICE**

Unit 8, 6th Floor, Greenfield Tower, Concordia Plaza  
 No.1 Science Museum Road, Kowloon, Hong Kong

**REGISTERED OFFICE**

Codan Trust Company (Cayman) Limited  
 Cricket Square, Hutchins Drive  
 P.O. Box 2681  
 Grand Cayman KY1-1111  
 Cayman Islands

**COMPANY SECRETARY**

Mr. Wong Hoi Chu Francis *FCCA CPA*

**AUTHORISED REPRESENTATIVES**

Mr. Zhang Hwo Jie  
 Mr. Wong Hoi Chu Francis *FCCA CPA*

**STOCK CODE**

838

**PRINCIPAL BANKERS****Hong Kong**

The Hongkong and Shanghai Banking Corporation Limited  
 DBS Bank (Hong Kong) Limited  
 Hang Seng Bank Limited  
 Bank of China (Hong Kong) Limited  
 The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
 China CITIC Bank International Limited  
 Chong Hing Bank Limited  
 Australia and New Zealand Banking Group Limited  
 Fubon Bank (Hong Kong) Limited  
 Standard Chartered Bank (Hong Kong) Limited

**Mainland China**

Industrial and Commercial Bank of China  
 Agricultural Bank of China

**LEGAL ADVISOR**

Minter Ellison

**AUDITOR**

PricewaterhouseCoopers  
 Certified Public Accountants

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Codan Trust Company (Cayman) Limited  
 Cricket Square, Hutchins Drive  
 P.O. Box 2681  
 Grand Cayman KY1-1111  
 Cayman Islands

**HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited  
 Shops 1712-1716, 17th floor  
 Hopewell Centre, 183 Queen's Road East  
 Wanchai, Hong Kong

**WEBSITE**

[www.eva-group.com](http://www.eva-group.com)  
[www.irasia.com/listco/hk/evaholdings](http://www.irasia.com/listco/hk/evaholdings)

## CHAIRMAN'S STATEMENTS



*Zhang Hwo Jie*  
Chairman

On behalf of the Board of Directors (the "Board"), I am pleased to present to you the annual report of EVA Precision Industrial Holdings Limited (the "Company" and together with its subsidiaries collectively referred to as the "Group") for the year ended 31 December 2013.

### BUSINESS REVIEW

The year 2013 witnessed an acceleration of new product development activities by our customers. Since late 2012, the economy in developed countries started to show stronger signs of recovery, and therefore new product development activities of our customers in office automation ("OA") equipment sector had been active. Under the Group's business model, brand owners would normally require us to jointly co-develop the relevant moulds with them right from their product development stages. Thereafter, the completed moulds would be consigned in our production bases for future mass production of components when new products are launched to the market. Accordingly, driven by the new product development activities of our customers, our mould revenue for the year increased by 59.0% and reached HK\$395,012,000, another historical high. Certain of the moulds produced by us in 1H2013 had also started to be used for mass production of components since late 2013. Therefore, despite a decline in component revenue in 1H2013, component revenue rebounded sharply in 2H2013 and finally component revenue for the full year of 2013 exceeded that of 2012.

## CHAIRMAN'S STATEMENTS



Suzhou production base

Total turnover of the Group for the year was HK\$2,655,715,000, representing an increase of 12.2% from the previous year. Gross profit margin also improved to 24.1%, thanks to the strong growth in the sales of moulds (which are higher margin products) that raised the percentage of mould revenue to total turnover for the year. However, depreciation and other fixed costs increased following the commencement of operations of our new production base in Tianliao, Shenzhen in 2H2012 and the completion of our new management headquarter in our existing Shenzhen (Shiyan) production base in early 2013. Further, the Group incurred one-off share option costs of HK\$39,648,000 in relation to share options granted in 2012 and 2013. Coupled with a general increase in employment and other costs in China's manufacturing industry, the Group's net profit reduced by 21.8% to HK\$55,427,000.

Despite the aforesaid, our production and sales of moulds were robust throughout the year. Going forward, this is very likely to lead to a substantial increase in our component sales, which can outweigh the above-mentioned costs, primarily being semi-fixed or non-recurring in nature, and can revitalise our profit growth.

## BUSINESS DEVELOPMENT

Despite a general expectation for slower growth as compared to the past, China's consumption market is still in its ascending channel and is far from saturation. Therefore, we remain committed to our strategic expansion from previously focusing on just OA equipment to also serving a diversity of products for the fast growing Chinese consumption market, with particular attention given to

## CHAIRMAN'S STATEMENTS



*Chongqing automobile mould production base*

the huge automobile sector. As one of the milestone events in such expansion, we completed the construction of our new production base in Wuhan by end of 2013. The new Wuhan production base is targeted at providing component production and welding services to automobile makers located in Wuhan and adjacent cities, and therefore its completion signifies a breakthrough since the Group's businesses in automobile sector were primarily derived from the production of moulds in the past. As component production is much more voluminous than supplying moulds, the completion of our Wuhan production base greatly enhances our capability to receive orders from the huge and expanding Chinese automobile market.

To drive revenue growth, our existing production base in Chongqing (which primarily produces automobile moulds at present) is also steered toward the direction of manufacturing automobile components on a large scale basis. To this end, we have recently completed the construction of phase 2 of our Chongqing production base, which is planned to be fitted out with equipment for automobile component production gradually. In the years to come, the new phase 2 of our Chongqing production base can provide adequate floor area for capacity expansion to cope with the burgeoning demand from automobile makers in Chongqing and adjacent cities, which is another automobile production hub in China.

Further, the Group entered into microcredit business through the establishment of a non-deposit taking micro lending company in Shenzhen, in which the Group has a 60% stake. This company commenced commercial operations in early 2013, and is expected to provide an auxiliary source of income to the Group. Despite this, our commitment towards manufacturing business remains unwavering as we still see substantial growth potentials in its future development.

## CHAIRMAN'S STATEMENTS

### PROSPECTS

At present, the automobile industry in China is undergoing a rapid transition from previously focusing on low cost vehicles to vehicles with higher quality and performance. Equipped with a solid engineering foundation accumulated through more than 20 years of experience in serving the precision equipment industry, we are well positioned to capture the increasing demand for more sophisticated moulds and components tailored for higher quality vehicles. Our Wuhan and Chongqing production bases also enable us to extend our precision manufacturing services from the coastal area of China to two other major automobile hubs in the interior region. Taking into account the concentration of automobile makers in these areas and our proven engineering expertise which differentiates ourselves from other domestic suppliers, we believe our investment in automobile business in the past few years will translate into a quantum leap in profitability in the future.

Last but not the least, our traditional OA business is still on a growth track, which is evidenced by the robust growth in mould revenue in 2013. It is worth noting that, although the moulds produced by us in 1H2013 only started to be used for component production in late 2013, we already saw a sharp rebound in our component revenue in 2H2013. Since more moulds will be put into use as the launch of new products by our customers continues, we expect to see a more prominent growth in our revenue going forward.

On behalf of the Board, I would like to take this opportunity to express our sincerest gratitude to our shareholders, customers, business partners and employees for their unwavering support, without which the Group's continuous success would not have been possible.

**Zhang Hwo Jie**

*Chairman*

Hong Kong, 26 March 2014



## MANAGEMENT DISCUSSION AND ANALYSIS



### SIGNIFICANT EVENTS AND DEVELOPMENT

During the year, the Group continued to make progresses in its strategic expansion from previously focusing on just office automation (“OA”) equipment to also serving a diversity of products for the Chinese consumption market, particularly the huge automobile sector. As one of the milestone events in such expansion, we had completed the construction of our new automobile component production base in Wuhan by end of 2013. The new Wuhan production base has land area of approximately 166,000 square metres and construction area (phase one) of approximately 49,000 square metres, and is targeted at providing component production and welding services to automobile makers located in Wuhan and adjacent cities. Taking into account the concentration of automobile makers in that area and our outstanding engineering expertise accumulated through more than 20 years of experience in serving the precision equipment industry which is also essential for high quality automobile products, we are confident that our new Wuhan production base can stand out in the domestic automobile supply chain and open up a new phase of development for the benefit of the Group.

Prior to the completion of the new Wuhan production base, the Group’s businesses in automobile sector were primarily derived from the production of moulds. Accordingly, the completion of the new Wuhan production base signifies our first step toward supplying automobile components on a large

## MANAGEMENT DISCUSSION AND ANALYSIS



scale basis, a business which is much more voluminous than supplying moulds. To drive revenue growth, our existing production base in Chongqing (which primarily produces automobile moulds at present) is also steered toward this direction. We have recently completed the construction of phase 2 of our Chongqing production base, which is planned to be fitted out with equipment for automobile component production gradually. The expansion of our Chongqing production base into manufacturing automobile components on a large scale basis greatly magnifies its capability to receive sale orders, since it is an industry practice for customers to request mould producers to also take up subsequent component production for quality and logistics reasons.

Further, the Group's new micro lending company in Shenzhen, in which the Group has a 60% stake, commenced commercial operations in early 2013. This company is a non-deposit taking institution. To control credit risk, loans are only made to individuals or companies whose backgrounds are well known

to the Group, and therefore no bad debt occurred (although a general provision for loan impairment based on 1% of outstanding loan balance was made solely for the purpose of complying with the guideline issued by the Ministry of Finance of China). In the future, we expect the new micro lending company to provide an auxiliary source of income to the Group but we will nonetheless remain focused on our manufacturing business, which is well established and still undergoing rapid development.

Under the Group's business model, our customers will normally require us to jointly co-develop the relevant moulds with them during their product development stages. The completed moulds will then be consigned in our production bases for future mass production of components when new products are launched to the market. In other words, mould revenue is a leading indicator of our future production volume of components. Since late 2012, our customers in OA equipment sector have been engaging in new product development activities and therefore our production and sales of moulds were robust. Certain of the moulds produced by us in 1H2013 had started to be used for the mass production of components since late 2013. Therefore, despite a reduction in component revenue in 1H2013, sales of components rebounded strongly in the second half of 2013 and finally component revenue for the full year of 2013 exceeded that of 2012. At the same time, the demand for our moulds remained strong throughout the year. Mould revenue in 2013 increased by 59.0% and reached HK\$395,012,000, another historical high. Total revenue of the Group in 2013 amounted to HK\$2,655,715,000, representing an increase of 12.2% as compared to 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS

The percentage of our mould revenue to total revenue also increased to 14.9% in 2013 (2012: 10.5%). Since moulds are high margin products, our gross profit margin increased to 24.1% for the year (2012: 21.6%). However, in preparation for the increase in order flows, we added a new production base in Tiaoliao, Shenzhen in 2012, which commenced operations in 2H2012. The Group's new management headquarter located at Shenzhen (Shiyan) production base was also put into use in early 2013. Therefore, depreciation and other operating costs in 2013 increased on a year-on-year basis. Further, the Group incurred share option costs of HK\$39,648,000 in relation to stock options granted in 2012 and 2013 (but recognition of such costs had already ended on 31 December 2013). Coupled with a general increase in employment and other costs in China's manufacturing industry, the Group's net profit reduced by approximately 21.8% to HK\$55,427,000.

Despite the aforesaid, our revenue from the manufacture of moulds was robust throughout the year of 2013 and reached historical high again. This is very likely to lead to a substantial increase in our future component revenue, which can outweigh the above-mentioned costs, being either semi-fixed or non-recurring in nature, and enable us to revitalise profit growth.

As always, the Group is committed to maximising shareholders' value. Since our listing in 2005, we have always been adhering to a dividend payout at approximately 30% of net profit, and 2013 is no exception. In the future, we will adhere to our philosophy of continuous technological improvement, whilst maximising returns to our shareholders.



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

An analysis of the Group's turnover and results by segment is as follows:

|  | 2013<br>HK\$'000 | %     | 2012<br>HK\$'000 | %     |
|--|------------------|-------|------------------|-------|
| <b>By business segment</b>   |                  |       |                  |       |
| <b>Turnover</b>  |                  |       |                  |       |
| <i>Metal division</i>  |                  |       |                  |       |
| Design and fabrication of metal stamping moulds                    | 284,133          | 10.7% | 167,308          | 7.1%  |
| Manufacturing of metal stamping components                         | 1,079,193        | 40.6% | 1,191,526        | 50.3% |
| Manufacturing of lathing components                                | 138,276          | 5.2%  | 155,515          | 6.6%  |
| Others (Note 1)  | 27,440           | 1.0%  | 35,532           | 1.5%  |
|  | <u>1,529,042</u> |       | <u>1,549,881</u> |       |
| <i>Plastic division</i>  |                  |       |                  |       |
| Design and fabrication of plastic injection moulds                 | 110,879          | 4.2%  | 81,199           | 3.4%  |
| Manufacturing of plastic injection components                      | 979,292          | 36.9% | 732,710          | 31.0% |
| Others (Note 1)  | 12,263           | 0.5%  | 3,233            | 0.1%  |
|  | <u>1,102,434</u> |       | <u>817,142</u>   |       |
| Income from micro lending business                                 | 24,239           | 0.9%  | –                | –     |
| Total  | <u>2,655,715</u> |       | <u>2,367,023</u> |       |
| <b>Segment results</b>   |                  |       |                  |       |
| Metal division   | 44,769           |       | 55,804           |       |
| Plastic division   | 31,477           |       | 47,253           |       |
| Micro lending business   | 15,011           |       | –                |       |
| Operating profit   | 91,257           |       | 103,057          |       |
| Unallocated income   | 2,372            |       | 717              |       |
| Finance income   | 10,418           |       | 4,807            |       |
| Finance costs  | (28,716)         |       | (23,512)         |       |
| Share of loss of investments accounted for using the equity method | (3,072)          |       | (999)            |       |
| Income tax expense   | (12,784)         |       | (14,462)         |       |
| Non-controlling interests  | (4,048)          |       | 1,281            |       |
| Profit attributable to equity holders of the Company               | <u>55,427</u>    |       | <u>70,889</u>    |       |

Note 1: Others mainly represented sales of scrap materials

## MANAGEMENT DISCUSSION AND ANALYSIS

### Turnover

During the year ended 31 December 2013, our customers were developing new office automation equipment models and required us to jointly co-develop the relevant moulds for them. Accordingly, mould revenue from metal and plastic divisions increased by approximately 59.0% to HK\$395,012,000, another historical high. Driven by the strong growth in mould revenue, our total turnover for the year ended 31 December 2013 increased by 12.2% to HK\$2,655,715,000.

### Gross profit

As mentioned above, our mould revenue was strong in 2013 and its percentage to our total turnover increased to 14.9%. Since the profit margin from mould production is generally higher than that from component production, our gross profit margin increased to 24.1% (2012: 21.6%).

### Segment results

To prepare for the increase in order flows, we added a new production base in Tiaoliao, Shenzhen in 2012, which commenced operations in 2H2012. The Group's new management headquarter located at Shenzhen (Shiyan) production base was also put into use in early 2013. Therefore, depreciation and other operating costs in 2013 increased on a year-on-year basis. Further, the Group incurred share option costs of HK\$39,648,000 in relation to share options granted in 2012 and 2013 (but recognition of such costs had already ended on 31 December 2013). Coupled with a general increase in employment and other costs in China's manufacturing industry, the Group's operating profit margin from metal and plastic divisions decreased in 2013.

The operating profit margin of the Group's newly established micro lending business was 61.9%. Since its loans made to customers were solely funded by its own capital and reserves, this business had no significant cost and therefore its operating profit margin was high.

### Finance costs

The Group's finance costs for the year ended 31 December 2013 increased to approximately HK\$28,716,000, which was primarily caused by an increase in bank borrowings and finance lease liabilities during the year.

### Income tax expense

During the year ended 31 December 2013, income tax expense amounted to approximately HK\$12,784,000. Effective tax rate (defined as the percentage of income tax expense as compared to profit before income tax) for the year was 17.7%, which was comparable to that for the previous year.

### Profit attributable to equity holders of the Company

During the year, profit attributable to equity holders of the Company decreased by 21.8% to HK\$55,427,000, which was primarily attributable to the reduction in the Group's operating profit margin as mentioned above.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY, FINANCIAL RESOURCES AND RATIOS

The Group's new micro lending company in Shenzhen, which was incorporated in late 2012, commenced commercial operations in early 2013. Accordingly, loans advanced to third parties and interest receivables under this new micro lending business increased from HK\$6,166,000 as at 31 December 2012 to HK\$135,830,000 as at 31 December 2013, which led to a reduction of the Group's net cash generated from operating activities for the year to HK\$142,086,000. However, excluding this, the Group had net operating cash inflow from its traditional manufacturing business of HK\$271,750,000, which increased as compared to 2012 due to the continuous effort of the Group to streamline its working capital requirements. During the year, the Group's fixed deposits of HK\$51,486,000, which were placed in banks as at 31 December 2012, became mature and were not extended. Therefore, the Group recorded a cash inflow from investing activities of the same amount. At the same time, although the construction of the Group's new production base in Wuhan was still ongoing until end of 2013, the majority of the related capital expenditure such as land and construction costs had already been paid before 2013. Accordingly, the Group's net cash used in investing activities reduced to HK\$206,503,000. Since capital expenditure decreased, less new bank borrowings were drawn by the Group during the year ended 31 December 2013, which resulted in a reduction in net cash generated from financing activities to HK\$125,290,000 during the year.

Bank loans as at 31 December 2013 were denominated in Hong Kong and United States dollars with floating interest rates and were used for financing the Group's operations and expansion. Treasury activities are controlled by senior management members with an objective of achieving a balance between the Group's expansion needs and its financial stability. An analysis of the Group's key liquidity and capital adequacy ratios as at 31 December 2013 is as follows:

|                                   | <b>31 December<br/>2013</b> | 31 December<br>2012 |
|-----------------------------------|-----------------------------|---------------------|
| Inventory turnover days (Note 1)  | <b>56</b>                   | 53                  |
| Debtors' turnover days (Note 2)   | <b>77</b>                   | 65                  |
| Creditors' turnover days (Note 3) | <b>93</b>                   | 77                  |
| Cash conversion cycle (Note 4)    | <b>40</b>                   | 41                  |
| Current ratio (Note 5)            | <b>1.45</b>                 | 1.58                |
| Net debt-to-equity ratio (Note 6) | <b>17.7%</b>                | 7.9%                |

## MANAGEMENT DISCUSSION AND ANALYSIS

Notes –

1. Calculation of inventory turnover days is based on the ending inventories divided by cost of sales and multiplied by the number of days during the year.
2. Calculation of debtors' turnover days is based on the ending balance of trade receivables divided by turnover and multiplied by the number of days during the year.
3. Calculation of creditors' turnover days is based on the ending balance of trade payables divided by cost of sales and multiplied by the number of days during the year.
4. Cash conversion cycle is defined as the total sum of inventory and debtors' turnover days less creditors' turnover days.
5. Current ratio is calculated based on the Group's total current assets divided by total current liabilities.
6. Net debt-to-equity ratio is calculated based on the total balance of bank borrowings and finance lease liabilities less cash and bank balances divided by shareholders' equity.

### Inventory turnover days

During the year, the Group's inventory turnover days was 56 days, which was comparable to that for the year ended 31 December 2012.

### Debtors' and creditors' turnover days

Since late 2013, certain of the moulds produced by us in 1H2013 started to be used for mass production of components, which led to a notable increase in the sales of the Group during the same period. As such sales were still within normal credit periods and were therefore unpaid at year-end, the balance of trade receivables increased which resulted in an increase in debtors' turnover days to 77 days. Creditors' turnover days increased to 93 days, which was primarily because the Group had successfully negotiated with certain of its suppliers for longer credit periods with a view to streamlining its working capital requirements.

### Current ratio and net debt-to-equity ratio

During the year, the Group obtained additional borrowings for future capital expenditure and working capital requirements, which resulted in an increase in the Group's net debt-to-equity ratio as at 31 December 2013. Certain of such borrowings were short-term bank loans. Coupled with an increase in trade payables owing to the longer credit periods granted by suppliers as mentioned above, current liabilities increased which led to a reduction in the Group's current ratio as at 31 December 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FOREIGN CURRENCY EXPOSURE

A substantial portion of the Group's customers are reputable international brand owners with worldwide distribution networks. At the same time, a majority of the Group's suppliers are international metal and plastic producers designated by the Group's customers. Accordingly, most of the Group's sales and cost of sales are currently made in HK dollars and United States dollars (which are pegged). For the year ended 31 December 2013, the Group's sales and purchases were denominated in the following currencies:

|                       | <u>Sales</u> | <u>Purchases</u> |
|-----------------------|--------------|------------------|
| Hong Kong dollars     | 31.1%        | 12.5%            |
| United States dollars | 52.4%        | 66.0%            |
| Renminbi              | 15.0%        | 21.5%            |
| Euro                  | <u>1.5%</u>  | <u>–</u>         |

Although the majority of the Group's revenue and expenditure are in the same currencies, management evaluates the Group's foreign currency exposure on a continuing basis and takes actions to minimise the Group's exposure whenever necessary. In particular, despite the Group's substantial business operations in Mainland China, all of the Group's borrowings were denominated in Hong Kong and United States dollars to match repayment currency with operating cash inflows. Management will continue to closely monitor the Group's foreign currency exposure to safeguard the Group from any potential risks that may arise from the fluctuation in exchange rates.

### CHARGES ON THE GROUP'S ASSETS

As at 31 December 2013, the charges on the Group's assets included (i) pledge of leasehold land and buildings located in Hong Kong with net book amounts of HK\$6,620,000 for securing bank borrowings and (ii) mortgage of equipment under finance lease liabilities with net book amount of HK\$290,121,000 for securing finance lease liabilities.

### HUMAN RESOURCES

As at 31 December 2013, the total number of employees of the Group was 8,257 employees, which increased as compared to 7,595 employees as at 31 December 2012. The increase in headcount was primarily caused by the recruitment of additional employees for the new Wuhan production base which commenced production by end of 2013.



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group considers its employees, in particular the skilled technicians and production management members, as its core assets since the Group's future success relies on the strengthening of its product quality and management on a continuing basis. Remuneration policy is reviewed regularly, making reference to the prevailing legal framework, market conditions and performance of the Group and individual staff. Share option schemes were adopted to attract and retain talents to contribute to the Group. However, apart from providing attractive remuneration packages, management believes that the creation of a harmonious working environment suitable for the development of employees' potential is also important for attracting and retaining qualified staff for its future success. Training programmes are offered to employees for their continuous development. Besides, various employee activities were organised to inspire the team spirit of the Group's staff, which includes the organisation of company outings and sport activities in which the Group's employees, top management (including executive directors) and customers participated. Substantial resources were also devoted to improve the factory and dormitory environment of the Group with a view to providing an attractive working and living environment for the Group's employees.

### OUTLOOK

By end of 2013, the construction of our new automobile component production base in Wuhan was completed and started production. Together with our existing Chongqing production base, we can now extend our precision manufacturing services from the coastal area of China to two other major automobile hubs in the interior region. The completion of our Wuhan production base also signifies our first step forward from primarily producing automobile moulds in the past to also manufacturing automobile components on a large scale basis, a business that is much more voluminous and can therefore provide a platform for a quantum leap in revenue going forward. At the same time, our outstanding engineering expertise accumulated through more than 20 years of experience in the precision equipment industry differentiates ourselves from other domestic suppliers, and thus put us in a very favourable position to capitalise on the next phase of development in China's automobile industry, as consumer demand is now rapidly shifting from low cost vehicles to vehicles with higher quality and better performance.

In addition, our traditional OA business is still on a growth track, which is evidenced by the robust growth in mould revenue in 2013. It is worth noting that, although the moulds produced by us in 1H2013 only started to be used for component production in late 2013, we already saw a sharp rebound in our component revenue in 2H2013. Looking forward to the coming year, the growth in our revenue is likely to be more prominent as the launch of new products by our customers continues.

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

The directors and senior management members who held office during the year ended 31 December 2013 and up to the date of this report are as follows:

### EXECUTIVE DIRECTORS

**Mr. ZHANG HWO Jie**, aged 51, is the chairman of the Group and a member of the remuneration committee of the Company, and was also appointed as the chairman of the nomination committee of the Company with effect from 11 January 2013. He is also a director of certain subsidiaries of the Group. Mr. Zhang is responsible for the Group's overall strategic planning and marketing development. Prior to the establishment of the Group, Mr. Zhang had worked for a PRC joint venture company engaging in civil engineering projects. He started his first business in 1983 by acting as a contractor for civil engineering projects of the local government. In 1993, Mr. Zhang established EVA Limited and thereafter Mr. Zhang acquired extensive experience in customer relationship development and corporate management. He has more than 20 years of experience in marketing, strategic planning and corporate management in manufacturing industry and was granted with the "Young Industrialist Award of Hong Kong" by the Federation of Hong Kong Industries in December 2008. He is also the honorary chairman of The Hong Kong Metals Manufacturers Association, the honorary president of Hong Kong Mould and Product Technology Association, the vice president of Hong Kong Young Industrialists Council and the chairman of automobile components committee of the Chinese Manufacturers' Association of Hong Kong. Mr. Zhang is one of the co-founders of the Group in 1993. Mr. Zhang is a brother of Mr. Zhang Jian Hua and Mr. Zhang Yaohua. Mr. Zhang was appointed as a director on 27 July 2004.

**Mr. ZHANG Jian Hua**, aged 39, is the vice chairman of the Group, and is also a director of certain subsidiaries of the Group. He is responsible for the Group's organisational structure and business risk management. Mr. Zhang previously worked for the tax bureau in Shenzhen, where he accumulated extensive experience in tax regulations and communications with government departments in China. He also possesses substantial experience in organisational planning and business risk monitoring in the industry of precision mould and component manufacturing. He is a brother of Mr. Zhang Hwo Jie and Mr. Zhang Yaohua. Mr. Zhang was appointed as a director on 14 September 2005.

**Mr. ZHANG Yaohua**, aged 41, is the chief executive officer of the Group, and is also a director of certain subsidiaries of the Group. Mr. Zhang is responsible for the Group's operation and management. He was one of the co-founders of the Group in 1993, and has more than 20 years of operational management experience in the industry of precision mould and component manufacturing. He is presently the president of Shenzhen Machinery Association (深圳市機械行業協會), the vice president of Guangdong Die & Mould Industry Association (廣東省模具工業協會), Shenzhen Enterprise Confederation (深圳市企業聯合會), Shenzhen Entrepreneur Association (深圳市企業家協會) and Shenzhen General Chamber of Commerce (深圳市商業聯合會). Mr. Zhang was accredited as one of the outstanding people in machinery industry (深圳機械行業傑出人物) by Shenzhen Machinery Association

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

(深圳市機械行業協會) in 2004. Further, Mr. Zhang was accredited as a “Creative and Outstanding Person of China Enterprises” (中國企業創新優秀人物) by China Marketing Association (中國市場學會) and China Enterprises News Society (中國企業報社) in 2006, an “Outstanding Entrepreneur in China Machinery Industry” (中國機械工業優秀企業家) by China Machinery Industry Federation (中國機械工業聯合會) in 2009 and a “Remarkable Person of Commerce in Shenzhen” (深商風雲人物) by Shenzhen General Chamber of Commerce (深圳市商業聯合會) and Shenzhen Economic Daily (深圳商報) in 2010. Mr. Zhang is a brother of Mr. Zhang Hwo Jie and Mr. Zhang Jian Hua. Mr. Zhang was appointed as a director on 11 January 2005.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. CHOY Tak Ho**, aged 85, is an independent non-executive director. He is the chairman of the remuneration committee of the Company and a member of its audit committee and nomination committee. Mr. Choy has over 40 years of experience in international trading business in Hong Kong. He is the president of Union International (H.K.) Co., Ltd., the founding chairman of Hong Kong Kwun Tong Industries and Commerce Association Limited and the honorary president of the Chinese Manufacturers’ Association of Hong Kong. He is also a member of National Committee of the 8th and 9th Chinese People’s Political Consultation Conference, the honorary director of China Overseas Friendship Association, a member of the 6th, 7th and 8th executive committee of All China Federation of Industry and Commerce, the 4th honorary president of Guangdong Chamber of Foreign Investors, the honorary vice president of Pui Ching Commercial College, the charter president of Hong Kong and Overseas Chinese Association of Commerce Ltd., the honorary permanent president of Hong Kong Commerce and Industry Associations Limited and the honorary life chairman of The Chinese General Chamber of Commerce. He currently also serves as the independent non-executive director of Sino Golf Holdings Limited. He was appointed as a director on 11 January 2005.

**Mr. LEUNG Tai Chiu**, aged 67, is an independent non-executive director. Prior to 11 January 2013, he was a member of the audit committee of the Company and the chairman of its nomination committee. With effect from 11 January 2013, Mr. Leung was re-designated as the chairman of the audit committee of the Company and ceased to be a member and the chairman of its nomination committee. Mr. Leung is a Fellow of the Institute of Chartered Accountants in England and Wales. He obtained his professional qualification in the United Kingdom in 1975 and has worked in the auditing profession for over 30 years, 20 years of which as a partner. Mr. Leung retired from PricewaterhouseCoopers effective from 1 May 2005. Mr. Leung is a Fellow of The Hong Kong Institute of Directors, and is also the independent non-executive director of Kingboard Laminates Holdings Limited and G-Vision International (Holdings) Limited. He was appointed as a director on 5 June 2006.

## DIRECTORS AND SENIOR MANAGEMENT PROFILE

**Mr. LAM Hiu Lo**, aged 52, is an independent non-executive director, and a member of the audit committee, nomination committee and remuneration committee of the Company from 11 January 2013. Mr. Lam has over 25 years of experience in sales and marketing in China. Over the years, he has successfully built up a strong business and personal network in China. Mr. Lam is currently an executive director of Yugang International Limited and Qualipak International Holdings Limited and he was an executive director of C C Land Holdings Limited from 10 November 2000 to 12 July 2012. All three of these companies are listed on The Stock Exchange of Hong Kong Limited. Mr. Lam was appointed as a director on 11 January 2013.

**Dr. LUI Sun Wing**, aged 63, was an independent non-executive director of the Company, the chairman of the Company's audit committee and a member of its nomination committee and remuneration committee prior to 11 January 2013. Dr. Lui was appointed as a director on 11 January 2005. He ceased to be an independent non-executive director of the Company, the chairman of the Company's audit committee and a member of its nomination committee and remuneration committee with effect from 11 January 2013 due to his numerous commitments and appointments which require more of his attention. Dr. Lui was a branch director of the Hong Kong Productivity Council for the period from December 1992 to June 2000. He then joined the Hong Kong Polytechnic University as a vice president in 2000, responsible for technology transfer and partnership development, which he retired in 2010. Dr. Lui was also an executive director of Leepport (Holdings) Limited, a non-executive director of Eco-Tek Holdings Limited and an independent non-executive director of Shanghai Electric Group Company Limited at the same time when he served as an independent non-executive director of the Company during the period from 1 January 2013 to 10 January 2013.

### SENIOR MANAGEMENT

**Mr. WONG Hoi Chu Francis**, aged 41, is the chief financial officer and the company secretary of the Group. Mr. Wong is responsible for the accounting, taxation and financial affairs of the Group. Mr. Wong has over 18 years of experience in the field of auditing, accounting and taxation. He is a member of Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. Prior to joining the Group in September 2004, he served as a senior manager of a major international accounting firm. Mr. Wong holds a bachelor's degree in business management from the Hong Kong University of Science and Technology and an Executive MBA degree from the Chinese University of Hong Kong.

## CORPORATE GOVERNANCE REPORT

The Group is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance practices are important to promote investor confidence and protect the interest of the shareholders. The Company has its own code of conduct regarding corporate governance which is not less stringent than the provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company also has a policy of seeking to comply with established best practices in the field of corporate governance.

### THE BOARD OF DIRECTORS

The Group is controlled by its Board. Accountable to the shareholders, the Board is collectively responsible for formulating the strategic business direction of the Group, setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies. Specific tasks that the Board delegates to the Group's management include the implementation of strategies approved by the Board, the implementation of internal control procedures and the ensuring of compliance with relevant statutory requirements and other rules and regulations. The Board reviews the performance of the operating divisions on a regular basis and also exercises a number of reserved powers, including:

- formulating long-term strategy;
- approving public announcements including the interim and annual financial statements;
- setting dividend policy;
- approving major acquisitions, divestments and capital expenditure;
- reviewing the effectiveness of the Group's internal control system which cover all material controls, including financial, operational and compliance controls and risk management functions;
- approving appointments to the Board and the company secretary; and
- approving material borrowings and treasury policy.

The Group has arranged appropriate insurance cover in respect of relevant actions against its directors with the details and coverage of this insurance being reviewed each year.

## CORPORATE GOVERNANCE REPORT

### COMPOSITION OF THE BOARD

During the year, the Board had the following directors:

#### Executive directors

Mr. Zhang Hwo Jie (*Chairman*)

Mr. Zhang Jian Hua (*Vice Chairman*)

Mr. Zhang Yaohua (*Chief Executive Officer*)

#### Independent non-executive directors

Mr. Choy Tak Ho

Mr. Leung Tai Chiu

Mr. Lam Hiu Lo (*Appointed on 11 January 2013*)

Dr. Lui Sun Wing (*Ceased on 11 January 2013*)

Upon completion of his term of appointment on 10 January 2013, Dr. Lui Sun Wing decided not to renew his appointment as an independent non-executive director of the Company and therefore ceased to be an independent non-executive director of the Company with effect from 11 January 2013. On 11 January 2013, Mr. Lam Hiu Lo was appointed as an independent non-executive director.

The biographical information of directors are set out on page 33 to page 35 under the section headed "Directors and Senior Management Profile" of the annual report.

#### Relationship between the Board members

Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua are brothers. Save as aforesaid, the Board members have no financial, business, family or other material relationships with each other.

#### Independent non-executive directors

The Group has a balanced board composition to ensure strong independence exists across the Board and currently more than one-third of the Board members comprise independent non-executive directors. The independent non-executive directors are persons of high caliber, with extensive experience in the field of accounting, financial management, trading, manufacturing and property development businesses. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. The composition of the Board also complies with the requirement under Rule 3.10 (2) of the Listing Rules in respect of appropriate professional qualifications, or accounting or related financial management expertise.

## CORPORATE GOVERNANCE REPORT

Mr. Choy Tak Ho has acted as an independent non-executive director of the Company for more than nine years. The Company has received from Mr. Choy Tak Ho a confirmation of his independence according to Rule 3.13 of the Listing Rules. Throughout his directorship with the Company, Mr. Choy Tak Ho has participated in Board meetings to offer impartial advice and exercise independent judgement, served on governance committees of the Board to scrutinise the Company's performance in meeting corporate governance goals, and attended general meetings of the Company to gain a balanced understanding of the shareholders' views, but has never engaged in any executive management. Taking into consideration the independent nature of his role and duties in the past years, the Board considers Mr. Choy Tak Ho to be independent under the Listing Rules although he has served the Company for more than nine years. The Board believes that the continuous appointment of Mr. Choy Tak Ho as an independent non-executive director will bring considerable stability to the Board as Mr. Choy Tak Ho has, over time, gained valuable insight into the business strategy and policies of the Group.

At the forthcoming annual general meeting of the Company, a separate resolution will be proposed to re-elect Mr. Choy Tak Ho as an independent non-executive director of the Company. A circular containing detailed information of Mr. Choy Tak Ho, including the reasons why the Board believes he is still independent and should be re-elected, will also be sent to the shareholders.

The Group has also received from each of the other independent non-executive directors, namely Mr. Leung Tai Chiu and Mr. Lam Hiu Lo, an annual confirmation of his independence as required under Rule 3.13 of the Listing Rules. As such, the Group considers that they are also independent. Each of the independent non-executive directors has entered into a service contract with the Company for a term of two years and is also subject to retirement by rotation in the annual general meeting of the Company. These contracts are terminable by the Company within one year without payment of compensation (other than statutory compensation).

### **Chairman and Chief Executive Officer**

To ensure that a balance of power and authority, the role of the Chairman and Chief Executive Officer is segregated. The Chairman of the Board is Mr. Zhang Hwo Jie and the Chief Executive Officer is Mr. Zhang Yaohua. Mr. Zhang Hwo Jie and Mr. Zhang Yaohua are brothers. However, there is a clear distinction between the Chairman's responsibility for overall strategic planning and management of the Board and the Chief Executive Officer's responsibility for the management of day-to-day operations of the Group's business.

## CORPORATE GOVERNANCE REPORT

### Directors' responsibilities for the financial statements

The directors acknowledged their responsibilities for the preparation of financial statements of the Group to ensure that these financial statements give a true and fair view of the state of affairs of the Group, its results of operations and cash flows. In preparing the financial statements for the year ended 31 December 2013, the Board had selected suitable accounting policies and applied them consistently; made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements in accordance with relevant accounting standards and regulations and on a going concern basis. The directors are also responsible for ensuring that proper accounting records of the Group which disclose the Group's financial position are kept at all times and taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in the preparation of the financial statements. The Board has also reviewed and discussed the effectiveness of system of internal control, including financial, operational and compliance control and risk management functions of the Group for the year ended 31 December 2013.

### Board and general meetings

During the year ended 31 December 2013, the Company held 16 board meetings and 1 general meeting.

|  | Number of attendance |                 |
|--|----------------------|-----------------|
|  | Board meeting        | General meeting |
| <b>Directors</b>                           |                      |                 |
| <b>Executive directors</b>                 |                      |                 |
| Mr. Zhang Hwo Jie                          | 16/16                | 1/1             |
| Mr. Zhang Jian Hua                         | 15/16                | 0/1             |
| Mr. Zhang Yaohua                           | 14/16                | 1/1             |
| <b>Independent non-executive directors</b> |                      |                 |
| Mr. Choy Tak Ho                            | 16/16                | 1/1             |
| Mr. Leung Tai Chiu                         | 16/16                | 1/1             |
| Mr. Lam Hiu Lo                             | 16/16                | 1/1             |

Mr. Zhang Jian Hua had not attended the general meeting of the Company in 2013 since he had other business commitments that required his attendance. Besides, Dr. Lui Sun Wing ceased to be an independent non-executive director of the Company with effect from 11 January 2013 and therefore he had not attended any of the board and general meetings during the year ended 31 December 2013.



## CORPORATE GOVERNANCE REPORT

Board meetings are held on a regular and ad hoc basis. Regular meetings are convened by the Chairman at least four times a year, at approximately quarterly intervals and fourteen days' notice is given to all directors before such meetings. Agendas and related documents are sent to director at least three days prior to such meetings. During the year, Mr. Zhang Hwo Jie, Chairman of the Board, had also met with the independent non-executive directors without the other executive directors present.

Board minutes are kept by the company secretary and are open for inspection by the directors. Every board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the company secretary and has the liberty to seek external professional advice if so required.

The procedures for shareholders to convene an extraordinary general meeting and to put forward proposals at shareholders' meetings are set out in the section headed "Shareholders' Rights" below.

### Directors' Continuing Professional Development Programme

The Group believes that directors' training is an ongoing process. During the year, the directors are provided with monthly updates on the Group's performance, position and prospects to enable the Board as a whole and each director to discharge their duties. In addition, all directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Group updates the directors and organises briefing sessions conducted by the Company's auditor or legal advisor for the directors about the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, with a view to ensuring compliance and enhancing the directors' awareness of good corporate governance practices.

The individual training record of each director during the year ended 31 December 2013 is set out below:

| <b>Directors</b>                           | <b>Type of<br/>continuous<br/>professional<br/>development<br/>programmes</b> |
|--|---|
| <b>Executive directors</b>                 |   |
| Mr. Zhang Hwo Jie                          | (A) and (B)   |
| Mr. Zhang Jian Hua                         | (A) and (B)   |
| Mr. Zhang Yaohua                           | (A) and (B)   |
| <b>Independent non-executive directors</b> |   |
| Mr. Choy Tak Ho                            | (A) and (B)   |
| Mr. Leung Tai Chiu                         | (A) and (B)   |
| Mr. Lam Hiu Lo                             | (A) and (B)   |

## CORPORATE GOVERNANCE REPORT

Notes:

1. (A): attending briefing sessions and/or seminars, (B): reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements.
2. Dr. Lui Sun Wing is not included in the above list since he ceased to be an independent non-executive director of the Company with effect from 11 January 2013.

### AUDIT COMMITTEE

The Company has set up an audit committee on 20 April 2005 for the purpose of reviewing and providing supervision on the financial reporting process, internal control system and corporate governance matters of the Group. The audit committee is mainly responsible for making recommendations to the Board on the appointment and re-appointment of the external auditor, approving the remuneration and terms of engagement of external auditor and other matters relating to the resignation or dismissal of external auditor. The audit committee also reviews the interim and annual reports and financial statements of the Group and oversees the Group's financial report system, internal control procedures and corporate governance functions. The terms of reference of the audit committee, which are aligned with the provisions set out in the CG Code, are available on the Company's websites at [www.eva-group.com](http://www.eva-group.com) or [www.irasia.com/listco/hk/evaholdings](http://www.irasia.com/listco/hk/evaholdings).

The audit committee comprises the three independent non-executive directors. From 1 January 2013 to 10 January 2013, the audit committee was chaired by Dr. Lui Sun Wing and its members comprised Dr. Lui Sun Wing, Mr. Choy Tak Ho and Mr. Leung Tai Chiu, the three independent non-executive directors. On 11 January 2013, Dr. Lui Sun Wing ceased to be the Company's independent non-executive director and a member and the chairman of the audit committee. With effect from 11 January 2013, Mr. Leung Tai Chiu replaced Dr. Lui Sun Wing as the chairman of the audit committee and the vacancy left by Dr. Lui Sun Wing in the audit committee was filled by Mr. Lam Hiu Lo, who was appointed as an independent non-executive director of the Company on the same day.

The audit committee held 2 meetings during the year ended 31 December 2013 and had attended to the following matters:

- discuss with external auditor with respect to the accounting principles and practices adopted by the Group, compliance with the Listing Rules and other financial reporting requirements; and
- discuss the internal controls, risk management and financial reporting matters relating to the annual financial statements for the year ended 31 December 2012 and the interim financial statements for the six months ended 30 June 2013 before recommending the financial statements to the Board for approval.

## CORPORATE GOVERNANCE REPORT

The external auditor of the Group also attended the meetings. Individual attendance of each audit committee member at the meetings is as follows:

| <b>Name of audit committee member</b> | <b>Attendance</b> |
|---------------------------------------|-------------------|
| Mr. Leung Tai Chiu                    | 2/2               |
| Mr. Choy Tak Ho                       | 2/2               |
| Mr. Lam Hiu Lo                        | 2/2               |

Dr. Lui Sun Wing had not attended any of the meetings of the audit committee during the year ended 31 December 2013 since he ceased to be a member and the chairman of the audit committee of the Company with effect from 11 January 2013.

The audit committee had reviewed the accounting principles and practices adopted by the Group and discussed internal control, corporate governance and financial reporting matters with management including a review of the audited consolidated financial statements for the year ended 31 December 2013. The audit committee has considered the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The audit committee also reviewed the training and continuous development of the directors and senior management.

### NOMINATION COMMITTEE

The Company has set up a nomination committee on 31 January 2012. The nomination committee is principally responsible for the selection and assessment of candidates for the appointment of directors, and determining the policy for the nomination of directors. In considering the nomination of new directors, the nomination committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. It will also assess the independence of candidates in the case of the appointment of independent non-executive directors. The terms of reference of the nomination committee, which are aligned with the provisions set out in the CG Code, are available on the Company's websites at [www.eva-group.com](http://www.eva-group.com) or [www.irasia.com/listco/hk/evaholdings](http://www.irasia.com/listco/hk/evaholdings).

From 1 January 2013 to 10 January 2013, the nomination committee was chaired by Mr. Leung Tai Chiu and its members comprised Mr. Leung Tai Chiu, Dr. Lui Sun Wing and Mr. Choy Tak Ho, the three independent non-executive directors. On 11 January 2013, Dr. Lui Sun Wing ceased to be the Company's independent non-executive director and a member of the nomination committee. On the same day, Mr. Leung Tai Chiu was re-designated as the chairman of the audit committee and ceased to be a member and the chairman of the nomination committee. With effect from 11 January 2013, Mr. Zhang Hwo Jie (Chairman of the Board) and Mr. Lam Hiu Lo (independent non-executive director) were appointed as members of the nomination committee to fill the vacancies left by Dr. Lui Sun Wing and Mr. Leung Tai Chiu and Mr. Zhang Hwo Jie was also appointed as the chairman of the nomination committee.

## CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2013, the nomination committee held 2 meetings. Individual attendance of each nomination committee member at the meetings is as follows:

| <b>Name of nomination committee member</b> | <b>Attendance</b> |
|--|-------------------|
| Mr. Zhang Hwo Jie                          | 2/2               |
| Mr. Choy Tak Ho                            | 2/2               |
| Mr. Lam Hiu Lo                             | 2/2               |

Dr. Lui Sun Wing and Mr. Leung Tai Chiu were not included in the above list since they ceased to be the members of the nomination committee of the Company with effect from 11 January 2013.

The nomination committee had reviewed the structure, size and composition of the Board and assessed the independency of independent non-executive directors during the year ended 31 December 2013. The nomination committee had also considered the number and nature of offices in other public companies and organisations held by the directors and evaluated the performance and contribution of the directors including the sufficiency of their time and attention given to the Company's affairs.

The Group recognises and embraces the benefits of achieving diversity among its Board members. The nomination committee has a policy concerning the diversity of Board members which targets at achieving a balance of skills, experience and diversity of perspectives which is appropriate to the requirements of the Group's business. To implement this policy, selection of candidates for the appointment of directors is based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of services, and the final decision is based on merits and contributions that the selected candidates can bring to the Board.

The nomination committee had reviewed the composition and diversity of the Board. Since the Board is composed of members coming from diverse backgrounds including manufacturing, trading, property development and professional accountants and they are also diverse in age and knowledge, the nomination committee considered the Board to possess a diversity of perspectives which is up to the standard of the CG Code and is appropriate to the Group's requirements.

## CORPORATE GOVERNANCE REPORT

### REMUNERATION COMMITTEE

The Group had established a remuneration committee on 22 June 2005. The remuneration committee is principally responsible for making recommendations to the Board on the Group's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The remuneration committee is also responsible for making recommendation to the Board on the remuneration packages of individual executive directors and senior management and for ensuring that no director or any of his associates is involved in deciding his own remuneration. The terms of reference of the remuneration committee, which are aligned with the provisions set out in the CG Code, are available on the Company's websites at [www.eva-group.com](http://www.eva-group.com) or [www.irasia.com/listco/hk/evaholdings](http://www.irasia.com/listco/hk/evaholdings).

From 1 January 2013 to 10 January 2013, the remuneration committee was chaired by Mr. Choy Tak Ho and its members comprised the two independent non-executive directors, namely Mr. Choy Tak Ho and Dr. Lui Sun Wing, and the Chairman and executive director, Mr. Zhang Hwo Jie. On 11 January 2013, Dr. Lui Sun Wing ceased to be the Company's independent non-executive director and a member of the remuneration committee. With effect from 11 January 2013, the vacancy left by Dr. Lui Sun Wing in the remuneration committee was filled by Mr. Lam Hiu Lo, who was appointed as an independent non-executive director of the Company on the same day.

During the year ended 31 December 2013, the remuneration committee held 3 meetings. Individual attendance of each remuneration committee member at the meetings is as follows:

| <b>Name of remuneration committee member</b> | <b>Attendance</b> |
|--|-------------------|
| Mr. Choy Tak Ho                              | 3/3               |
| Mr. Zhang Hwo Jie                            | 3/3               |
| Mr. Lam Hiu Lo                               | 3/3               |

Dr. Lui Sun Wing had not attended any of the meetings of the remuneration committee during the year ended 31 December 2013 since he ceased to be a member of the remuneration committee with effect from 11 January 2013.

The remuneration committee reviewed and discussed the policy and structure for directors' and senior management remuneration by reference to salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group. The remuneration committee also considered the terms of appointment and remuneration proposal of individual director upon renewal of director's service contract and the terms of new share options to directors and employees before recommending to the Board for approval. Details of the remuneration to directors and senior management for the year ended 31 December 2013 are set out in Note 25 to the consolidated financial statements.

## CORPORATE GOVERNANCE REPORT

The Company had conditionally adopted a share option scheme on 20 April 2005 which became unconditional on 11 May 2005. The purpose of the share option scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. The eligible participants of the share option scheme include any executive, non-executive and independent non-executive directors of the Company. Further details in respect of the Group's share option scheme are set out in the sub-section headed "Share Options" under the section headed "Report of the Directors" of the annual report.

### PERFORMANCE OF CORPORATE GOVERNANCE DUTIES

The audit committee is also responsible for the corporate governance duties and determining the policy for the corporate governance of the Group. Therefore, the Group has not established another board committee for the performance of corporate governance duties at present. The audit committee had reviewed the Group's policies and practices on corporate governance and compliance with legal and regulatory requirements including the compliance with the CG Code during the year ended 31 December 2013. The Board also reviewed the training and continuous development of directors and senior management.

### AUDITOR'S REMUNERATION

During the year ended 31 December 2013, the total remuneration for audit services provided by PricewaterhouseCoopers, the external auditor, amounted to HK\$3,546,000. The audit fee was approved by the audit committee. The statement made by the external auditor in respect of their reporting responsibilities are set out on page 65 to page 66 of the annual report.

During the year ended 31 December 2013, the total remuneration for permissible non-audit services provided by the external auditor (including any entity under common control, ownership or management with the external auditor) amounted to HK\$480,000. The non-audit services comprised tax compliance and tax advisory services of HK\$165,000 and non-audit review of interim consolidated financial statements of HK\$315,000. The audit committee had been briefed in respect of the non-audit services and related fees and was satisfied that such services did not (in terms of the nature of services and the amount of fees charged) affect the independence of the external auditor. The re-appointment of PricewaterhouseCoopers as the auditor of the Company has been recommended by the audit committee and endorsed by the Board and is subject to approval by shareholders at the forthcoming annual general meeting.

### COMPANY SECRETARY

The company secretary is Mr. Wong Hoi Chu Francis, who is also the chief financial officer of the Group. The Board had reviewed the training and continuous professional development of the company secretary during the year ended 31 December 2013 and considered that the requirements under Rule 3.29 of the Listing Rules in respect of the professional training of the company secretary were complied.

## CORPORATE GOVERNANCE REPORT

### SHAREHOLDERS' RIGHTS

#### **Procedures for shareholders to convene and put forward proposals at shareholders' meetings**

Any one or more shareholders of the Company 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 ("Requisitionist(s)") shall at all times have the right, by written requisition ("Requisition") to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in the Requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty one days of such deposit the Board fails to proceed to convene such meeting the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company. The Requisition shall be lodged at the head office of the Company at Unit 8, 6th Floor, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Kowloon, Hong Kong or at Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Any business proposed to be put forward at such meeting shall be specified in the Requisition.

#### **Procedures for directing shareholders' enquiries to the Board**

Shareholders may at any time send their enquiries and concerns in writing to the company secretary at Unit 8, 6th Floor, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Kowloon, Hong Kong. Such concerns and enquiries will then be directed to the Board by the company secretary.

### CHANGES IN CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's memorandum and articles of association during the year ended 31 December 2013.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, all directors confirm that they have complied with the required standards set out in the Model Code during the year ended 31 December 2013 and up to the date of this report.

## CORPORATE GOVERNANCE REPORT

### COMPLIANCE WITH THE CG CODE

The Company and the directors confirm, to the best of their knowledge, that the Company has complied with the CG Code as set out in Appendix 14 to the Listing Rules during the year ended 31 December 2013.

By order of the Board

**Zhang Hwo Jie**

*Chairman*

Hong Kong, 26 March 2014



## REPORT OF THE DIRECTORS

The directors of the Company are pleased to present their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2013.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of precision manufacturing services in China, focusing on the production of moulds and components with high quality standard and dimensional accuracy. The Company also has a 60% owned subsidiary which engages in micro lending business in China.

An analysis of the Group's turnover and operating result by business segment for the year ended 31 December 2013 is set out in Note 5 to the consolidated financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales for the year ended 31 December 2013 attributable to the Group's major suppliers and customers are as follows:

#### Purchases

|                                 |       |
|---------------------------------|-------|
| The largest supplier            | 6.1%  |
| Five largest suppliers combined | 25.4% |

#### Sales

|                                 |       |
|---------------------------------|-------|
| The largest customer            | 21.9% |
| Five largest customers combined | 63.7% |

None of the directors, their associates, or any shareholders (which, to the knowledge of the directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's major suppliers or customers noted above.

### RESULTS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of comprehensive income on page 70 to page 71.

### DIVIDENDS

The Board recommends the payment of a final dividend of HK0.51 cent per ordinary share, totaling approximately HK\$8,567,000. Subject to the approval of the directors' recommendation by the shareholders at the annual general meeting to be held on 21 May 2014, the final dividend will be payable on or about 4 June 2014. Including the interim dividend of approximately HK\$8,063,000 paid on 24 September 2013 in respect of the six months ended 30 June 2013, the total dividends declared for the year ended 31 December 2013 will be approximately HK\$16,630,000.

## REPORT OF THE DIRECTORS

### FIXED ASSETS

Details of the movements in property, plant and equipment during the year ended 31 December 2013 are set out in Note 6 to the consolidated financial statements.

### BORROWINGS AND INTEREST

Details of borrowings are set out in Note 18 and Note 19 to the consolidated financial statements. Interest and other borrowing costs are set out in Note 26 to the consolidated financial statements.

### RESERVES

Details of movements in reserves during the year ended 31 December 2013 are set out in Note 22 to the consolidated financial statements.

### DONATIONS

The donations made by the Group during the year ended 31 December 2013 amounted to HK\$443,000.

### PENSION SCHEMES

Details of the Group's pension schemes are set out in Note 25 to the consolidated financial statements.

### FIVE YEAR FINANCIAL SUMMARY

A five year financial summary of the Group is set out on page 160.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2013.

## REPORT OF THE DIRECTORS

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year ended 31 December 2013 and up to the date of this report were:

#### Executive Directors

Mr. Zhang Hwo Jie (*Chairman*)  
Mr. Zhang Jian Hua (*Vice Chairman*)  
Mr. Zhang Yaohua (*Chief Executive Officer*)

#### Independent Non-Executive Directors

Mr. Choy Tak Ho  
Mr. Leung Tai Chiu  
Mr. Lam Hiu Lo (*Appointed on 11 January 2013*)  
Dr. Lui Sun Wing (*Ceased on 11 January 2013*)

In accordance with the Company's Articles of Association, Mr. Zhang Yaohua and Mr. Choy Tak Ho shall retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

None of the directors has a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation other than statutory compensation.

### DIRECTORS' INTEREST IN CONTRACTS

Save as the directors' service contracts, no other contracts of significance in relation to the Company's business to which the Company, its subsidiaries or holding companies was a party and in which a director of the Company has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year ended 31 December 2013 and up to the date of this report, none of the directors of the Company are considered to have direct or indirect interests in businesses which compete or are likely to compete with the businesses of the Group pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS

The following connected transaction, which also constitutes related party transaction set out in Note 33 to the consolidated financial statements, existed as at 31 December 2013:

#### **Deeds of tax indemnity provided by the directors and shareholders in favour of the Group**

As disclosed in the Company's Prospectus dated 29 April 2005, on 28 April 2005, the Company entered into a deed of tax indemnity with Prosper Empire Limited which is a 38.19% shareholder of the Company as at 31 December 2013 and Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua who are directors and beneficial shareholders of the Company (together the "Indemnifiers") under which each of the Indemnifiers has jointly and severally undertaken to indemnify the Group in connection with, inter alia, any taxation falling on any member of the Group (other than those established or acquired subsequent to the listing of the Company) resulting from any income, profits, gains, transactions, events, matters, things or businesses earned, accrued, received, entered into, carried on, or occurring on or before the listing date of the Company. This deed of tax indemnity was approved by the Board of Directors on 20 April 2005.

In 2005, EVA Limited, a wholly owned subsidiary of the Group, proposed to settle with The Hong Kong Inland Revenue Department (the "HKIRD") regarding their offshore claims which were queried by the HKIRD. There has been no response from the HKIRD to the proposal of EVA Limited. However, up to 31 December 2013, EVA Limited had already paid approximately HK\$11,588,000, in the form of estimated tax assessments and tax reserve certificates, to the HKIRD in respect of the periods prior to 11 May 2005, the listing date of the Company. Payments of approximately HK\$4,038,000 had been indemnified by the Indemnifiers. The remaining balance of approximately HK\$7,550,000 will also be indemnified by the Indemnifiers should the final determination of such tax liabilities be made by the HKIRD.

The above transaction constitutes a connected transaction in accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, which requires disclosure in the annual report of the Company.

## REPORT OF THE DIRECTORS

### SPECIFIC PERFORMANCE OBLIGATIONS OF THE CONTROLLING SHAREHOLDERS

Certain subsidiaries of the Company are parties to loan agreements with DBS Bank (Hong Kong) Limited in respect of the following banking facilities (“DBS Facilities Agreements”):

- (i) term loan/finance lease facilities up to HK\$140,000,000 with a repayment term of four years after the date of advance of the loan (the outstanding loan balance was approximately HK\$114,492,000 as at 31 December 2013); and
- (ii) factoring facilities up to HK\$90,000,000.

The following specific performance obligations are imposed on the controlling shareholders of the Company under the DBS Facilities Agreements:

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall collectively maintain not less than 35% of the issued shares of the Company and shall remain as the single largest shareholder of the Company; and
- (ii) Mr. Zhang Hwo Jie shall remain as the chairman of the board of directors of the Company.

Further, a subsidiary of the Company is a party to loan agreements with Bank of China (Hong Kong) Limited in respect of the following banking facilities (“BOC Facilities Agreements”):

- (i) a term loan facility up to HK\$80,000,000 with a repayment term of three years after the date of advance of the loan (the outstanding loan balance was HK\$60,000,000 as at 31 December 2013);
- (ii) Another term loan facility up to HK\$50,000,000 with a repayment term of three years after the date of advance of the loan (the outstanding loan balance was HK\$50,000,000 as at 31 December 2013); and
- (iii) a revolving loan for an amount up to HK\$40,000,000 (the outstanding loan balance was HK\$40,000,000 as at 31 December 2013).

## REPORT OF THE DIRECTORS

The following specific performance obligations are imposed on the controlling shareholders of the Company under the BOC Facilities Agreements:

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall maintain to hold not less than 35% of the issued share capital of the Company; and
- (ii) Mr. Zhang Hwo Jie shall remain as the chairman of the board of directors and an executive director of the Company.

In addition, a subsidiary of the Company is a party to loan agreements with Hang Seng Bank Limited in respect of the following facilities (“HSB Facilities Agreements”):

- (i) a term loan facility up to HK\$250,000,000 for a term of four years from August 2012, being five months after the date of the relevant facility letter (the outstanding loan balance was HK\$214,286,000 as at December 2013);
- (ii) another term loan facility in the principal amount of HK\$250,000,000, which is repayable by instalments over 4 years from the date of drawdown (the outstanding loan balance was HK\$250,000,000 as at 31 December 2013);
- (iii) another term loan facility up to HK\$30,000,000 for a term of three years from the date of drawdown of the loan (the outstanding loan balance was HK\$3,000,000 as at 31 December 2013);
- (iv) revolving loan facility of HK\$50,000,000 (the outstanding loan balance was HK\$50,000,000 as at 31 December 2013);
- (v) combined documentary credits in the amount of HK\$25,000,000 (there was no outstanding balance as at 31 December 2013); and
- (vi) treasury products facility with a notional amount of HK\$47,619,048 (there was no outstanding balance as at 31 December 2013).

Under the HSB Facilities Agreements, Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua together shall maintain an aggregate shareholding of not less than 35% of the issued share capital of the Company, and Mr. Zhang Hwo Jie shall remain as the chairman of the board of directors of the Company.

## REPORT OF THE DIRECTORS

A subsidiary of the Company is also a party to the loan agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. in respect of a four years term loan facility of up to HK\$50,000,000 (“BTMU Facility Agreement”), and the total outstanding balance of the loan was HK\$30,769,000 as at 31 December 2013.

The following specific performance obligations are imposed on the controlling shareholders of the Company under the BTMU Facility Agreement:

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall hold not less than 35% of the entire issued share capital of the Company; and
- (ii) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall collectively remain as single largest shareholder of the Company.

Certain subsidiaries of the Company are also parties to loan agreements with The Hongkong and Shanghai Banking Corporation Limited in respect of the following facilities (“HSBC Facility Agreements”):

- (i) a term loan facility for an amount up to HK\$250,000,000 with a repayment period of five years from the date of acceptance of the relevant facility letter (the outstanding loan balance was HK\$206,500,000 as at 31 December 2013);
- (ii) a revolving loan facility for an amount up to HK\$50,000,000 (the outstanding loan balance was HK\$50,000,000 as at 31 December 2013);
- (iii) other term loan facilities with outstanding balances of approximately HK\$40,986,000 as at 31 December 2013 (fully repayable in 2017); and
- (iv) factoring facilities up to HK\$21,600,000.

The following specific performance obligations are imposed on the controlling shareholders of the Company under the HSBC Facility Agreements:

- (i) Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua shall maintain not less than 35% of the issued share capital of the Company; and
- (ii) Mr. Zhang Hwo Jie shall remain as the chairman of the board of directors of the Company.

## REPORT OF THE DIRECTORS

Besides, certain subsidiaries of the Company had entered into banking facility agreements with Fubon Bank (Hong Kong) Limited in respect of the following banking facilities (“Fubon Facility Agreements”):

- (i) short term advance facility on a revolving basis of up to US\$7,000,000 (the outstanding loan balance was US\$7,000,000 as at 31 December 2013); and
- (ii) facility for treasury transactions up to an aggregate pre-settlement risk amount of not more than US\$1,000,000 (there was no outstanding balance as at 31 December 2013).

Pursuant to the Fubon Facility Agreements, Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua together shall maintain not less than 35% of the issued share capital of the Company.

A breach of any of the aforesaid obligations will constitute an event of default under the relevant facilities agreements which may result in, inter alia, the cancellation of all or any part of the commitments under the relevant facilities agreements and all borrowed amounts outstanding becoming immediately due and payable.

### SHARE OPTIONS

The Company conditionally adopted a share option scheme (the “Share Option Scheme”) on 20 April 2005 which became unconditional on 11 May 2005.

The following is a summary of the Share Option Scheme disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited:

#### 1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide the people and the parties working for the interests of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group.

#### 2. Participants of the Share Option Scheme

- a. full-time or part-time employees of the Group;
- b. directors (including any executive, non-executive and independent non-executive directors) of the Group;
- c. substantial shareholders of each member of the Group;
- d. associates of directors or substantial shareholders of each member of the Group; and
- e. trustees of any trust pre-approved by the Board, the beneficiary of which includes any of the above-mentioned persons.



## REPORT OF THE DIRECTORS

### **3. Total number of shares available for issue under the Share Option Scheme and the percentage of issued share capital as at the date of this report**

Pursuant to the terms of the Share Option Scheme adopted by the Company on 20 April 2005, the maximum number of shares in respect of which options may be granted thereunder must not exceed 52,000,000 shares ("Scheme Mandate Limit") unless the Company obtains a fresh approval from its shareholders. At the annual general meeting of the Company held on 18 May 2007 ("2007 AGM"), the Scheme Mandate Limit was refreshed with the shareholders' approval whereby the directors were authorised to grant options to subscribe for up to 72,000,000 shares, representing 10% of the Company's issued share capital as at the date of the 2007 AGM. The Scheme Mandate Limit was further refreshed at the annual general meeting of the Company held on 10 June 2009 ("2009 AGM"), whereby the directors were authorised to grant options to subscribe for up to 65,166,200 shares, representing 10% of the issued share capital of the Company as at the date of the 2009 AGM. The Scheme Mandate Limit was further refreshed again at the annual general meeting of the Company held on 21 May 2012 ("2012 AGM"), whereby the directors were authorised to grant options to subscribe for up to 175,905,380 shares, representing 10% of the issued share capital of the Company as at the date of the 2012 AGM. At the annual general meeting of the Company held on 21 May 2013 ("2013 AGM"), the Scheme Mandate Limit was further refreshed whereby the directors were authorised to grant options to subscribe up to 167,977,380 shares, representing 10% of the Company's issued share capital as at the date of the 2013 AGM. Subsequent to the 2013 AGM and up to the date of this report, no options have been granted by the directors. Accordingly, options to subscribe for up to 167,977,380 shares (representing 10% of the issued share capital as at the date of this report) are available for issue under the Scheme Mandate Limit refreshed as aforesaid.

### **4. Maximum entitlement of each participant under the Share Option Scheme**

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Group to each participant (including both exercised and outstanding options) in any twelve month period must not exceed 1% of the total number of the Company's shares in issue. Any further grant of options in excess of this limit must be subject to shareholders' approval in general meeting at which the relevant participant and his associates must abstain from voting.

### **5. The period within which shares must be taken up under an option**

Commencing on the date of grant of an option and expiring at 10 years from that date.

## REPORT OF THE DIRECTORS

### **6. The minimum period for which an option must be held before it can be exercised**

There is no general requirement on the minimum period for which an option must be held or the performance targets which must be achieved before an option can be exercised under the terms of the Share Option Scheme.

### **7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid**

Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant. Any offer may be accepted or deemed to have been accepted in respect of less than the number of shares for which it is offered provided that it is accepted in respect of a board lot for dealing in shares on The Stock Exchange of Hong Kong Limited or an integral multiple thereof. To the extent that the offer is not accepted within 21 days from the date of offer, it will be deemed to have been irrevocably declined and the offer will lapse.

### **8. The basis of determining the exercise price**

The subscription price for the shares under the Share Option Scheme shall be determined by the Board in its absolute discretion and notified to the participant, provided that such price shall be at least the highest of (i) the closing price of shares as stated in the daily quotations of The Stock Exchange of Hong Kong Limited on the date of offer of an option which must be a trading day; (ii) the average closing price of the shares as stated in the daily quotations of The Stock Exchange of Hong Kong Limited for the five consecutive trading days immediately preceding the date of offer; and (iii) the nominal value of a share.

## REPORT OF THE DIRECTORS

### 9. The remaining life of the Share Option Scheme

The Share Option Scheme is valid and effective for a period of 10 years. It commenced on 20 April 2005 and will expire on 19 April 2015.

Details of the movements of the share options under the Share Option Scheme for the year ended 31 December 2013 are as follows:

|  | As at<br>1 January<br>2013 | Granted<br>during<br>the year | Exercised<br>during<br>the year | As at<br>31 December<br>2013 | Share price<br>immediately<br>before<br>offer date<br>HK\$ | Exercise<br>price<br>HK\$ | Weighted<br>average<br>closing price<br>before<br>exercise of<br>options<br>HK\$ |
|--|----------------------------|-------------------------------|---------------------------------|------------------------------|--|---------------------------|--|
| <b>Executive directors</b>                 |                            |                               |                                 |                              |  |                           |  |
| Mr. Zhang Hwo Jie                          |                            |                               |                                 |                              |  |                           |  |
| – Granted on 7 November 2012               | 16,000,000                 | –                             | –                               | 16,000,000                   | 0.69   | 0.69                      | –  |
| Mr. Zhang Jian Hua                         |                            |                               |                                 |                              |  |                           |  |
| – Granted on 7 November 2012               | 16,000,000                 | –                             | –                               | 16,000,000                   | 0.69   | 0.69                      | –  |
| Mr. Zhang Yaohua                           |                            |                               |                                 |                              |  |                           |  |
| – Granted on 7 November 2012               | 16,000,000                 | –                             | –                               | 16,000,000                   | 0.69   | 0.69                      | –  |
| <b>Independent non-executive directors</b> |                            |                               |                                 |                              |  |                           |  |
| Mr. Choy Tak Ho                            |                            |                               |                                 |                              |  |                           |  |
| – Granted on 7 November 2012               | 300,000                    | –                             | –                               | 300,000                      | 0.69   | 0.69                      | –  |
| – Granted on 26 April 2013                 | –                          | 300,000                       | –                               | 300,000                      | 1.20   | 1.16                      | –  |
| Mr. Leung Tai Chiu                         |                            |                               |                                 |                              |  |                           |  |
| – Granted on 7 November 2012               | 300,000                    | –                             | –                               | 300,000                      | 0.69   | 0.69                      | –  |
| – Granted on 26 April 2013                 | –                          | 300,000                       | –                               | 300,000                      | 1.20   | 1.16                      | –  |
| Mr. Lam Hiu Lo (Note 1)                    |                            |                               |                                 |                              |  |                           |  |
| – Granted on 12 January 2013               | –                          | 300,000                       | –                               | 300,000                      | 1.16   | 1.172                     | –  |
| – Granted on 26 April 2013                 | –                          | 300,000                       | –                               | 300,000                      | 1.20   | 1.16                      | –  |
| Dr. Lui Sun Wing (Note 2)                  |                            |                               |                                 |                              |  |                           |  |
| – Granted on 7 November 2012 (Note 3)      | 300,000                    | –                             | (300,000)                       | –                            | 0.69   | 0.69                      | 1.09   |
| <b>Employees of the Group</b>              |                            |                               |                                 |                              |  |                           |  |
| In aggregate                               |                            |                               |                                 |                              |  |                           |  |
| – Granted on 10 December 2008              | 7,114,200                  | –                             | –                               | 7,114,200                    | 0.165  | 0.175                     | –  |
| – Granted on 2 October 2009                | 1,120,000                  | –                             | –                               | 1,120,000                    | 0.405  | 0.41                      | –  |
| – Granted on 7 November 2012               | 88,970,000                 | –                             | –                               | 88,970,000                   | 0.69   | 0.69                      | –  |
| – Granted on 26 April 2013                 | –                          | 20,950,000                    | –                               | 20,950,000                   | 1.20   | 1.16                      | –  |
|  | <u>146,104,200</u>         | <u>22,150,000</u>             | <u>(300,000)</u>                | <u>167,954,200</u>           |  |                           |  |

## REPORT OF THE DIRECTORS

## Notes:

1. Mr. Lam Hiu Lo was appointed as an independent non-executive director of the Company with effect from 11 January 2013.
2. Dr. Lui Sun Wing ceased to be an independent non-executive director of the Company with effect from 11 January 2013.
3. The 300,000 options granted to Dr. Lui Sun Wing on 7 November 2012 was originally only exercisable on or after 2 January 2014 and should also lapse on 11 January 2013, the date on which Dr. Lui Sun Wing ceased to be an independent non-executive director of the Company. However, in appreciation of the efforts and valuable contributions of Dr. Lui Sun Wing as an independent non-executive director since the listing of the Group in 2005, the Board, on the recommendation of the remuneration committee, had on 11 January 2013 exercised its discretion under the Share Option Scheme to waive the vesting period of the 300,000 options granted to Dr. Lui Sun Wing so that they became immediately exercisable, and to defer the date of lapse of such options from 11 January 2013 to 10 February 2013. The aforesaid waiver of the vesting period and the deferral of the date of lapse of these options had been approved by the independent non-executive directors. Such options were exercised by Dr. Lui Sun Wing on 18 January 2013.

The fair value of the options granted on 10 December 2008, 2 October 2009 and 7 November 2012 with outstanding balances as at 31 December 2013 of 7,114,200 options, 1,120,000 options and 137,570,000 options were HK\$340,000, HK\$92,000 and HK\$34,874,000 respectively. The fair value of 300,000 options and 21,850,000 options granted on 12 January 2013 and 26 April 2013 were HK\$118,000 and HK\$8,464,000 respectively. These fair values were calculated using the Black-Scholes valuation model and the significant inputs into the model were as follows:

|                             | <b>Exercise price</b> | <b>Expected volatility</b> | <b>Expected life</b> | <b>Risk-free rate</b> | <b>Dividend paid-out rate</b> |
|-----------------------------|-----------------------|----------------------------|----------------------|-----------------------|-------------------------------|
|                             | HK\$                  |                            |                      |                       |                               |
| Granted on 10 December 2008 | 0.175                 | 51.99%                     | 3 years              | 0.922%                | 3.00%                         |
| Granted on 2 October 2009   | 0.41                  | 56.65%                     | 1 year               | 0.16%                 | 3.68%                         |
| Granted on 7 November 2012  | 0.69                  | 64.19%                     | 2.2 years            | 0.241%                | 3.3333%                       |
| Granted on 12 January 2013  | 1.172                 | 66.361%                    | 1.97 years           | 0.141%                | 2.0354%                       |
| Granted on 26 April 2013    | 1.16                  | 66.349%                    | 1.74 years           | 0.184%                | 1.087%                        |

## REPORT OF THE DIRECTORS

The expected volatility is based on historic volatility adjusted for any expected changes to future volatility based on publicly available information. Dividend paid-out rate is based on historical dividend paid-out rate. Changes in these subjective input assumptions could affect the fair value estimate. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an option.

All options referred to the above are subject to vesting schedules and exercise periods as follows:

| <u>% of the options granted</u>  | <u>Vesting date</u> | <u>Exercise period</u>               |
|--|---------------------|--------------------------------------|
| <b>With respect to the options granted on 10 December 2008 with exercise price of HK\$0.175</b>  |                     |                                      |
| 100%   | 10 December 2008    | 10 December 2008 to 19 November 2018 |
| <b>With respect to the options granted on 2 October 2009 with exercise price of HK\$0.41</b>   |                     |                                      |
| 100%   | 5 October 2009      | 5 October 2009 to 1 October 2019     |
| <b>With respect to the options granted on 7 November 2012, 12 January 2013 and 26 April 2013 with exercise prices of HK\$0.69, HK\$1.172 and HK\$1.16 respectively</b> |                     |                                      |
| 100%   | 2 January 2014      | 2 January 2014 to 6 November 2017    |

## DISCLOSURE OF INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 31 December 2013, the interests and/or short positions of the directors or chief executive of the Company's in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, to be notified to the Company and The Stock Exchange of Hong Kong Limited were as follows:

## REPORT OF THE DIRECTORS

## (i) Long position in shares of the Company

| Name of director   | Corporate interests     | Personal interests | Interest of spouse | Personal interests in underlying shares held | Total interests | Approximate percentage of interest in the Company as at |
|--------------------|-------------------------|--------------------|--------------------|--|-----------------|---|
|                    |                         |                    |                    | under equity derivatives                     |                 | 31 December 2013  |
|                    |                         |                    |                    | (Note 1)                                     |                 |   |
| Mr. Zhang Hwo Jie  | 641,480,000<br>(Note 2) | 15,692,000         | –                  | 16,000,000                                   | 673,172,000     | 40.08%  |
| Mr. Zhang Jian Hua | –                       | 664,000            | –                  | 16,000,000                                   | 16,664,000      | 0.99%   |
| Mr. Zhang Yaohua   | 5,648,000<br>(Note 3)   | 10,132,000         | 156,000            | 16,000,000                                   | 31,936,000      | 1.90%   |
| Mr. Choy Tak Ho    | –                       | –                  | –                  | 600,000                                      | 600,000         | 0.04%   |
| Mr. Leung Tai Chiu | –                       | 4,600,000          | –                  | 600,000                                      | 5,200,000       | 0.31%   |
| Mr. Lam Hiu Lo     | –                       | –                  | –                  | 600,000                                      | 600,000         | 0.04%   |

## Notes:

- These interests represent the directors' beneficial interests in the underlying shares in respect of share options granted by the Company to the directors as beneficial owners, details of which are set out in the section headed "Share Options" above.
- Mr. Zhang Hwo Jie holds 38% of the entire issued capital of Prosper Empire Limited, which was interested in 38.19% of the entire issued capital of the Company as at 31 December 2013. Under the SFO, Mr. Zhang Hwo Jie is deemed to be interested in the shares held by Prosper Empire Limited.
- These shares are held under Billion Fortune Group Limited, a company incorporated in the British Virgin Islands and is 100% owned by Mr. Zhang Yaohua, a director of the Company.

## REPORT OF THE DIRECTORS

### (ii) Long position in shares of Prosper Empire Limited, an associated corporation of the Company

| <u>Name of director</u> | <u>Capacity</u>    | <b>Approximate percentage of<br/>interest in Prosper Empire Limited<br/>as at 31 December 2013</b> |
|-------------------------|--------------------|--|
| Mr. Zhang Hwo Jie       | Personal interests | 38%  |
| Mr. Zhang Jian Hua      | Personal interests | 29%  |
| Mr. Zhang Yaohua        | Personal interests | 33%  |

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, the interests or short positions of the persons (other than a director or chief executive of the Company) in the shares or underlying shares of the Company as recorded in the register of interests kept by the Company under section 336 of the SFO are as follows:

| <u>Name</u>                       | <u>Capacity</u>             | <u>Number of<br/>shares</u> | <u>Number of<br/>underlying<br/>shares held<br/>under equity<br/>derivatives</u> | <u>Total<br/>interests</u> | <u>Approximate<br/>percentage<br/>of interest</u> |
|-----------------------------------|-----------------------------|-----------------------------|--|----------------------------|---|
| Prosper Empire Limited            | Beneficial owner            | 641,480,000                 | –  | 641,480,000                | 38.19%  |
| Ms. Shen Chan Jie Lin             | Interest of spouse (Note 1) | 657,172,000                 | 16,000,000   | 673,172,000                | 40.08%  |
| The Capital Group Companies, Inc. | Investment manager          | 134,652,000                 | –  | 134,652,000                | 8.02%   |

Note –

- Under the SFO, Ms. Shen Chan Jie Lin is deemed to be interested in the shares held by Mr. Zhang Hwo Jie, who is interested in 38% of the issued share capital of Prosper Empire Limited. The interests disclosed by Ms. Shen Chan Jie Lin included the 641,480,000 shares of the Company held by Prosper Empire Limited.

## REPORT OF THE DIRECTORS

### PURCHASES, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2013.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated.

### CLOSURE OF REGISTER OF MEMBERS

To determine which shareholders will be eligible to attend and vote at the forthcoming annual general meeting to be held on Wednesday, 21 May 2014, the register of members of the Company will be closed from Monday, 19 May 2014 to Wednesday, 21 May 2014, both days inclusive, during which period no share transfer will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 16 May 2014.

Subject to the shareholders' approval of the recommended final dividend at the annual general meeting of the Company, the final dividend will be payable on or about Wednesday, 4 June 2014 to shareholders whose names appear on the register of members on Wednesday, 28 May 2014. To determine eligibility for the final dividend, the register of members of the Company will be closed from Tuesday, 27 May 2014 to Wednesday, 28 May 2014, both days inclusive, during which period no share transfer will be registered. In order to qualify for the entitlement to the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 26 May 2014.

### CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 36 to page 47.



## REPORT OF THE DIRECTORS

### AUDIT COMMITTEE

The Company has set up an audit committee, in accordance with the requirements of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purpose of reviewing and providing supervision on the financial reporting process and internal control system of the Group. Prior to 11 January 2013, the audit committee was chaired by Dr. Lui Sun Wing and its members comprised Dr. Lui Sun Wing, Mr. Choy Tak Ho and Mr. Leung Tai Chiu, the three independent non-executive directors of the Company. On 11 January 2013, Dr. Lui Sun Wing ceased to be the Company's independent non-executive director and a member and the chairman of the audit committee. With effect from 11 January 2013, Mr. Leung Tai Chiu replaced Dr. Lui Sun Wing as the chairman of the audit committee and the vacancy left by Dr. Lui Sun Wing in the audit committee was filled by Mr. Lam Hiu Lo, who was appointed as an independent non-executive director of the Company on the same day. The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters with management including a review of the audited consolidated financial statements for the year ended 31 December 2013.

### SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained a sufficient public float as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the year ended 31 December 2013 and up to the date of this report.

### AUDITORS

The consolidated financial statements for the year ended 31 December 2013 have been audited by PricewaterhouseCoopers. A resolution for the re-appointment of PricewaterhouseCoopers as the Company's auditor for the ensuing year is to be proposed at the forthcoming annual general meeting.

By order of the Board

**Zhang Hwo Jie**

*Chairman*

Hong Kong, 26 March 2014

## INDEPENDENT AUDITOR'S REPORT

### **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EVA PRECISION INDUSTRIAL HOLDINGS LIMITED**

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

We have audited the consolidated financial statements of EVA Precision Industrial Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 67 to 159, which comprise the consolidated and company statements of financial position as at 31 December 2013, and 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.

#### **Auditor's 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 Standards 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.

## INDEPENDENT AUDITOR'S REPORT

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 auditor's 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 auditor considers 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.

### 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 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 26 March 2014

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

|   | Note | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|---|------|--------------------------------|------------------|
| <b>ASSETS</b>   |      |                                |                  |
| <b>Non-current assets</b>                             |      |                                |                  |
| Property, plant and equipment                         | 6    | <b>1,883,099</b>               | 1,702,098        |
| Leasehold land and land use rights                    | 7    | <b>167,500</b>                 | 176,296          |
| Goodwill  | 8    | <b>2,545</b>                   | 2,545            |
| Investments accounted for using the equity method     | 9b   | <b>17,858</b>                  | 9,538            |
| Prepayments, deposits and other receivables           | 13   | <b>140,372</b>                 | 142,518          |
| Other assets  |      | <b>1,607</b>                   | 1,607            |
|   |      | <b>2,212,981</b>               | 2,034,602        |
| <b>Current assets</b>                                 |      |                                |                  |
| Inventories   | 10   | <b>309,935</b>                 | 270,185          |
| Trade receivables                                     | 11   | <b>552,603</b>                 | 422,990          |
| Loan and interest receivables                         | 12   | <b>135,830</b>                 | 6,166            |
| Prepayments, deposits and other receivables           | 13   | <b>120,988</b>                 | 78,246           |
| Financial assets at fair value through profit or loss | 14   | –                              | 17,277           |
| Short-term bank deposits                              | 15   | <b>50,876</b>                  | 102,362          |
| Restricted cash                                       | 15   | <b>12,205</b>                  | 2,913            |
| Cash and cash equivalents                             | 15   | <b>953,426</b>                 | 888,994          |
|   |      | <b>2,135,863</b>               | 1,789,133        |
| <b>LIABILITIES</b>                                    |      |                                |                  |
| <b>Current liabilities</b>                            |      |                                |                  |
| Trade payables  | 16   | <b>514,317</b>                 | 392,158          |
| Accruals and other payables                           | 17   | <b>228,647</b>                 | 154,278          |
| Bank borrowings                                       | 18   | <b>653,393</b>                 | 530,150          |
| Finance lease liabilities                             | 19   | <b>52,344</b>                  | 27,435           |
| Current income tax liabilities                        |      | <b>26,167</b>                  | 25,654           |
|   |      | <b>1,474,868</b>               | 1,129,675        |
| <b>Net current assets</b>                             |      | <b>660,995</b>                 | 659,458          |
| <b>Total assets less current liabilities</b>          |      | <b>2,873,976</b>               | 2,694,060        |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

|   | Note | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|---|------|--------------------------------|------------------|
| <b>LIABILITIES</b>                                  |      |                                |                  |
| <b>Non-current liabilities</b>                      |      |                                |                  |
| Bank borrowings                                     | 18   | <b>586,379</b>                 | 539,804          |
| Finance lease liabilities                           | 19   | <b>95,638</b>                  | 56,082           |
| Deferred taxation                                   | 20   | <b>22,008</b>                  | 22,498           |
|   |      | <b>704,025</b>                 | 618,384          |
| <b>Net assets</b>                                   |      | <b>2,169,951</b>               | 2,075,676        |
| <b>EQUITY</b>                                       |      |                                |                  |
| <b>Capital and reserves</b>                         |      |                                |                  |
| Share capital                                       | 21   | <b>167,977</b>                 | 167,947          |
| Reserves  | 22   |                                |                  |
| – Proposed final dividend                           |      | <b>8,567</b>                   | 9,239            |
| – Others  |      | <b>1,925,713</b>               | 1,836,464        |
| <b>Equity attributable to owners of the Company</b> |      | <b>2,102,257</b>               | 2,013,650        |
| <b>Non-controlling interests</b>                    |      | <b>67,694</b>                  | 62,026           |
| <b>Total equity</b>                                 |      | <b>2,169,951</b>               | 2,075,676        |

**Zhang Hwo Jie**  
Director

**Zhang Jian Hua**  
Director

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

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

|  | Note | 2013<br>HK\$'000 | 2012<br>HK\$'000 |
|--|------|------------------|------------------|
| <b>ASSETS</b>                                    |      |                  |                  |
| <b>Non-current assets</b>                        |      |                  |                  |
| Investments in and amounts due from subsidiaries | 9a   | 1,435,541        | 1,357,960        |
| <b>Current assets</b>                            |      |                  |                  |
| Cash and cash equivalents                        | 15   | 3,102            | 3,519            |
|  |      | <b>3,102</b>     | 3,519            |
| <b>LIABILITIES</b>                               |      |                  |                  |
| <b>Current liabilities</b>                       |      |                  |                  |
| Accruals and other payables                      | 17   | 29,438           | 29,429           |
| <b>Net current liabilities</b>                   |      |                  |                  |
|  |      | <b>26,336</b>    | 25,910           |
| <b>Net assets</b>                                |      |                  |                  |
|  |      | <b>1,409,205</b> | 1,332,050        |
| <b>EQUITY</b>                                    |      |                  |                  |
| <b>Capital and reserves</b>                      |      |                  |                  |
| Share capital                                    | 21   | 167,977          | 167,947          |
| Reserves   | 22   |                  |                  |
| – Proposed final dividend                        |      | 8,567            | 9,239            |
| – Others   |      | 1,232,661        | 1,154,864        |
| <b>Total equity</b>                              |      |                  |                  |
|  |      | <b>1,409,205</b> | 1,332,050        |

**Zhang Hwo Jie**  
Director

**Zhang Jian Hua**  
Director

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

|  | Note | 2013<br>HK\$'000   | 2012<br>HK\$'000 |
|--|------|--------------------|------------------|
| <b>Revenue</b>   | 5    | <b>2,655,715</b>   | 2,367,023        |
| Cost of sales  | 24   | <b>(2,015,939)</b> | (1,855,961)      |
| <b>Gross profit</b>  |      | <b>639,776</b>     | 511,062          |
| Other income   |      | <b>155</b>         | 63               |
| Other gains – net  | 23   | <b>25,144</b>      | 8,031            |
| Selling and marketing costs  | 24   | <b>(139,150)</b>   | (112,963)        |
| General and administrative expenses  | 24   | <b>(432,296)</b>   | (302,419)        |
| <b>Operating profit</b>  |      | <b>93,629</b>      | 103,774          |
| Finance income   | 26   | <b>10,418</b>      | 4,807            |
| Finance costs  | 26   | <b>(28,716)</b>    | (23,512)         |
| Share of loss of investments accounted for using the equity method   | 9b   | <b>(3,072)</b>     | (999)            |
| <b>Profit before income tax</b>  |      | <b>72,259</b>      | 84,070           |
| Income tax expense   | 27   | <b>(12,784)</b>    | (14,462)         |
| <b>Profit for the year</b>   | 28   | <b>59,475</b>      | 69,608           |
| Other comprehensive income for the year,<br>net of tax item that may be reclassified subsequently to<br>profit or loss |      |                    |                  |
| Currency translation differences   |      | <b>12,246</b>      | 1,000            |
| Total comprehensive income for the year  |      | <b>71,721</b>      | 70,608           |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

|  | Note | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|--|------|--------------------------------|------------------|
| Profit attributable to:  |      |                                |                  |
| – Equity holders of the Company  |      | <b>55,427</b>                  | 70,889           |
| – Non-controlling interests  |      | <b>4,048</b>                   | (1,281)          |
|  |      | <b>59,475</b>                  | 69,608           |
| Total comprehensive income attributable to:  |      |                                |                  |
| – Equity holders of the Company  |      | <b>66,053</b>                  | 71,889           |
| – Non-controlling interests  |      | <b>5,668</b>                   | (1,281)          |
|  |      | <b>71,721</b>                  | 70,608           |
| <b>Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in HK cents per share)</b> |      |                                |                  |
| – basic  | 29   | <b>3.3</b>                     | 4.1              |
| – diluted  | 29   | <b>3.2</b>                     | 4.1              |
| <b>Dividends</b>   | 30   | <b>16,630</b>                  | 21,345           |

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



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

|  | Note  | Attributable to owners of the<br>Company |                      |   | Total<br>HK\$'000 |
|--|-------|--|----------------------|---|-------------------|
|  |       | Share<br>capital<br>HK\$'000             | Reserves<br>HK\$'000 | Non-<br>controlling<br>interest<br>HK\$'000 |                   |
|  |       |  |                      |   |                   |
| Balance at 1 January 2012                              |       | <u>175,905</u>                           | <u>1,855,024</u>     | <u>13,483</u>                               | <u>2,044,412</u>  |
| Comprehensive income                                   |       |  |                      |   |                   |
| Profit for the year                                    |       | <u>–</u>                                 | <u>70,889</u>        | <u>(1,281)</u>                              | <u>69,608</u>     |
| Other comprehensive income                             |       |  |                      |   |                   |
| Currency translation differences                       |       | <u>–</u>                                 | <u>1,000</u>         | <u>–</u>                                    | <u>1,000</u>      |
| Total comprehensive income for the year                |       | <u>–</u>                                 | <u>71,889</u>        | <u>(1,281)</u>                              | <u>70,608</u>     |
| Transactions with owners                               |       |  |                      |   |                   |
| Employee share option scheme                           |       |  |                      |   |                   |
| – value of employee services                           | 21    | <u>–</u>                                 | <u>3,884</u>         | <u>–</u>                                    | <u>3,884</u>      |
| – proceeds from shares issued                          | 21&22 | <u>10</u>                                | <u>7</u>             | <u>–</u>                                    | <u>17</u>         |
| Repurchase of shares                                   | 21&22 | <u>(7,968)</u>                           | <u>(44,849)</u>      | <u>–</u>                                    | <u>(52,817)</u>   |
| Dividends paid   |       | <u>–</u>                                 | <u>(40,252)</u>      | <u>–</u>                                    | <u>(40,252)</u>   |
| Capital contribution from<br>non-controlling interests |       | <u>–</u>                                 | <u>–</u>             | <u>49,824</u>                               | <u>49,824</u>     |
|  |       | <u>(7,958)</u>                           | <u>(81,210)</u>      | <u>49,824</u>                               | <u>(39,344)</u>   |
| Balance at 31 December 2012                            |       | <u>167,947</u>                           | <u>1,845,703</u>     | <u>62,026</u>                               | <u>2,075,676</u>  |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

|   | Note  | Attributable to owners<br>of the Company |                      |               | Non-<br>controlling<br>interest | Total |
|---|-------|--|----------------------|---------------|---------------------------------|-------|
|   |       | Share<br>capital<br>HK\$'000             | Reserves<br>HK\$'000 |               |                                 |       |
| Balance at 1 January 2013               |       | <b>167,947</b>                           | <b>1,845,703</b>     | <b>62,026</b> | <b>2,075,676</b>                |       |
| Comprehensive income                    |       |  |                      |               |                                 |       |
| Profit for the year                     |       | -  | <b>55,427</b>        | <b>4,048</b>  | <b>59,475</b>                   |       |
| Other comprehensive income              |       |  |                      |               |                                 |       |
| Currency translation differences        |       | -  | <b>10,626</b>        | <b>1,620</b>  | <b>12,246</b>                   |       |
| Total comprehensive income for the year |       | -  | <b>66,053</b>        | <b>5,668</b>  | <b>71,721</b>                   |       |
| Transactions with owners                |       |  |                      |               |                                 |       |
| Employee share option scheme            |       |  |                      |               |                                 |       |
| – value of employee services            | 21    | -  | <b>39,648</b>        | -             | <b>39,638</b>                   |       |
| – proceeds from shares issued           | 21&22 | <b>30</b>                                | <b>177</b>           | -             | <b>207</b>                      |       |
| Dividends paid                          |       | -  | <b>(17,301)</b>      | -             | <b>(17,301)</b>                 |       |
|   |       | <b>30</b>                                | <b>22,524</b>        | -             | <b>22,554</b>                   |       |
| Balance at 31 December 2013             |       | <b>167,977</b>                           | <b>1,934,280</b>     | <b>67,694</b> | <b>2,169,951</b>                |       |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

|   | Note | 2013<br>HK\$'000 | 2012<br>HK\$'000 |
|---|------|------------------|------------------|
| <b>Cash flows from operating activities</b>                 |      |                  |                  |
| Cash generated from operations                              | 31   | <b>173,184</b>   | 226,910          |
| Interest received   |      | <b>10,418</b>    | 4,807            |
| Interest paid   |      | <b>(28,716)</b>  | (23,515)         |
| Hong Kong profits tax paid                                  |      | <b>(47)</b>      | (1,298)          |
| Overseas income tax paid                                    |      | <b>(12,753)</b>  | (26,636)         |
|   |      | <b>142,086</b>   | 180,268          |
| <b>Cash flows from investing activities</b>                 |      |                  |                  |
| Purchases of property, plant and equipment                  |      | <b>(166,224)</b> | (218,449)        |
| Government grant received                                   |      | <b>12,349</b>    | –                |
| Deposits for property, plant and equipment                  |      | <b>(110,884)</b> | (123,875)        |
| Investment in investments accounted for using equity method |      | <b>(6,287)</b>   | (6,777)          |
| Proceeds from sales of property, plant and equipment        | 31   | <b>–</b>         | 3,349            |
| Proceeds from sales of unlisted equity securities           |      | <b>22,349</b>    | –                |
| Increase in restricted cash                                 |      | <b>(9,292)</b>   | –                |
| Decrease/(increase) in short-term bank deposits             |      | <b>51,486</b>    | (102,362)        |
|   |      | <b>(206,503)</b> | (448,114)        |
| <b>Cash flows from financing activities</b>                 |      |                  |                  |
| Proceeds from borrowings                                    |      | <b>514,149</b>   | 852,000          |
| Repayments of borrowings                                    |      | <b>(344,331)</b> | (153,666)        |
| Repayments of capital element of finance lease liabilities  |      | <b>(27,434)</b>  | (13,184)         |
| Increase in pledged bank deposits                           |      | <b>–</b>         | (495)            |
| Proceeds from exercise of share options                     |      | <b>207</b>       | 17               |
| Capital contribution from non-controlling interests         |      | <b>–</b>         | 49,824           |
| Dividends paid  |      | <b>(17,301)</b>  | (40,252)         |
| Repurchases of shares                                       |      | <b>–</b>         | (52,817)         |
|   |      | <b>125,290</b>   | 641,427          |
| <b>Net increase in cash and cash equivalents</b>            |      |                  |                  |
| Cash and cash equivalents at beginning of the year          |      | <b>888,994</b>   | 514,871          |
| Exchange gains on cash and cash equivalents                 |      | <b>3,559</b>     | 542              |
|   |      | <b>953,426</b>   | 888,994          |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

EVA Precision Industrial Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in (1) the design and fabrication of metal stamping and plastic injection moulds, (2) the manufacturing of metal stamping and plastic injection components and lathing components. The Group also has a 60% owned subsidiary which engages in the micro lending business in China.

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 11 May 2005.

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 26 March 2014.

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basis and principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.1 Basis of preparation

The consolidated financial statements of EVA Precision Industrial Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are carried at fair value.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.1 Basis of preparation (Continued)

##### (a) *New and amended standards adopted by the Group*

The following new and amended standards are mandatory for the first time for the financial year beginning 1 January 2013.

|   |  |
|---|--|
| HKAS 1 (Amendment)                          | Financial statements presentation regarding other comprehensive income   |
| HKAS 19 (2011)                              | Employee Benefits  |
| HKAS 27 (Revised)                           | Separate Financial Statements  |
| HKAS 28 (Revised)                           | Investments in Associates and Joint Ventures   |
| HKFRS 1 (Amendment)                         | First-time adoption of HKFRSs – government loans   |
| HKFRS 7 (Amendment)                         | Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities                                |
| HKFRS 10                                    | Consolidated Financial Statements  |
| HKFRS 11                                    | Joint Arrangements   |
| HKFRS 12                                    | Disclosure of Interests in Other Entities  |
| HKFRS 10, HKFRS 11 and HKFRS 12 (Amendment) | Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance |
| HKFRS 13                                    | Fair Value Measurements  |
| HK(IFRIC) – Int 20                          | Stripping Costs in the Production Phase of a Surface Mine  |

Apart from certain additional disclosures, the adoption of the amendments to HKFRS has not had a material impact on the preparation of the Group's financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.1 Basis of preparation (Continued)

- (b) *New standards, amendments and interpretations to existing standards that have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted*

|                                     |   | <b>Effective for<br/>accounting<br/>periods beginning<br/>on or after</b> |
|-------------------------------------|---|---|
| HKAS 19 (Amendment)                 | Defined Benefit Plans: Employee Contributions   | 1 July 2014   |
| HKAS 32 (Amendment)                 | Financial Instruments: Presentation – Offsetting<br>Financial Assets and Financial Liabilities                          | 1 January 2014  |
| HKAS 36 (Amendment)                 | Recoverable Amount Disclosures for Non-Financial<br>Assets  | 1 January 2014  |
| HKAS 39 (Amendment)                 | Financial Instruments: Recognition and<br>measurement – Novation of Derivatives and<br>Continuation of Hedge Accounting | 1 January 2014  |
| HKFRS 9                             | Financial Instruments   | To be determined  |
| HKFRS 10, HKFRS 12 and<br>HKAS 27   | Exemption from Consolidation for Investment<br>Entities   | 1 January 2014  |
| HK(IFRIC) – Int 21                  | Levies  | 1 January 2014  |
| Annual improvements<br>2011 to 2013 | Improvements to HKASs and HKFRSs  | 1 July 2014   |
| HKFRS 14                            | Regulatory Deferral Accounts  | 1 January 2016  |

The Group has already commenced an assessment of the likely impact of adopting the above new standards, amendments and interpretations to existing standards but it is not yet in a position to state whether they will have a significant impact on its reported results of operations and financial position. The Group plans to adopt these new standards, amendments and interpretations to existing standards when they become effective.

#### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Consolidation (Continued)

##### (a) *Subsidiaries*

###### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

###### 2.2.2 Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former aggregate owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Consolidation (Continued)

##### (a) *Subsidiaries* (Continued)

##### 2.2.2 Business combination (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in profit or loss.

##### 2.2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

##### (b) *Transactions with non-controlling interests*

Transactions with non-controlling interest that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.2 Consolidation (Continued)

##### (b) *Transactions with non-controlling* (Continued)

When the Group ceases to have control, any retained interests in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### 2.3 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements as of 1 January 2012. Under HKFRS 11 investment in a joint arrangement is classified as either a joint operation or a joint venture depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangement and determined it to be a joint venture. A joint venture is accounted for using the equity method.

Under the equity method of accounting, interests in a joint venture are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Financial information reported by the joint venture has been changed where necessary to ensure consistency with the policies adopted by the Group.

The change in accounting policy has been applied as from 1 January 2012 and has had no material impact to the Group's financial statements because the Group previously adopted equity accounting for the joint venture.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. An investment in an associate is accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of loss of investments accounted for using equity method' in the statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Financial information reported by the associate has been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in an associate are recognised in the statement of comprehensive income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified collectively as the executive directors and senior management that make strategic decisions.

#### 2.6 Foreign currency translation

##### (a) *Functional and presentation currency*

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

##### (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other gains – net'.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.6 Foreign currency translation (Continued)

##### (c) *Group companies*

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

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

##### (d) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.6 Foreign currency translation (Continued)

##### (d) *Disposal of foreign operation and partial disposal* (Continued)

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that include a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interest and are not recognised in profit or loss. For all other partial disposals (that is, reduction in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

#### 2.7 Property, plant and equipment

Land and buildings comprise mainly factories and offices. Leasehold land interests classified as finance leases and all other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Leasehold land interests classified as finance leases commence amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land interests classified as finance leases and depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

|  |  |
|--|--|
| Leasehold land interests classified as<br>finance leases | Shorter of remaining lease term of<br>30-40 years or useful life |
| Buildings  | 20 years   |
| Plant and machinery                                      | 10 years   |
| Furniture and fixtures                                   | 5 years  |
| Motor vehicles   | 5 years  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Construction-in-progress, representing buildings, plant and machinery on which construction work has not been completed and machinery pending installation, is stated at historical cost, which includes construction expenditures incurred, cost of machinery, and other direct costs capitalised during the construction and installation period, less accumulated impairment losses, if any. No depreciation is provided in respect of construction-in-progress until the construction and installation work is completed. On completion, the construction-in-progress is transferred to appropriate categories of property, plant and equipment.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and recognised in the consolidated statement of comprehensive income.

#### 2.8 Leasehold land and land use rights

All land in Mainland China is state-owned or collectively-owned and no individual land ownership right exists. The Group has acquired the rights to use certain land in Mainland China. The premiums paid for leasehold land and land use rights are treated as prepayments for operating leases, recorded as leasehold land and land use rights, and are amortised over the lease/land use right periods using the straight-line method.

#### 2.9 Impairment of investments in subsidiaries and non-financial assets

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.10 Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in aggregate net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### 2.11 Financial assets/liabilities

##### 2.11.1 Classification

The Group classifies its financial assets and liabilities in the following categories: at fair value through profit or loss, loans and receivables and other financial liabilities at amortised cost. The classification depends on the purposes for which the financial assets and liabilities were acquired. Management determines the classification of its financial assets and liabilities at initial recognition.

##### (a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.11 Financial assets/liabilities (Continued)

##### 2.11.1 Classification (Continued)

###### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. Loans and receivables are classified as 'trade receivables', 'loan and interest receivables', 'other receivables', 'short-term bank deposits', 'restricted cash' and 'cash and cash equivalents' in the consolidated statement of financial position.

###### (c) Other financial liabilities at amortised cost

Other financial liabilities at amortised cost are non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. They are included in current liabilities, except for those with maturities greater than 12 months after the statement of financial position date, which are classified as non-current liabilities. Other financial liabilities are classified as 'bank borrowings', 'finance lease liabilities', 'other payables' and 'trade payables' in the consolidated statement of financial position.

##### 2.11.2 Recognition and measurement

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.11 Financial assets/liabilities (Continued)

##### 2.11.2 Recognition and measurement (Continued)

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within 'other gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets carried other than at fair value is impaired. Impairment testing of trade receivables is described in Note 2.13.

Recognitions and measurements of other financial liabilities at amortised cost are described in Notes 2.16 (Trade payables), 2.17 (Borrowings) and 2.22 (Leases).

#### 2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

#### 2.13 Trade, loan and other receivables

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.13 Trade, loan and other receivables (Continued)

Trade, loan and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade, loan and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments and where observable data indicate that there is a measurable decrease in the estimate future cash flows, such as changes in arrears or economic condition that correlate with default are considered indicators that the trade and loan receivable are impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within selling and marketing costs for trade receivables and general and administrative expenses for loan and other receivables. When trade and loan receivable are uncollectible, they are written off against the allowance for trade and loan receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs for trade receivables and general and administrative expenses for loan and other receivables in the consolidated statement of comprehensive income.

#### 2.14 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

#### 2.15 Share capital

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

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.16 Trade payables

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

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

#### 2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

#### 2.18 Current and deferred income tax

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

##### (a) Current income tax

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.18 Current and deferred income tax (Continued)

##### (b) *Deferred income tax*

###### Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

###### Outside basis differences

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

##### (c) *Offsetting*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.19 Employee benefits

##### (a) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the statement of financial position date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

##### (b) *Pension obligations*

Group companies participate in several defined contribution plans. The plans are generally funded through payments to trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employment costs when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### (c) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments ("options") of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets and the requirement to remain an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each statement of financial position date, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.19 Employee benefits (Continued)

##### (c) *Share-based compensation* (Continued)

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

##### (d) *Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses and profit-sharing, taking into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### 2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

#### 2.21 Revenue and other income

Revenue comprises the fair value of the consideration received and receivable for the sale of goods in the ordinary course of the Group's activities and interest income derived from the provision of micro lending. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.21 Revenue and other income (Continued)

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised as follows:

**(a) Sales of goods**

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

**(b) Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

#### 2.22 Leases (as the lessee)

The Group leases certain property, plant and equipment. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including any upfront payment made for leasehold land interests and land use rights (Note 2.8), are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property, plant and equipment and the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases is depreciated over the useful life of the asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.22 Leases (as the lessee) (Continued)

Each finance lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings.

The interest element of the finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

#### 2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowings costs are recognised in profit or loss in the period in which they are incurred.

#### 2.24 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment or leasehold land and land use rights are netted with the costs of the related assets.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.25 Financial guarantees

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. In accordance with HKFRS 4, Insurance Contracts, the Group companies do not recognise liabilities for financial guarantees at inception, but perform liability adequacy tests at each reporting date by comparing respective net liabilities (if applicable) regarding the financial guarantees with the amounts that would be required if the financial guarantees were to result in a present legal or constructive obligation. If the respective liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the consolidated statement of comprehensive income immediately.

#### 2.26 Dividend distributions

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or by the management as appropriate.

### 3 FINANCIAL RISK MANAGEMENT

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk.

##### (a) *Market risk*

##### (i) *Foreign exchange risk*

The Group mainly operates in Mainland China and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Chinese Renminbi and Japanese Yen. Foreign exchange risk also arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group manages its foreign exchange risks by performing regular reviews and the Group has not arranged any hedges against foreign exchange exposures.

The following table details the sensitivity of the Group's adjusted post-tax profit to a strengthening/weakening of the major currencies in which its net assets are exposed. The percentage movement applied to the currency is based on the average movements in the previous period. The analysis has been performed based on the movement occurring at the start of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (Continued)

##### (a) Market risk (Continued)

##### (i) Foreign exchange risk (Continued)

|   | Note | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|---|------|--------------------------------|------------------|
| Chinese Renminbi 2.23%<br>(2012: 0.77%) appreciation against<br>Hong Kong dollars | (a)  | <b>15,207</b>                  | 4,261            |
| Japanese Yen 18.02% (2012: 10.69%)<br>depreciation against<br>Hong Kong dollars   | (b)  | <b>(85)</b>                    | (284)            |
| Increase in post-tax profit   |      | <b><u>15,122</u></b>           | <u>3,977</u>     |

(a) The change in post-tax profit is mainly as a result of the net effect with revaluation of bank deposits, trade receivables and trade payables denominated in Chinese Renminbi.

(b) The change in post-tax profit is mainly as a result of the revaluation of bank deposits denominated in Japanese Yen.

##### (ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings and finance lease liabilities. Borrowings and finance lease liabilities at variable rates expose the Group to cash flow interest rate risk. Borrowings and finance lease liabilities at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings and finance lease liabilities have been disclosed in Notes 18 and 19 to the consolidated financial statements.

The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (Continued)

##### (a) Market risk (Continued)

##### (ii) Cash flow and fair value interest rate risk (Continued)

At 31 December 2013, 51% (2012: 46%) of the Group's gross borrowings were with a maturity period of less than one year. A 100 basis points fall/rise in market interest rates for all currencies in which the Group had borrowings at 31 December 2013 would increase or decrease the profit by approximately HK\$13,878,000 (2012: by HK\$11,535,000), mainly as a result of lower/higher interest expense on floating rate borrowings.

##### (iii) Price risk

The Group is exposed to equity securities price risk because of investments classified on the consolidated statement of financial position at fair value through profit or loss. If there had been a 5% change in the market value of financial assets at fair value through profit or loss with all other variables held constant, the Group's profit for the year would not be affected as the Group did not have any financial assets at fair value through profit or loss as at 31 December 2013 (2012: increased/decreased by HK\$864,000). The Group has not entered into any derivatives to manage such exposures.

##### (b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, short-term bank deposits, restricted cash, trade receivables, loan and interest receivables and deposits and other receivables. The carrying amounts of these asset categories represent the Company's maximum exposure to credit risk in relation to financial assets. Credit risk is monitored on an ongoing basis with reference to the financial position of the debtors, past experience and other factors.

As at 31 December 2012 and 2013, all the bank balances are deposited in high quality financial institutions, in the opinion of management, without significant credit risk. Management does not expect any losses from non-performance by these banks.

The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit histories and the Group performs credit evaluations of its customers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

Relating to the Group's loan and interest receivables, credit officers of the Group review the credit assessment of the customers' repayment ability and financial and operating conditions and approve the granting of loan facilities to the customers. The credit assessment and evaluation conducted involves the collection and evaluation of applicants' credit standing and financial information, coupled with other means of investigations which include quantitative and qualitative analysis of the borrowers' financial conditions and operational activities and the guarantors where applicable primarily through on-site investigation. The Group also manages credit risks of its existing loan portfolio on an individual basis and it monitors the loan repayment status and the latest developments and changes in the borrowers' business and financial conditions during the loan period so as to early detect indication of default risk of the borrowers. Additionally, the Group employs a range of policies and methods to mitigate credit risk, including primarily, taking collateral of properties.

The Group considers its maximum exposure to credit risk to be as follows:

|                                | <b>2013</b>     | 2012     |
|--------------------------------|-----------------|----------|
|                                | <b>HK\$'000</b> | HK\$'000 |
| Deposits and other receivables | <b>211,602</b>  | 199,781  |
| Trade receivables              | <b>553,791</b>  | 424,178  |
| Loan and interest receivables  | <b>137,195</b>  | 6,166    |
| Short-term bank deposits       | <b>50,876</b>   | 102,362  |
| Restricted cash                | <b>12,205</b>   | 2,913    |
| Cash and cash equivalents      | <b>953,426</b>  | 888,994  |

The majority of the Group's trade and loan receivables mature within the credit period and largely comprises amounts receivable from business customers. Refer to Note 11 and Note 12 for assessment on concentrations of credit risk of trade receivables and loan receivables, respectively.

Credit quality of deposits and other receivables has been assessed by reference to historical information about the counterparty default rates. The existing counterparties have not defaulted to the Group in the past.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (Continued)

##### (c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the banks' sole discretions, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other bank borrowings is prepared based on the scheduled repayment dates after taking into account the on demand clause, if any.

|  | On demand | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total     |
|--|-----------|------------------|-----------------------|-----------------------|--------------|-----------|
|  | HK\$'000  | HK\$'000         | HK\$'000              | HK\$'000              | HK\$'000     | HK\$'000  |
| <b>Group</b>                                       |           |                  |                       |                       |              |           |
| <b>At 31 December 2013</b>                         |           |                  |                       |                       |              |           |
| Bank borrowings                                    | -         | 635,060          | 272,252               | 313,689               | 438          | 1,221,439 |
| Term loans subject to a repayment on demand clause | 18,333    | -                | -                     | -                     | -            | 18,333    |
| Finance lease liabilities                          | -         | 52,344           | 47,576                | 48,062                | -            | 147,982   |
| Interest payable                                   | 450       | 25,222           | 6,062                 | 5,386                 | 7            | 37,127    |
| Trade payables                                     | -         | 514,317          | -                     | -                     | -            | 514,317   |
| Other payables                                     | -         | 89,768           | -                     | -                     | -            | 89,768    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (Continued)

##### (c) Liquidity risk (Continued)

|   | On<br>demand<br>HK\$'000 | Less than<br>1 year<br>HK\$'000 | Between<br>1 and 2<br>years<br>HK\$'000 | Between<br>2 and 5<br>years<br>HK\$'000 | Over<br>5 years<br>HK\$'000 | Total<br>HK\$'000 |
|---|--------------------------|---------------------------------|---|---|-----------------------------|-------------------|
| <b>At 31 December 2012</b>                            |                          |                                 |   |   |                             |                   |
| Bank borrowings                                       | -                        | 450,599                         | 198,444                                 | 340,502                                 | 858                         | 990,403           |
| Term loans subject to a<br>repayment on demand clause | 79,551                   | -                               | -                                       | -                                       | -                           | 79,551            |
| Finance lease liabilities                             | -                        | 27,435                          | 27,472                                  | 28,610                                  | -                           | 83,517            |
| Interest payable                                      | 1,506                    | 8,799                           | 6,399                                   | 17,314                                  | 26                          | 34,044            |
| Trade payables  | -                        | 392,158                         | -                                       | -                                       | -                           | 392,158           |
| Other payables  | -                        | 54,657                          | -                                       | -                                       | -                           | 54,657            |

The table that follows summarises the maturity analysis of term loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (Continued)

##### (c) Liquidity risk (Continued)

Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments

|                         | Within<br>1 year<br>HK\$'000 | More than<br>1 year but<br>less than<br>2 years<br>HK\$'000 | More than<br>2 years but<br>less than<br>5 years<br>HK\$'000 | More than<br>5 years<br>HK\$'000 | Total<br>undiscounted<br>cash outflows<br>HK\$'000 |
|-------------------------|------------------------------|---|--|----------------------------------|--|
| <b>31 December 2013</b> | <b>6,811</b>                 | <b>6,811</b>  | <b>5,072</b>   | <b>-</b>                         | <b>18,694</b>                                      |
| 31 December 2012        | 39,028                       | 32,890  | 9,139  | -                                | 81,057   |

The contractual undiscounted cash flows of the Company's financial liabilities amounting to HK\$19,484,000 (2012: HK\$19,484,000) are due within 12 months and equal their carrying balances, as the impact of discounting is not significant.

#### 3.2 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes the borrowings and finance lease liabilities as disclosed in Note 18 and Note 19 net of cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued share capital, share premium, retained earnings and other reserves.

The directors of the Company review the capital structure on a regular basis by considering the cost of capital and the risks associated with each class of capital. Based on recommendation of directors, the Group will balance its overall capital structure through the level of dividends, new share issues and share buy-backs as well as repayment of existing borrowings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.2 Capital risk management (Continued)

In addition, consistent with others in the industry, the Group also monitors capital structure on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity. Total debt is calculated as total borrowings and finance lease liabilities (including current and non-current borrowings and finance lease liabilities as shown in the consolidated statement of financial position).

The gearing ratios at 31 December 2013 and 2012 were as follows:

|   | <b>2013</b>      | 2012      |
|---|------------------|-----------|
|   | <b>HK\$'000</b>  | HK\$'000  |
| Total borrowings and finance lease liabilities<br>(Notes 18 and 19) | <b>1,387,754</b> | 1,153,471 |
| Total equity  | <b>2,169,951</b> | 2,075,676 |
| Gearing ratio   | <b>64.0%</b>     | 55.6%     |

The increase in the gearing ratio during 2013 resulted primarily from the decrease in profitability and the increase in bank borrowings to finance business expansion.

#### 3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method.

The different methods of valuation have been defined as follows:

- Quoted prices (unadjusted) in active markets for similar assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.3 Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013 and 2012.

|   | <b>Level 2</b> |        |
|---|----------------|--------|
|   | <b>2013</b>    | 2012   |
| Financial assets at fair value through profit or loss | -              | 17,277 |

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Since all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

#### (a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and consequently the related depreciation charges for its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. They could change significantly as a result of technical innovations and competitor actions in response to changes in market conditions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

#### (b) Impairment of long-lived assets

The Group conducts impairment reviews of assets when events or changes in circumstances indicate that their carrying amounts may not be recoverable or annually in accordance with relevant accounting standards. An impairment loss is recognised when the carrying amount of an asset is lower than the greater of its fair value less costs to sell and value in use. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgments are applied in determining these future cash flows and the discount rate.

#### (c) Impairment of trade, loan and other receivables

The Group makes provision for impairment of trade, loan and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade, loan and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade, loan and other receivables requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and the provision for impairment losses in the period in which such estimate has been changed.

#### (d) Income taxes

The Group is subject to income taxes in Mainland China and Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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 period in which such determination is made.

#### (e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at the end of each reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5 REVENUE AND SEGMENT INFORMATION

#### (a) Revenue

|  | <b>2013</b>             | 2012             |
|--|-------------------------|------------------|
|  | <b>HK\$'000</b>         | HK\$'000         |
| Sales  |                         |                  |
| Design and fabrication of metal stamping moulds    | <b>284,133</b>          | 167,308          |
| Manufacturing of metal stamping components         | <b>1,079,193</b>        | 1,191,526        |
| Manufacturing of lathing components                | <b>138,276</b>          | 155,515          |
| Design and fabrication of plastic injection moulds | <b>110,879</b>          | 81,199           |
| Manufacturing of plastic injection components      | <b>979,292</b>          | 732,710          |
| Income from micro lending business                 | <b>24,239</b>           | –                |
| Others   | <b>39,703</b>           | 38,765           |
|  | <b><u>2,655,715</u></b> | <u>2,367,023</u> |

#### (b) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the executive directors and senior management collectively. They review the Group's internal reporting in order to assess performance and allocate resources. They consider the business from a product perspective.

At 31 December 2013, the Group is organised into three main business segments:

- (i) design and fabrication of metal stamping moulds and manufacturing of metal stamping components and lathing components ("Metal stamping");
- (ii) design and fabrication of plastic injection moulds and manufacturing of plastic injection components ("Plastic injection"); and
- (iii) micro lending business in China ("Microcredit") (being a new segment in second half of 2012 and commencing operation in 2013).

The chief operating decision-maker assesses the performance of the operating segments based on a measure of adjusted earnings before interest and tax. Information provided to the chief operating decision-maker is measured in a manner consistent with that in the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

#### (b) Segment information (Continued)

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to the management is measured in a manner consistent with that in the consolidated statement of comprehensive income.

The segment results and other segment items are as follows:

|   | 2013                       |                               |                         |                   | 2012                       |                               |                   |
|---|----------------------------|-------------------------------|-------------------------|-------------------|----------------------------|-------------------------------|-------------------|
|   | Metal stamping<br>HK\$'000 | Plastic injection<br>HK\$'000 | Mircocredit<br>HK\$'000 | Total<br>HK\$'000 | Metal stamping<br>HK\$'000 | Plastic injection<br>HK\$'000 | Total<br>HK\$'000 |
| Total gross segment revenue                                       | 1,851,831                  | 1,400,610                     | 24,239                  | 3,276,680         | 1,704,710                  | 886,214                       | 2,590,924         |
| Inter-segment revenue   | (322,789)                  | (298,176)                     | -                       | (620,965)         | (154,829)                  | (69,072)                      | (223,901)         |
| Revenue   | <u>1,529,042</u>           | <u>1,102,434</u>              | <u>24,239</u>           | <u>2,655,715</u>  | <u>1,549,881</u>           | <u>817,142</u>                | <u>2,367,023</u>  |
| Segment results   | <u>44,769</u>              | <u>31,477</u>                 | <u>15,011</u>           | <u>91,257</u>     | <u>55,804</u>              | <u>47,253</u>                 | 103,057           |
| Unallocated income, net   |                            |                               |                         | 2,372             |                            |                               | 717               |
| Finance income  |                            |                               |                         | 10,418            |                            |                               | 4,807             |
| Finance costs   |                            |                               |                         | (28,716)          |                            |                               | (23,512)          |
| Share of loss of investment accounted for using the equity method |                            |                               |                         | (3,072)           |                            |                               | (999)             |
| Profit before income tax  |                            |                               |                         | 72,259            |                            |                               | 84,070            |
| Income tax expense  |                            |                               |                         | (12,784)          |                            |                               | (14,462)          |
| Profit for the year   |                            |                               |                         | <u>59,475</u>     |                            |                               | <u>69,608</u>     |
| Depreciation  | <u>135,140</u>             | <u>60,182</u>                 | <u>45</u>               | <u>195,367</u>    | <u>107,342</u>             | <u>40,017</u>                 | <u>147,359</u>    |
| Amortisation  | <u>2,711</u>               | <u>223</u>                    | <u>-</u>                | <u>2,934</u>      | <u>2,638</u>               | <u>113</u>                    | <u>2,751</u>      |

For the years ended 31 December 2012 and 2013, unallocated income, net represents corporate income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

## (b) Segment information (Continued)

The segment assets and liabilities are as follows:

|                     | 2013                       |                               |                         |                          |                   | 2012                       |                               |                          |                   |
|---------------------|----------------------------|-------------------------------|-------------------------|--------------------------|-------------------|----------------------------|-------------------------------|--------------------------|-------------------|
|                     | Metal stamping<br>HK\$'000 | Plastic injection<br>HK\$'000 | Microcredit<br>HK\$'000 | Un-allocated<br>HK\$'000 | Total<br>HK\$'000 | Metal stamping<br>HK\$'000 | Plastic injection<br>HK\$'000 | Un-allocated<br>HK\$'000 | Total<br>HK\$'000 |
| Assets              | <u>2,714,347</u>           | <u>1,489,145</u>              | <u>142,250</u>          | <u>3,102</u>             | <u>4,348,844</u>  | <u>2,842,479</u>           | <u>852,290</u>                | <u>128,966</u>           | <u>3,823,735</u>  |
| Liabilities         | <u>100,886</u>             | <u>611,661</u>                | <u>823</u>              | <u>1,465,523</u>         | <u>2,178,893</u>  | <u>102,091</u>             | <u>414,912</u>                | <u>1,231,056</u>         | <u>1,748,059</u>  |
| Capital expenditure | <u>313,190</u>             | <u>58,637</u>                 | <u>2,291</u>            | <u>-</u>                 | <u>374,118</u>    | <u>425,286</u>             | <u>102,378</u>                | <u>89</u>                | <u>527,753</u>    |

Segment assets consist primarily of certain property, plant and equipment, leasehold land and land use rights, goodwill, certain prepayments, deposits and other receivables, other assets, inventories, trade receivables, loan and interest receivables, financial assets at fair value through profit or loss and operating cash.

Segment liabilities comprise operating liabilities but exclude bank borrowings, finance lease liabilities, income tax liabilities, deferred taxation and certain accruals and other payables related to any of the above segments.

Capital expenditure comprises additions to property, plant and equipment and leasehold land and land use rights.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

#### (b) Segment information (Continued)

Segment assets and liabilities are reconciled to the Group's assets and liabilities at 31 December 2013 as follows:

|                                       | <b>Assets</b><br><b>HK\$'000</b> | <b>Liabilities</b><br><b>HK\$'000</b> |
|---------------------------------------|----------------------------------|---------------------------------------|
| Segment assets/liabilities            | <b>4,345,742</b>                 | <b>713,370</b>                        |
| Unallocated:                          |                                  |                                       |
| Cash and cash equivalents             | <b>3,102</b>                     | –                                     |
| Current income tax liabilities        | –                                | <b>26,167</b>                         |
| Deferred taxation                     | –                                | <b>22,008</b>                         |
| Current borrowings                    | –                                | <b>653,393</b>                        |
| Non-current borrowings                | –                                | <b>586,379</b>                        |
| Current finance lease liabilities     | –                                | <b>52,344</b>                         |
| Non-current finance lease liabilities | –                                | <b>95,638</b>                         |
| Accruals and other payables           | –                                | <b>29,594</b>                         |
| Total                                 | <b><u>4,348,844</u></b>          | <b><u>2,178,893</u></b>               |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5 REVENUE AND SEGMENT INFORMATION (CONTINUED)

#### (b) Segment information (Continued)

Segment assets and liabilities are reconciled to the Group's assets and liabilities at 31 December 2012 as follows:

|   | Assets<br>HK\$'000          | Liabilities<br>HK\$'000     |
|---|-----------------------------|-----------------------------|
|   | <u>                    </u> | <u>                    </u> |
| Segment assets/liabilities                  | 3,694,769                   | 517,003                     |
| Unallocated:                                |                             |                             |
| Cash and cash equivalents                   | 121,939                     | –                           |
| Prepayments, deposits and other receivables | 6,938                       | –                           |
| Property, plant and equipment               | 89                          | –                           |
| Current income tax liabilities              | –                           | 25,654                      |
| Deferred taxation                           | –                           | 22,498                      |
| Current borrowings                          | –                           | 530,150                     |
| Non-current borrowings                      | –                           | 539,804                     |
| Current finance lease liabilities           | –                           | 27,435                      |
| Non-current finance lease liabilities       | –                           | 56,082                      |
| Accruals and other payables                 | –                           | 29,433                      |
|   | <u>                    </u> | <u>                    </u> |
| Total                                       | <u>3,823,735</u>            | <u>1,748,059</u>            |

Substantially all of the Group's operations and assets are located in Mainland China and the Group's sales are primarily made in Mainland China.

An analysis of the Group's three (2012: four) major customers, each of which accounts for 10% or more of the Group's external revenue, is as follows:

|            | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000            |
|------------|--------------------------------|-----------------------------|
|            | <u>                    </u>    | <u>                    </u> |
| Customer A | <b>349,815</b>                 | 308,804                     |
| Customer B | <b>581,651</b>                 | 587,347                     |
| Customer C | <b>331,448</b>                 | 273,505                     |
|            | <u>                    </u>    | <u>                    </u> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6 PROPERTY, PLANT AND EQUIPMENT – GROUP

|                            | Land and<br>buildings<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Furniture<br>and fixtures<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Construction-<br>in-progress<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------|-----------------------------------|------------------------------------|---------------------------------------|-------------------------------|--|-------------------|
| <b>At 1 January 2012</b>   |                                   |                                    |                                       |                               |  |                   |
| Cost                       | 320,838                           | 935,536                            | 125,831                               | 23,112                        | 475,720                                  | 1,881,037         |
| Accumulated depreciation   | (62,927)                          | (357,833)                          | (41,616)                              | (13,815)                      | -  | (476,191)         |
| Net book amount            | <u>257,911</u>                    | <u>577,703</u>                     | <u>84,215</u>                         | <u>9,297</u>                  | <u>475,720</u>                           | <u>1,404,846</u>  |
| <b>Year ended</b>          |                                   |                                    |                                       |                               |  |                   |
| <b>31 December 2012</b>    |                                   |                                    |                                       |                               |  |                   |
| Opening net book amount    | 257,911                           | 577,703                            | 84,215                                | 9,297                         | 475,720                                  | 1,404,846         |
| Exchange differences       | 8                                 | 182                                | 8                                     | -                             | 195                                      | 393               |
| Additions                  | 22,475                            | 176,096                            | 27,330                                | 3,763                         | 240,565                                  | 470,229           |
| Transfers                  | 313,413                           | 201,954                            | 114,953                               | 108                           | (630,428)                                | -                 |
| Disposal                   | -                                 | (3,115)                            | -                                     | (622)                         | (22,274)                                 | (26,011)          |
| Depreciation               | (22,878)                          | (98,801)                           | (23,250)                              | (2,430)                       | -  | (147,359)         |
| Closing net book amount    | <u>570,929</u>                    | <u>854,019</u>                     | <u>203,256</u>                        | <u>10,116</u>                 | <u>63,778</u>                            | <u>1,702,098</u>  |
| <b>At 31 December 2012</b> |                                   |                                    |                                       |                               |  |                   |
| Cost                       | 656,737                           | 1,308,006                          | 268,124                               | 24,832                        | 63,778                                   | 2,321,477         |
| Accumulated depreciation   | (85,808)                          | (453,987)                          | (64,868)                              | (14,716)                      | -  | (619,379)         |
| Net book amount            | <u>570,929</u>                    | <u>854,019</u>                     | <u>203,256</u>                        | <u>10,116</u>                 | <u>63,778</u>                            | <u>1,702,098</u>  |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 PROPERTY, PLANT AND EQUIPMENT – GROUP (CONTINUED)

|                            | Land and<br>buildings<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Furniture<br>and fixtures<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Construction-<br>in-progress<br>HK\$'000 | Total<br>HK\$'000 |
|----------------------------|-----------------------------------|------------------------------------|---------------------------------------|-------------------------------|--|-------------------|
| <b>Year ended</b>          |                                   |                                    |                                       |                               |  |                   |
| <b>31 December 2013</b>    |                                   |                                    |                                       |                               |  |                   |
| Opening net book amount    | 570,929                           | 854,019                            | 203,256                               | 10,116                        | 63,778                                   | 1,702,098         |
| Exchange differences       | 1,369                             | 2,465                              | 211                                   | 41                            | 2,624                                    | 6,710             |
| Additions                  | 35,704                            | 152,721                            | 72,260                                | 1,708                         | 107,273                                  | 369,666           |
| Transfers                  | 73,297                            | 54,016                             | 31,298                                | 495                           | (159,106)                                | -                 |
| Disposal                   | -                                 | -                                  | (8)                                   | -                             | -  | (8)               |
| Depreciation               | (30,440)                          | (115,427)                          | (46,751)                              | (2,749)                       | -  | (195,367)         |
| Closing net book amount    | <u>650,859</u>                    | <u>947,794</u>                     | <u>260,266</u>                        | <u>9,611</u>                  | <u>14,569</u>                            | <u>1,883,099</u>  |
| <b>At 31 December 2013</b> |                                   |                                    |                                       |                               |  |                   |
| Cost                       | 767,279                           | 1,517,712                          | 371,859                               | 27,082                        | 14,569                                   | 2,698,501         |
| Accumulated depreciation   | (116,420)                         | (569,918)                          | (111,593)                             | (17,471)                      | -  | (815,402)         |
| Net book amount            | <u>650,859</u>                    | <u>947,794</u>                     | <u>260,266</u>                        | <u>9,611</u>                  | <u>14,569</u>                            | <u>1,883,099</u>  |

Plant and machinery include the following net book amounts where the Group is a lessee under finance lease liabilities:

|                     | 2013<br>HK\$'000 | 2012<br>HK\$'000 |
|---------------------|------------------|------------------|
| Plant and machinery | <u>290,121</u>   | <u>128,912</u>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6 PROPERTY, PLANT AND EQUIPMENT – GROUP (CONTINUED)

Depreciation expense is analysed as follows:

|                                     | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|-------------------------------------|--------------------------------|------------------|
| Cost of sales                       | <b>125,563</b>                 | 106,531          |
| Selling and marketing costs         | <b>1,650</b>                   | 2,258            |
| General and administrative expenses | <b>68,154</b>                  | 38,570           |
|                                     | <b>195,367</b>                 | 147,359          |

The Group's interests in land and buildings are analysed as follows:

|   | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|---|--------------------------------|------------------|
| Land and buildings in Hong Kong, located on land with lease of 50 years                               | <b>6,620</b>                   | 6,882            |
| Buildings in Mainland China, located on land with land use rights of between 10 and 50 years (Note 7) | <b>644,239</b>                 | 564,047          |
|   | <b>650,859</b>                 | 570,929          |

Land and buildings with a carrying amount of HK\$6,620,000 (2012: HK\$6,882,000) were pledged as collateral for the Group's borrowing. No machinery was pledged as collateral for the Group's borrowings in either year (Note 18).

Analysis of construction-in-progress is as follows:

|                                 | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|---------------------------------|--------------------------------|------------------|
| Construction costs of buildings | –                              | 62,413           |
| Cost of machinery               | <b>14,569</b>                  | 1,365            |
|                                 | <b>14,569</b>                  | 63,778           |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7 LEASEHOLD LAND AND LAND USE RIGHTS – GROUP

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

|  | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|--|--------------------------------|------------------|
| In Mainland China, held on:                |                                |                  |
| Land use rights of between 10 and 50 years | <b>167,500</b>                 | 176,296          |

Movements are:

|                            | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|----------------------------|--------------------------------|------------------|
| At 1 January               | <b>176,296</b>                 | 121,525          |
| Exchange differences       | <b>2,035</b>                   | (2)              |
| Additions                  | <b>4,452</b>                   | 57,524           |
| Government grants received | <b>(12,349)</b>                | –                |
| Amortisation               | <b>(2,934)</b>                 | (2,751)          |
| At 31 December             | <b>167,500</b>                 | 176,296          |

|                          | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|--------------------------|--------------------------------|------------------|
| Representing –           |                                |                  |
| Cost                     | <b>180,192</b>                 | 186,003          |
| Accumulated amortisation | <b>(12,692)</b>                | (9,707)          |
| Net book amount          | <b>167,500</b>                 | 176,296          |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8 GOODWILL

|                                 | <b>2013</b>     | 2012     |
|---------------------------------|-----------------|----------|
|                                 | <b>HK\$'000</b> | HK\$'000 |
| As at 1 January and 31 December | <b>2,545</b>    | 2,545    |

Management performed a goodwill impairment assessment and determined no impairment charge was necessary against goodwill at 31 December 2013 (2012: nil).

### 9A INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY

|                               | <b>Company</b>   |           |
|-------------------------------|------------------|-----------|
|                               | <b>2013</b>      | 2012      |
|                               | <b>HK\$'000</b>  | HK\$'000  |
| Unlisted shares, at cost      | <b>125,858</b>   | 125,850   |
| Amounts due from subsidiaries | <b>1,309,683</b> | 1,232,110 |
|                               | <b>1,435,541</b> | 1,357,960 |

The amounts due from subsidiaries are unsecured, non-interest bearing, denominated in HK dollars without predetermined terms of repayments. The directors of the Company considered them as quasi-equity contributions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9A INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY (CONTINUED)

The following is a list of the principal subsidiaries held by the Company at 31 December 2013:

| Name  | Place of incorporation/<br>establishment,<br>operations and<br>kind of legal entity | Issued/<br>registered and<br>fully paid up<br>capital | Percentage of<br>equity interest<br>attributable<br>to the Group | Principal activities   |
|---|---|---|--|--|
| EVA Group Limited   | Hong Kong,<br>limited liability company   | HK\$15,000  | 100%   | Investment holding   |
| EVA Limited   | Hong Kong,<br>limited liability company   | HK\$680,000   | 100%   | Trading of metal moulds and<br>components                      |
| EVA Plastic Mould Products (HK)<br>Limited  | Hong Kong,<br>limited liability company   | HK\$280,000   | 100%   | Trading of plastic moulds and<br>components                    |
| Digidie Auto Components Limited   | Hong Kong,<br>limited liability company   | HK\$1   | 100%   | Investment holding   |
| Yihe Precision Hardware (Shenzhen)<br>Co., Ltd. (億和精密金屬製品(深圳)<br>有限公司)(a)                       | Mainland China,<br>limited liability company  | HK\$221,880,000                                       | 100%   | Manufacturing of<br>metal moulds and<br>components             |
| Yihe Precision Plastic and Electronic<br>Products (Shenzhen) Co., Ltd.<br>(億和塑膠電子製品(深圳)有限公司)(a) | Mainland China,<br>limited liability company  | HK\$195,000,000                                       | 100%   | Manufacturing of<br>plastic moulds and<br>components           |
| EVA Precision Industrial (Suzhou) Limited<br>(億和精密工業(蘇州)有限公司)(a)                                | Mainland China,<br>limited liability company  | US\$43,000,000  | 100%   | Manufacturing of metal and<br>plastic moulds and<br>components |
| EVA Precision Industrial (Zhongshan)<br>Limited (億和精密工業(中山)<br>有限公司)(a)                         | Mainland China,<br>limited liability company  | HK\$120,000,000                                       | 100%   | Manufacturing of metal and<br>plastic moulds and<br>components |
| Shenzhen EVA Mould Manufacturing<br>Limited (深圳億和模具製造有限公司)<br>(a)                               | Mainland China, limited<br>liability company  | HK\$240,000,000                                       | 100%   | Manufacturing of metal and<br>plastic moulds                   |
| Chongqing Digidie Auto Body Ltd.<br>(重慶數碼模車身模具有限公司)(a) (b)                                      | Mainland China,<br>limited liability company  | RMB147,882,450  | 100%   | Manufacturing of<br>metal moulds                               |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9A INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY (CONTINUED)

| Name   | Place of incorporation/<br>establishment,<br>operations and<br>kind of legal entity | Issued/<br>registered and<br>fully paid up<br>capital | Percentage of<br>equity interest<br>attributable<br>to the Group | Principal activities                         |
|--|---|---|--|--|
| Digidie Stamping Technology (Wuhan) Limited<br>(數碼模沖壓技術(武漢)有限公司) (a) (b) | Mainland China,<br>limited liability company  | US\$22,448,462  | 100%   | Manufacturing of metal moulds and components |
| Shenzhen Jinggong Microcredit Limited<br>(深圳市精工小額貸款有限公司) (a)             | Mainland China,<br>limited liability company  | RMB101,000,000  | 60%  | Microcredit business                         |

The major principal subsidiaries are indirectly held by the Company.

- (a) The Group's principal wholly foreign owned enterprises in Mainland China and their respective terms of business are as follows:

| Name   | Place of establishment                           | Terms of business               |
|--|--|---------------------------------|
| Yihe Precision Hardware (Shenzhen) Co., Ltd.                         | Shenzhen, Guangdong Province,<br>Mainland China  | 20 years up to<br>May 2021      |
| Yihe Precision Plastic and Electronics Products (Shenzhen) Co., Ltd. | Shenzhen, Guangdong Province,<br>Mainland China  | 20 years up to<br>July 2024     |
| EVA Precision Industrial (Suzhou) Limited                            | Suzhou, Jiangsu Province,<br>Mainland China      | 50 years up to<br>August 2055   |
| EVA Precision Industrial (Zhongshan) Limited                         | Zhongshan, Guangdong Province,<br>Mainland China | 50 years up to<br>August 2056   |
| Shenzhen EVA Mould Manufacturing Limited                             | Shenzhen, Guangdong Province,<br>Mainland China  | 50 years up to<br>June 2057     |
| Chongqing Digidie Auto Body Ltd.                                     | Chongqing, Sichuan Province,<br>Mainland China   | 20 years up to<br>March 2026    |
| Digidie Stamping Technology (Wuhan) Limited                          | Wuhan, Wubei Province,<br>Mainland China         | 20 years up to<br>August 2031   |
| Shenzhen Jinggong Microcredit Limited                                | Shenzhen, Guangdong Province,<br>Mainland China  | 20 years up to<br>November 2032 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9A INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY (CONTINUED)

- (b) At 31 December 2013, the Group was committed to making capital contributions to the following principal subsidiaries:

| <b>Name</b>                                 | <b>Committed<br/>capital injection</b><br>HK\$'000 | <b>Due date</b> |
|---|--|-----------------|
| Chongqing Digidie Auto Body Ltd.            | 55,159   | December 2014   |
| Digidie Stamping Technology (Wuhan) Limited | 27,702   | March 2015      |

#### *Material non-controlling interests*

The total non-controlling interests for the year is HK\$67,694,000 (2012: HK\$62,026,000), of which HK\$56,073,000 (2012: HK\$49,867,000) is attributable to Shenzhen Jinggong Microcredit Limited ("Microcredit"). The remaining non-controlling interests in subsidiaries is not material.

For Microcredit, cash and bank deposits of HK\$3,963,000 (2012: HK\$118,421,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9A INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY (CONTINUED)

#### *Material non-controlling interests (Continued)*

Set out below are the summarised financial information for Microcredit.

#### Summarised balance sheets

|                              | <b>2013</b>     | 2012     |
|------------------------------|-----------------|----------|
|                              | <b>HK\$'000</b> | HK\$'000 |
| <b>Current</b>               |                 |          |
| Assets                       | <b>139,909</b>  | 125,357  |
| Liabilities                  | <b>2,067</b>    | 780      |
| Total net current assets     | <b>137,842</b>  | 124,577  |
| <b>Non-current</b>           |                 |          |
| Assets                       | <b>2,341</b>    | 89       |
| Total net non-current assets | <b>2,341</b>    | 89       |
| <b>Net assets</b>            | <b>140,183</b>  | 124,666  |

#### Summarised income statements

|   | <b>2013</b>     | 2012     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Revenue   | <b>24,239</b>   | 432      |
| Profit before income tax  | <b>15,287</b>   | 141      |
| Income tax expense  | <b>(3,822)</b>  | (35)     |
| Total comprehensive income  | <b>11,465</b>   | 106      |
| Total comprehensive income allocated to non-controlling interests | <b>4,586</b>    | 42       |
| Dividends paid to non-controlling interests                       | –               | –        |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9A INVESTMENTS IN AND AMOUNTS DUE FROM SUBSIDIARIES – COMPANY (CONTINUED)

*Material non-controlling interests (Continued)*

## Summarised cash flows

|   | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|---|--------------------------------|------------------|
| <b>Cash flows from operating activities</b>                 |                                |                  |
| Cash used in operations                                     | <b>(113,594)</b>               | (6,051)          |
| Income tax paid   | <b>(2,617)</b>                 | –                |
| Cash flows used in operating activities                     | <b>(116,211)</b>               | (6,051)          |
| Net cash used in investing activities                       | <b>(2,298)</b>                 | (89)             |
| Net cash generated from financing activities                | –                              | 123,499          |
| <b>Net (decrease)/increase in cash and cash equivalents</b> | <b>(118,509)</b>               | 117,359          |
| Cash and cash equivalents at beginning of year              | <b>118,421</b>                 | –                |
| Exchange gains on cash and cash equivalents                 | <b>4,051</b>                   | 1,062            |
| Cash and cash equivalents at end of year                    | <b>3,963</b>                   | 118,421          |

The information above is the amount before inter-company eliminations.

## 9B INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

|   | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|---|--------------------------------|------------------|
| As at 1 January   | <b>9,538</b>                   | –                |
| Capital injection   | <b>6,287</b>                   | 10,537           |
| Gain from deemed disposal of investments accounted for using equity method (Note) | <b>5,105</b>                   | –                |
| Share of loss   | <b>(3,072)</b>                 | (999)            |
| As at 31 December   | <b>17,858</b>                  | 9,538            |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9B INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

The amounts recognised on the consolidated statement of financial position are as follows:

|                   | <b>2013</b>     | 2012     |
|-------------------|-----------------|----------|
|                   | <b>HK\$'000</b> | HK\$'000 |
| Associate         | <b>17,858</b>   | –        |
| Joint venture     | <b>–</b>        | 9,538    |
| As at 31 December | <b>17,858</b>   | 9,538    |

Note: During the year ended 31 December 2013, the Group's interest in its investment accounted for using the equity method, Shenzhen KK Technology Co., Ltd., was reduced from 50% to 30% as a result of further capital injections by other investees. This has been accounted for as a deemed disposal. Based on the shareholders' agreement and with the change of ownership interest in Shenzhen KK Technology Co., Ltd., the Group's investments accounted for using the equity method were changed from investments in a joint venture to investments in an associate due to the loss of joint control but significant influence is maintained.

The losses recognised in the consolidated statement of comprehensive income are as follows:

|                                | <b>2013</b>     | 2012     |
|--------------------------------|-----------------|----------|
|                                | <b>HK\$'000</b> | HK\$'000 |
| Associate                      | <b>(3,072)</b>  | –        |
| Joint venture                  | <b>–</b>        | (999)    |
| For the year ended 31 December | <b>(3,072)</b>  | (999)    |

Details of the associate as at 31 December 2013:

| <b>Name</b>  | <b>Place of establishment</b>                | <b>% of ownership</b> | <b>Nature of the relationship</b> | <b>Measurement method</b> |
|--|--|-----------------------|-----------------------------------|---------------------------|
| Shenzhen KK Technology Co., Ltd.<br>(深圳市精森源科技有限公司) | Mainland China,<br>limited liability company | 30%                   | Note a                            | Equity                    |

Note a: Shenzhen KK Technology Co., Ltd. designs and manufactures plastic components. It is a strategic partner for the Group, providing access to technology and processes in the automobile sector.

Shenzhen KK Technology Co., Ltd. is a private company and there is no quoted market price available for its shares. There are no contingent liabilities relating to the Group's interest in the associate, and no contingent liabilities of the associate itself.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9B INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Set out below is summarised financial information for Shenzhen KK Technology Co., Ltd. which is accounted for using the equity method.

Summarised statement of financial position:

|  | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|--|--------------------------------|------------------|
| <b>Current</b>                                       |                                |                  |
| Cash and cash equivalents                            | <b>1,261</b>                   | 500              |
| Other current assets (excluding cash)                | <b>27,622</b>                  | 794              |
| Total current assets                                 | <b>28,883</b>                  | 1,294            |
| Other current liabilities (including trade payables) | <b>(2,711)</b>                 | (16)             |
| <b>Non current</b>                                   |                                |                  |
| Assets   | <b>33,358</b>                  | 17,798           |
| <b>Net assets</b>                                    | <b>59,530</b>                  | 19,076           |

Summarised statement of comprehensive income:

|   | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|---|--------------------------------|------------------|
| Revenue                                   | <b>4,026</b>                   | –                |
| Cost of sales                             | <b>(3,580)</b>                 | –                |
| Depreciation and amortisation expenses    | <b>(852)</b>                   | –                |
| Employment expenses                       | <b>(1,505)</b>                 | (837)            |
| Office expenses                           | <b>(326)</b>                   | (692)            |
| Rental expenses                           | <b>(455)</b>                   | (176)            |
| Pre-operating expenses                    | <b>(3,595)</b>                 | –                |
| Other general and administrative expenses | <b>(3,344)</b>                 | (294)            |
| Finance income                            | –                              | 2                |
| Loss before income tax                    | <b>(9,631)</b>                 | (1,997)          |
| Income tax expenses                       | –                              | –                |
| Total comprehensive loss                  | <b>(9,631)</b>                 | (1,997)          |
| Dividends received from associate         | –                              | –                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10 INVENTORIES – GROUP

|   | <b>2013</b>     | 2012     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Raw materials                                 | <b>82,575</b>   | 74,221   |
| Work-in-progress                              | <b>158,435</b>  | 151,236  |
| Finished goods                                | <b>86,331</b>   | 58,495   |
|   | <b>327,341</b>  | 283,952  |
| Less: provision for impairment of inventories | <b>(17,406)</b> | (13,767) |
| Inventories – net                             | <b>309,935</b>  | 270,185  |

The cost of inventories recognised as expense and included in cost of sales amounted to HK\$1,345,474,000 (2012: HK\$1,291,551,000).

The Group made an inventory provision of HK\$3,639,000 for the year ended 31 December 2013 (2012: nil) for slow moving inventories. Such provision has been included in cost of sales in the consolidated statement of comprehensive income.

During the year ended 31 December 2013, the Group did not reverse any previous write down of inventory. During the year ended 31 December 2012, the Group reversed HK\$155,000 of a previous write down of inventory as the Group was able to utilise the inventory items that were previously written down by selling them to independent third parties. The amount reversed was included in cost of sales in the consolidated statement of comprehensive income.

### 11 TRADE RECEIVABLES – GROUP

|   | <b>2013</b>     | 2012     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Trade receivables                                   | <b>553,791</b>  | 424,178  |
| Less: provision for impairment of trade receivables | <b>(1,188)</b>  | (1,188)  |
| Trade receivables – net                             | <b>552,603</b>  | 422,990  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11 TRADE RECEIVABLES – GROUP (CONTINUED)

The credit period granted by the Group to its customers is generally 30 to 180 days. The ageing of the trade receivables is as follows:

|   | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|---|--------------------------------|------------------|
| 0 to 90 days  | <b>511,978</b>                 | 393,961          |
| 91 to 180 days                                      | <b>41,813</b>                  | 24,378           |
| 181 to 365 days                                     | –                              | 5,647            |
| Over 365 days                                       | –                              | 192              |
|   | <b>553,791</b>                 | 424,178          |
| Less: provision for impairment of trade receivables | <b>(1,188)</b>                 | (1,188)          |
| Trade receivables – net                             | <b>552,603</b>                 | 422,990          |

The top five customers and the largest customer accounted for 52.3% (2012: 57.9%) and 11.9% (2012: 26.9%) of the trade receivables balance as at 31 December 2013, respectively. The management closely monitors the subsequent settlement of customers and does not grant long credit periods to the counterparties. In this regard, the directors consider that the Group's credit risk is significantly reduced. Other than these major customers, there is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

The carrying amounts of trade receivables approximate their fair values as at 31 December 2012 and 2013.

As at 31 December 2013, trades receivables of HK\$5,902,000 (2012: HK\$24,473,000) were past due but considered not impaired. These relate to a number of independent customers for whom there is no recent history of default and based on past experience, the overdue amount can be fully recovered. The analysis of trade receivables past due but considered not impaired is as follows:

|                 | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|-----------------|--------------------------------|------------------|
| 0 to 90 days    | <b>5,902</b>                   | 24,048           |
| 91 to 180 days  | –                              | 371              |
| 181 to 365 days | –                              | 54               |
|                 | <b>5,902</b>                   | 24,473           |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11 TRADE RECEIVABLES – GROUP (CONTINUED)

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

|                                | <b>2013</b>     | 2012     |
|--------------------------------|-----------------|----------|
|                                | <b>HK\$'000</b> | HK\$'000 |
| Hong Kong dollars ("HK\$")     | <b>177,953</b>  | 198,988  |
| United States dollars ("US\$") | <b>238,993</b>  | 166,621  |
| Chinese Renminbi ("RMB")       | <b>117,902</b>  | 58,037   |
| Other                          | <b>18,943</b>   | 532      |
|                                | <b>553,791</b>  | 424,178  |

There is no movement on the provision for impairment of trade receivables in the current year (2012: nil).

### 12 LOAN AND INTEREST RECEIVABLES

#### Loan period analysis

The small and micro loans to customers arising under the Group's micro credit business have loan periods ranging from 3 days to 7 months. Loan and interest receivables in respect of loans, by repayment period, were set as follows:

|                 | <b>2013</b>     | 2012     |
|-----------------|-----------------|----------|
|                 | <b>HK\$'000</b> | HK\$'000 |
| Within one year | <b>137,195</b>  | 6,166    |
| Less: provision | <b>(1,365)</b>  | –        |
|                 | <b>135,830</b>  | 6,166    |

The loans provided to customers bear fixed interest rate ranging from 18% to 24% per annum (2012: 24%), and were repayable according to the loan agreements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12 LOAN AND INTEREST RECEIVABLES (CONTINUED)

As at 31 December 2013, no loan and interest receivables are overdue (2012: nil).

The loan and interest receivables are denominated in Chinese Reminbi and the carrying amounts of loan and interest receivables approximate their fair values as at 31 December 2012 and 2013.

As at 31 December 2013, loan and interest receivables of HK\$1,365,000 (2012: nil) had been provided for.

Movements on the Group's provision relating to the loan and interest receivables are as follows:

|                | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|----------------|--------------------------------|------------------|
| At 1 January   | –                              | –                |
| Provision      | <b>1,365</b>                   | –                |
| At 31 December | <b>1,365</b>                   | –                |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – GROUP

|  | <b>2013</b>     | 2012     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| Non-current  |                 |          |
| Deposits for purchase of property, plant and equipment                           | <b>110,884</b>  | 111,543  |
| Loan to the other shareholder of the associate<br>(2012: joint venture) (Note a) | <b>12,719</b>   | 12,333   |
| Notes receivable from employees (Note a)   | <b>14,546</b>   | 18,642   |
| Others   | <b>2,223</b>    | –        |
|  | <b>140,372</b>  | 142,518  |
| Current  |                 |          |
| Prepayments for purchase of raw materials  | <b>28,326</b>   | 8,660    |
| VAT recoverable  | <b>55,662</b>   | 38,940   |
| Deposits for customs department  | <b>586</b>      | 1,259    |
| Prepayment of utilities expenses   | <b>3,724</b>    | 1,982    |
| Prepayment of tax reserve certificate  | <b>12,424</b>   | 9,089    |
| Notes receivable from employees (Note a)   | <b>8,204</b>    | 7,066    |
| Others   | <b>12,062</b>   | 11,250   |
|  | <b>120,988</b>  | 78,246   |

Note a: Loan to the other shareholder of the associate (2012: joint venture) and notes receivable from employees are unsecured, interest free and denominated in Chinese Renminbi.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – GROUP

|   | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|---|--------------------------------|------------------|
| Unlisted equity securities              |                                |                  |
| Unlisted investment fund, at fair value | –                              | 17,277           |

Financial assets at fair value through profit or loss are presented within 'investing activities' as part of changes in working capital in the consolidated statement of cash flows.

Changes in fair value of financial assets at fair value through profit or loss are recorded in 'other gains – net' in the consolidated statement of comprehensive income.

The fair value of the investment securities is based on observable market data (Note 3.3).

### 15 SHORT-TERM BANK DEPOSITS/RESTRICTED CASH/CASH AND CASH EQUIVALENTS

|                           | <b>Group</b>                   |                  | <b>Company</b>                 |                  |
|---------------------------|--------------------------------|------------------|--------------------------------|------------------|
|                           | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
| Short-term bank deposits  | <b>50,876</b>                  | 102,362          | –                              | –                |
| Restricted cash           | <b>12,205</b>                  | 2,913            | –                              | –                |
| Cash and cash equivalents | <b>953,426</b>                 | 888,994          | <b>3,102</b>                   | 3,519            |
|                           | <b><u>1,016,507</u></b>        | <u>994,269</u>   | <b><u>3,102</u></b>            | <u>3,519</u>     |

The effective interest rate on short-term bank deposits was 3.55% (2012: 3.25%) per annum. These deposits have an average initial maturity of 152 days (2012: 184 days).

The effective interest rate on restricted cash was 0.35% (2012: 0.35%) per annum. These deposits have an average maturity of 172 days (2012: 174 days).

The effective interest rate on cash at bank was 0.25% (2012: 0.25%) per annum.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15 SHORT-TERM BANK DEPOSITS/RESTRICTED CASH/CASH AND CASH EQUIVALENTS (CONTINUED)

Short-term bank deposits, restricted cash, and cash and cash equivalents were denominated in the following currencies:

|              | Group            |                  | Company          |                  |
|--------------|------------------|------------------|------------------|------------------|
|              | 2013<br>HK\$'000 | 2012<br>HK\$'000 | 2013<br>HK\$'000 | 2012<br>HK\$'000 |
| HK\$         | 251,546          | 252,445          | 3,102            | 3,458            |
| RMB          | 590,531          | 626,195          | –                | –                |
| US\$         | 171,965          | 112,381          | –                | 61               |
| Japanese yen | 472              | 2,660            | –                | –                |
| Euro dollars | 1,869            | 197              | –                | –                |
| Other        | 124              | 391              | –                | –                |
|              | <b>1,016,507</b> | <b>994,269</b>   | <b>3,102</b>     | <b>3,519</b>     |

The carrying amounts of short-term bank deposits, restricted cash and cash and cash equivalents approximate their fair values.

RMB is currently not a freely convertible currency in the international market. The conversion of RMB into foreign currencies and the remittance of RMB out of the Mainland China are subject to the rules and regulations of the foreign exchange control promulgated by the Mainland China government.

### 16 TRADE PAYABLES – GROUP

The ageing of trade payables is as follows:

|                 | 2013<br>HK\$'000 | 2012<br>HK\$'000 |
|-----------------|------------------|------------------|
| 0 to 90 days    | 418,550          | 327,603          |
| 91 to 180 days  | 95,767           | 52,041           |
| 181 to 365 days | –                | 6,063            |
| Over 365 days   | –                | 6,451            |
|                 | <b>514,317</b>   | <b>392,158</b>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16 TRADE PAYABLES – GROUP (CONTINUED)

The trade payables have an average maturity period within 180 days. The carrying amounts of trade payables approximate their fair values and are denominated in the following currencies:

|      | <b>2013</b>     | 2012     |
|------|-----------------|----------|
|      | <b>HK\$'000</b> | HK\$'000 |
| HK\$ | <b>76,960</b>   | 43,058   |
| US\$ | <b>261,817</b>  | 209,822  |
| RMB  | <b>175,540</b>  | 139,278  |
|      | <b>514,317</b>  | 392,158  |

### 17 ACCRUALS AND OTHER PAYABLES

|   | <b>Group</b>    |          | <b>Company</b>  |          |
|---|-----------------|----------|-----------------|----------|
|   | <b>2013</b>     | 2012     | <b>2013</b>     | 2012     |
|   | <b>HK\$'000</b> | HK\$'000 | <b>HK\$'000</b> | HK\$'000 |
| Payable for purchase of land use rights   | <b>3,812</b>    | 3,812    | –               | –        |
| Payable for property, plant and equipment | <b>69,302</b>   | 28,771   | –               | –        |
| Accrued wages, salaries and welfare       | <b>84,780</b>   | 59,076   | <b>9,954</b>    | 9,945    |
| Deposits from customers                   | <b>34,123</b>   | 28,048   | –               | –        |
| Accrued operating expenses                | <b>10,378</b>   | 7,616    | –               | –        |
| Payable for share options exercised       | <b>19,484</b>   | 19,484   | <b>19,484</b>   | 19,484   |
| Accrued utilities expenses                | <b>4,283</b>    | 3,491    | –               | –        |
| Other payables                            | <b>2,485</b>    | 3,980    | –               | –        |
|   | <b>228,647</b>  | 154,278  | <b>29,438</b>   | 29,429   |

The carrying amounts of accruals and other payables approximate their fair values.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18 BANK BORROWINGS – GROUP

|  | <b>2013</b>      | 2012      |
|--|------------------|-----------|
|  | <b>HK\$'000</b>  | HK\$'000  |
| Current  |                  |           |
| Short-term bank loans  | <b>359,149</b>   | 312,000   |
| Portion of long-term loans from banks due for repayment within one year  | <b>282,158</b>   | 176,494   |
| Portion of long-term loans from banks due for repayment after one year which contain a repayment on demand clause        | <b>11,666</b>    | 41,236    |
| Mortgage loan, current portion   | <b>420</b>       | 420       |
|  | <b>653,393</b>   | 530,150   |
| Non-current  |                  |           |
| Portion of long-term loans from banks due for repayment after one year which do not contain a repayment on demand clause | <b>584,261</b>   | 537,265   |
| Mortgage loan, non-current portion   | <b>2,118</b>     | 2,539     |
|  | <b>586,379</b>   | 539,804   |
| Total bank borrowings  | <b>1,239,772</b> | 1,069,954 |

All bank borrowings are interest-bearing and carried at amortised cost. None of the portion of term loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18 BANK BORROWINGS – GROUP (CONTINUED)

The Group's bank borrowings are repayable as follows (Note a):

|                                 | <b>2013</b>      | 2012      |
|---------------------------------|------------------|-----------|
|                                 | <b>HK\$'000</b>  | HK\$'000  |
| Within 1 year                   | <b>641,727</b>   | 488,914   |
| Between 1 and 2 years           | <b>278,919</b>   | 230,661   |
| Between 2 and 5 years           | <b>318,689</b>   | 349,521   |
| Wholly repayable within 5 years | <b>1,239,335</b> | 1,069,096 |
| Repayable over 5 years          | <b>437</b>       | 858       |
|                                 | <b>1,239,772</b> | 1,069,954 |

Note (a): The amounts due are based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clauses.

The carrying amounts of bank borrowings approximate their fair values as the impact of discounting is not significant.

The carrying amounts of the bank borrowings are denominated in the following currencies:

|      | <b>2013</b>      | 2012      |
|------|------------------|-----------|
|      | <b>HK\$'000</b>  | HK\$'000  |
| HK\$ | <b>1,165,483</b> | 1,069,954 |
| US\$ | <b>74,289</b>    | –         |
|      | <b>1,239,772</b> | 1,069,954 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18 BANK BORROWINGS – GROUP (CONTINUED)

The effective interest rates (per annum) of the Group's bank borrowings at the statement of financial position date were as follows:

|            | Short-term bank loans |      | Long-term bank loans |      | Mortgage loan |      |
|------------|-----------------------|------|----------------------|------|---------------|------|
|            | 2013                  | 2012 | 2013                 | 2012 | 2013          | 2012 |
| HK dollars | <b>1.9%</b>           | 2.5% | <b>2.4%</b>          | 2.4% | <b>2.4%</b>   | 2.4% |
| US dollars | <b>2.0%</b>           | –    | –                    | –    | –             | –    |

The Group has undrawn floating rate borrowing facilities of approximately HK\$426,542,000 (2012: HK\$261,677,000).

As at 31 December 2013, land and buildings with a carrying amount of HK\$6,620,000 (2012: HK\$6,882,000) were pledged as collateral for the Group's borrowing. No machinery was pledged as collateral for the Group's borrowings in either year. Certain of the banking facilities are subject to the fulfillment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group was to breach the covenants, the drawn down facilities would become repayable on demand. In addition, certain of the Group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants, is up to date with the scheduled repayments of the term loans and does not consider it probable that the banks will exercise their discretions to demand repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in Note 3.1(c). During the year ended 31 December 2013, none of the covenants relating to drawn down facilities had been breached (2012: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19 FINANCE LEASE LIABILITIES – GROUP

The Group's finance lease liabilities have maturity dates within five years and are repayable as follows:

|  | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|--|--------------------------------|------------------|
| Within one year                                | <b>56,879</b>                  | 29,935           |
| In the second year                             | <b>50,298</b>                  | 29,005           |
| In the third to fifth year                     | <b>49,443</b>                  | 29,248           |
|  | <b>156,620</b>                 | 88,188           |
| Less: Future finance charges on finance leases | <b>(8,638)</b>                 | (4,671)          |
| Present value of finance lease liabilities     | <b>147,982</b>                 | 83,517           |

The present value of finance lease liabilities is as follows:

|  | <b>2013</b><br><b>HK\$'000</b> | 2012<br>HK\$'000 |
|--|--------------------------------|------------------|
| Within one year                              | <b>52,344</b>                  | 27,435           |
| In the second year                           | <b>47,576</b>                  | 27,472           |
| In the third to fifth year                   | <b>48,062</b>                  | 28,610           |
| Total finance lease liabilities              | <b>147,982</b>                 | 83,517           |
| Less: Amount included in current liabilities | <b>(52,344)</b>                | (27,435)         |
|  | <b>95,638</b>                  | 56,082           |

Finance lease liabilities are denominated in Hong Kong dollars. The carrying amounts of finance lease liabilities approximate their fair values.

As at 31 December 2013, the effective interest rate of the Group's finance lease liabilities was 3.45% (2012: 3.58%) per annum.

Finance lease liabilities are effectively secured as the rights to the leased assets revert to the lessors in the event of default. The net book amount of the leased assets is approximately HK\$290,121,000 (2012: HK\$128,912,000). The finance lease liabilities are additionally secured by corporate guarantees provided by the Company in respect of these liabilities of approximately HK\$91,899,000 (2012: HK\$83,455,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20 DEFERRED TAXATION – GROUP

The analysis of deferred tax liabilities is as follows:

|  | <b>2013</b>     | 2012     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| Deferred tax liabilities:  |                 |          |
| Deferred tax liability to be recovered after more than 12 months | <b>21,563</b>   | 22,027   |
| Deferred tax liability to be recovered within 12 months          | <b>445</b>      | 471      |
|  | <b>22,008</b>   | 22,498   |

The movements on the deferred income tax liabilities are as follows:

|                                     | <b>Fair value gains</b> | <b>Withholding tax</b> | <b>Total</b>  |
|-------------------------------------|-------------------------|------------------------|---------------|
|                                     | HK\$'000                | HK\$'000               | HK\$'000      |
| At 1 January 2012                   | 17,859                  | 5,129                  | 22,988        |
| Charged to profit or loss (Note 27) | (490)                   | –                      | (490)         |
| At 31 December 2012                 | 17,369                  | 5,129                  | 22,498        |
| Charged to profit or loss (Note 27) | (490)                   | –                      | (490)         |
| At 31 December 2013                 | <u>16,879</u>           | <u>5,129</u>           | <u>22,008</u> |

The above deferred income tax liabilities represent the withholding tax that would be payable on the unremitted retained earnings of certain subsidiaries. Deferred income tax liabilities of HK\$45,482,000 (2012: HK\$39,421,000) have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries as such amounts are considered to be permanently reinvested. Unremitted earnings totalled HK\$731,025,000 at 31 December 2013 (2012: HK\$647,421,000).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20 DEFERRED TAXATION – GROUP (CONTINUED)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of HK\$21,702,000 (2012: HK\$8,759,000) in respect of losses amounting to HK\$109,192,000 (2012: HK\$42,326,000) that can be carried forward against future taxable income. Tax losses of HK\$45,885,000 (2012: HK\$9,068,000) can be carried forward indefinitely. Tax losses of HK\$2,577,000, HK\$6,175,000, HK\$3,805,000, HK\$16,225,000 and HK\$34,525,000 will expire in 2014, 2015, 2016, 2017 and 2018 respectively (2012: HK\$3,603,000, HK\$2,577,000, HK\$6,175,000, HK\$4,545,000 and HK\$17,098,000 will expire in 2013, 2014, 2015, 2016 and 2017 respectively).

### 21 SHARE CAPITAL

|  | Note | <b>Number of<br/>ordinary<br/>shares</b><br>(thousands) | <b>Nominal<br/>value</b><br>HK\$'000 |
|--|------|---|--------------------------------------|
| Authorised   |      |   |                                      |
| At 31 December 2012 and 2013                         |      | <u>200,000,000</u>                                      | <u>20,000,000</u>                    |
| Issued and fully paid                                |      |   |                                      |
| At 1 January 2012                                    |      | 1,759,054   | 175,905                              |
| Issue of shares pursuant to<br>– share option scheme | (a)  | 100   | 10                                   |
| Repurchases of share                                 | (b)  | <u>(79,680)</u>   | <u>(7,968)</u>                       |
| At 31 December 2012                                  |      | 1,679,474   | 167,947                              |
| Issue of shares pursuant to<br>– share option scheme | (c)  | <u>300</u>  | <u>30</u>                            |
| At 31 December 2013                                  |      | <u>1,679,774</u>  | <u>167,977</u>                       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21 SHARE CAPITAL (CONTINUED)

Notes:

- (a) During 2012, 100,000 new ordinary shares of HK\$0.10 each were issued following the exercise of options under the share option scheme approved by the shareholders of the Company at exercise price of HK\$0.175 per share.
- (b) During 2012, the Company repurchased a total of 79,680,000 of its own shares on The Stock Exchange of Hong Kong Limited at prices ranging from HK\$0.57 to HK\$0.95 per share for a total consideration of approximately HK\$52,817,000. The directors were authorised to repurchase shares of the Company at the annual general meeting held on 21 May 2012. The repurchased shares were cancelled before 31 December 2012. Accordingly, the issued share capital of the Company was reduced by the nominal value of these shares and the premiums paid on these shares upon the repurchase were charged against the share premium account. An amount equivalent to the par value of the shares cancelled was transferred from the Company's retained earnings to the capital redemption reserve.

| Month of purchase | Number of<br>shares of<br>HK\$0.10 each | Highest price<br>per share<br>HK\$ | Lowest price<br>per share<br>HK\$ | Aggregate<br>consideration<br>paid<br>HK\$'000 |
|-------------------|---|------------------------------------|-----------------------------------|--|
| June 2012         | 350,000                                 | 0.60                               | 0.57                              | 208  |
| July 2012         | 11,950,000                              | 0.66                               | 0.63                              | 7,653  |
| August 2012       | 37,196,000                              | 0.63                               | 0.61                              | 23,141   |
| September 2012    | 20,900,000                              | 0.62                               | 0.61                              | 12,992   |
| November 2012     | 9,284,000                               | 0.95                               | 0.93                              | 8,823  |
|                   | <u>79,680,000</u>                       |                                    |                                   | <u>52,817</u>                                  |

- (c) During 2013, 300,000 new ordinary shares of HK\$0.10 each were issued following the exercise of options under the share option scheme approved by the shareholders of the Company at exercise price of HK\$0.69 per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21 SHARE CAPITAL (CONTINUED)

#### Share options

In 2005, the Company adopted a share option scheme ("Share Option Scheme"). Under the Share Option Scheme, the Company's directors may, at their sole discretion, grant to any director or employee of the Group options to subscribe for shares of the Company at the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the day of the offer of grant; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the day of the offer of the grant; and (iii) the nominal value of shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option. The maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not, in aggregate, exceed 30% of the shares of the Company in issue from time to time.

On 18 May 2007, the shareholders of the Company approved the refreshment of the 10% limit under the Share Option Scheme. The total number of shares which may be issued upon exercise of all options to be granted after that date under the Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 72,000,000 shares, representing 10% of the shares of the Company in issue as at 18 May 2007.

On 10 June 2009, the shareholders of the Company again approved the refreshment of the 10% limit under the Share Option Scheme. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 65,166,200 shares, representing 10% of the shares of the Company in issue as at 10 June 2009.

On 2 October 2009, a total of 1,960,000 options were granted to the Company's directors and employees with an exercise price of HK\$0.82 per share. These options were fully vested at the date of grant.

On 21 May 2012, the shareholders of the Company again approved the refreshment of the 10% limit under the Share Option Scheme. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 175,905,380 shares, representing 10% of the shares of the Company in issue as at 21 May 2012.

On 7 November 2012, a total of 137,870,000 options were granted to the Company's directors and employees with an exercise price HK\$0.69 per share. These options are exercisable from 2 January 2014 to 6 November 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21 SHARE CAPITAL (CONTINUED)

#### Share options (Continued)

On 12 January 2013 and 26 April 2013, 300,000 options and 21,850,000 options, respectively, were granted to the Company's director's and employees with an exercise price HK\$1.172 and HK\$1.16, respectively. The options are exercisable from 2 January 2014 to 6 November 2017.

On 21 May 2013, the shareholders of the Company again approved the refreshment of the 10% limit under the Share Option Scheme. The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company must not, in aggregate, exceed 167,977,380 shares, represent 10% of the shares of the Company in issue as at 21 May 2013.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

|                               | 2013                                  |                        | 2012                                  |                        |
|-------------------------------|---------------------------------------|------------------------|---------------------------------------|------------------------|
|                               | Average exercise price per share HK\$ | Number of options '000 | Average exercise price per share HK\$ | Number of options '000 |
| At 1 January                  |                                       | <b>146,104</b>         |                                       | 8,334                  |
| Granted                       | –                                     | –                      | 0.69                                  | 137,870                |
| Granted                       | <b>1.172</b>                          | <b>300</b>             | –                                     | –                      |
| Exercised                     | <b>0.69</b>                           | <b>(300)</b>           | –                                     | –                      |
| Granted                       | <b>1.16</b>                           | <b>21,850</b>          | –                                     | –                      |
| Exercised                     | –                                     | –                      | 0.175                                 | (100)                  |
| At 31 December                |                                       | <b><u>167,954</u></b>  |                                       | <b><u>146,104</u></b>  |
| Exercisable as at 31 December | <b>0.175</b>                          | <b>7,114</b>           | 0.175                                 | 7,114                  |
|                               | <b>0.41</b>                           | <b>1,120</b>           | 0.41                                  | 1,120                  |
|                               | <b>0.69</b>                           | <b>137,570</b>         | 0.69                                  | 137,870                |
|                               | <b>1.172</b>                          | <b>300</b>             | –                                     | –                      |
|                               | <b>1.16</b>                           | <b>21,850</b>          | –                                     | –                      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21 SHARE CAPITAL (CONTINUED)

#### Share options (Continued)

Share options outstanding as at the end of the year have the following expiry dates and exercise prices:

| Expiry date       | 2013                   |                           | 2012                   |                           |
|-------------------|------------------------|---------------------------|------------------------|---------------------------|
|                   | Exercise Price<br>HK\$ | Number of options<br>'000 | Exercise price<br>HK\$ | Number of options<br>'000 |
| 21 November 2018  | <b>0.175</b>           | <b>7,114</b>              | 0.175                  | 7,114                     |
| 30 September 2019 | <b>0.41</b>            | <b>1,120</b>              | 0.41                   | 1,120                     |
| 6 November 2017   | <b>0.69</b>            | <b>137,570</b>            | 0.69                   | 137,870                   |
| 6 November 2017   | <b>1.172</b>           | <b>300</b>                | –                      | –                         |
| 6 November 2017   | <b>1.16</b>            | <b>21,850</b>             | –                      | –                         |
|                   |                        | <b><u>167,954</u></b>     |                        | <b><u>146,104</u></b>     |

The fair values of 300,000 options and 21,850,000 options granted on 12 January 2013 and 26 April 2013 (2012: 137,870,000 options on 7 November 2012), respectively, determined using the Black-Scholes Valuation Model, were approximately HK\$118,000 and HK\$8,464,000, respectively (2012: HK\$34,950,000). The significant inputs into the model were as follows:

|                        | 7 November<br>2012 | 12 January<br>2013 | 26 April<br>2013 |
|------------------------|--------------------|--------------------|------------------|
| Exercise price         | HK\$0.69           | HK\$1.172          | HK\$1.16         |
| Expected volatility    | 64.19%             | 66.361%            | 66.349%          |
| Expected life          | 2.2 years          | 1.97 years         | 1.74 years       |
| Risk-free rate         | 0.241%             | 0.141%             | 0.184%           |
| Dividend paid-out rate | 3.333%             | 2.0354%            | 1.087%           |

The amount charged to the consolidated statement of comprehensive income during the year ended 31 December 2013 was HK\$39,648,000 (2012: HK\$3,884,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 RESERVES

## (a) Group

|  | Share<br>premium<br>HK\$'000 | Capital<br>reserve (i)<br>HK\$'000 | Statutory<br>reserves (ii)<br>HK\$'000 | Capital<br>redemption<br>reserve (iii)<br>HK\$'000 | Share<br>options<br>reserve<br>HK\$'000 | Translation<br>HK\$'000 | Retained<br>earnings<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------------------|------------------------------------|--|--|---|-------------------------|----------------------------------|-------------------|
| Balance at 1 January 2012  | 1,041,563                    | (735)                              | 83,388                                 | 12,361   | 1,027                                   | 677                     | 716,743                          | 1,855,024         |
| Profit for the year  | -                            | -                                  | -                                      | -  | -                                       | -                       | 70,889                           | 70,889            |
| Dividends paid   | -                            | -                                  | -                                      | -  | -                                       | -                       | (40,252)                         | (40,252)          |
| Premium on repurchase<br>of shares                                 | (44,849)                     | -                                  | -                                      | -  | -                                       | -                       | -                                | (44,849)          |
| Capital redemption reserve<br>arising from repurchase<br>of shares | -                            | -                                  | -                                      | 7,968  | -                                       | -                       | (7,968)                          | -                 |
| Other comprehensive<br>income – translation<br>differences         | -                            | -                                  | -                                      | -  | -                                       | 1,000                   | -                                | 1,000             |
| Employee share<br>option scheme<br>– value of<br>employee services | 25                           | -                                  | -                                      | -  | 3,884                                   | -                       | -                                | 3,884             |
| – proceeds from<br>shares issued                                   | 7                            | -                                  | -                                      | -  | -                                       | -                       | -                                | 7                 |
| Transfer to share premium<br>upon exercise of<br>share options     | 4                            | -                                  | -                                      | -  | (4)                                     | -                       | -                                | -                 |
| Transfer to<br>statutory reserves                                  | -                            | -                                  | 6,600                                  | -  | -                                       | -                       | (6,600)                          | -                 |
| Balance at<br>31 December 2012                                     | <u>996,725</u>               | <u>(735)</u>                       | <u>89,988</u>                          | <u>20,329</u>                                      | <u>4,907</u>                            | <u>1,677</u>            | <u>732,812</u>                   | <u>1,845,703</u>  |
| Representing   |                              |                                    |  |  |   |                         |                                  |                   |
| – Proposed final dividend  |                              |                                    |  |  |   |                         |                                  | 9,239             |
| – Others   |                              |                                    |  |  |   |                         |                                  | <u>1,836,464</u>  |
|  |                              |                                    |  |  |   |                         |                                  | <u>1,845,703</u>  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 RESERVES (CONTINUED)

## (a) Group (Continued)

| Note  | Share          | Capital      | Statutory     | Capital       | Share         | Translation   | Retained       | Total            |
|---|----------------|--------------|---------------|---------------|---------------|---------------|----------------|------------------|
|   | premium        | reserve (i)  | reserves (ii) | redemption    | options       |               | earnings       |                  |
|   | HK\$'000       | HK\$'000     | HK\$'000      | reserve       | reserve       | HK\$'000      | HK\$'000       | HK\$'000         |
| Balance at 1 January 2013                                 | 996,725        | (735)        | 89,988        | 20,329        | 4,907         | 1,677         | 732,812        | 1,845,703        |
| Profit for the year                                       | -              | -            | -             | -             | -             | -             | 55,427         | 55,427           |
| Dividends paid  | -              | -            | -             | -             | -             | -             | (17,301)       | (17,301)         |
| Other comprehensive income – translation differences      | -              | -            | -             | -             | -             | 10,626        | -              | 10,626           |
| Employee share option scheme – value of employee services | 25             | -            | -             | -             | 39,648        | -             | -              | 39,648           |
| – proceeds from shares issued                             | 177            | -            | -             | -             | -             | -             | -              | 177              |
| Transfer to share premium upon exercise of share options  | 76             | -            | -             | -             | (76)          | -             | -              | -                |
| Transfer to statutory reserves                            | -              | -            | 9,415         | -             | -             | -             | (9,415)        | -                |
| Balance at 31 December 2013                               | <u>996,978</u> | <u>(735)</u> | <u>99,403</u> | <u>20,329</u> | <u>44,479</u> | <u>12,303</u> | <u>761,523</u> | <u>1,934,280</u> |
| Representing  |                |              |               |               |               |               |                |                  |
| – Proposed final dividend                                 |                |              |               |               |               |               |                | 8,567            |
| – Others  |                |              |               |               |               |               |                | <u>1,925,713</u> |
|   |                |              |               |               |               |               |                | <u>1,934,280</u> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 RESERVES (CONTINUED)

## (b) Company

| Note  | Share<br>premium<br>HK\$'000 | Contributed<br>surplus (i)<br>HK\$'000 | Capital<br>redemption<br>reserve (iii)<br>HK\$'000 | Share<br>options<br>reserve<br>HK\$'000 | Retained<br>earnings<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|--|--|---|----------------------------------|-------------------|
| Balance at 1 January 2012                                       | 1,041,563                    | 121,351                                | 12,361   | 1,027                                   | 41,283                           | 1,217,585         |
| Profit for the year   | -                            | -                                      | -  | -                                       | 27,728                           | 27,728            |
| Dividends paid  | -                            | -                                      | -  | -                                       | (40,252)                         | (40,252)          |
| Premium on repurchase of shares                                 | (44,849)                     | -                                      | -  | -                                       | -                                | (44,849)          |
| Capital redemption reserve arising<br>from repurchase of shares | -                            | -                                      | 7,968  | -                                       | (7,968)                          | -                 |
| Employee share option scheme                                    |                              |  |  |   |                                  |                   |
| - value of employee services                                    | 25                           | -                                      | -  | 3,884                                   | -                                | 3,884             |
| - proceeds from shares issued                                   | 7                            | -                                      | -  | -                                       | -                                | 7                 |
| Transfer to share premium upon<br>exercise of share options     | 4                            | -                                      | -  | (4)                                     | -                                | -                 |
| Balance at 31 December 2012                                     | <u>996,725</u>               | <u>121,351</u>                         | <u>20,329</u>                                      | <u>4,907</u>                            | <u>20,791</u>                    | <u>1,164,103</u>  |
| Representing  |                              |  |  |   |                                  |                   |
| - Proposed final dividend                                       |                              |  |  |   |                                  | 9,239             |
| - Others  |                              |  |  |   |                                  | <u>1,154,864</u>  |
|   |                              |  |  |   |                                  | <u>1,164,103</u>  |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 RESERVES (CONTINUED)

## (b) Company (Continued)

| Note   | Share          | Contributed    | Capital       | Share         | Retained      | Total            |
|--|----------------|----------------|---------------|---------------|---------------|------------------|
|  | premium        | surplus (i)    | redemption    | options       | earnings      |                  |
|  | HK\$'000       | HK\$'000       | reserve       | reserve       | HK\$'000      | HK\$'000         |
|  |                |                | HK\$'000      | HK\$'000      |               |                  |
| Balance at 1 January 2013                                | 996,725        | 121,351        | 20,329        | 4,907         | 20,791        | 1,164,103        |
| Profit for the year                                      | -              | -              | -             | -             | 54,601        | 54,601           |
| Dividends paid   | -              | -              | -             | -             | (17,301)      | (17,301)         |
| Employee share option scheme                             |                |                |               |               |               |                  |
| – value of employee services                             | -              | -              | -             | 39,648        | -             | 39,648           |
| – proceeds from shares issued                            | 177            | -              | -             | -             | -             | 177              |
| Transfer to share premium upon exercise of share options | 76             | -              | -             | (76)          | -             | -                |
| Balance at 31 December 2013                              | <u>996,978</u> | <u>121,351</u> | <u>20,329</u> | <u>44,479</u> | <u>58,091</u> | <u>1,241,228</u> |
| Representing   |                |                |               |               |               |                  |
| – Proposed final dividend                                |                |                |               |               |               | 8,567            |
| – Others   |                |                |               |               |               | <u>1,232,661</u> |
|  |                |                |               |               |               | <u>1,241,228</u> |

Notes:

- (i) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to a reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company represents the difference between the costs of investments in subsidiaries acquired pursuant to a reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

The reorganisation took place in April 2005 in contemplation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22 RESERVES (CONTINUED)

#### (b) Company (Continued)

Notes: (Continued)

- (ii) In accordance with the articles of association of the relevant subsidiaries established in Mainland China and the Mainland China rules and regulations, the Mainland China subsidiaries are required to transfer not less than 10% of their net profit as stated in the financial statements prepared under Mainland China accounting regulations to statutory reserves before the corresponding Mainland China subsidiaries can distribute any dividend. Such a transfer is not required when the amount of statutory reserves reaches 50% of the corresponding subsidiaries' registered capital. The statutory reserve shall only be used to make up losses of the corresponding subsidiaries, to expand the corresponding subsidiaries' production operations, or to increase the capital of the corresponding subsidiaries. Upon approval of the corresponding subsidiaries' shareholders in general meetings, the subsidiaries may convert their statutory reserves into registered capital and issue bonus capital to the existing owners in proportion to the existing ownership structure.
- (iii) During the twelve months ended 31 December 2012, the Company repurchased a total of 79,680,000 of its own shares on The Stock Exchange of Hong Kong Limited. The repurchased shares were cancelled upon repurchase. Accordingly, the issued share capital of the Company was reduced by the nominal value of the share and the premiums paid on these shares upon the repurchase were charge against the share premium account. An amount equivalent to the par value of the shares cancelled was transferred from the Company's retained earnings to the capital redemption reserve.

### 23 OTHER GAINS – NET

|  | <b>2013</b>     | 2012     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| Gain on financial assets at fair value through profit or loss            | <b>5,091</b>    | 569      |
| Gain on deemed disposal of investments accounted for using equity method | <b>5,105</b>    | –        |
| (Loss)/gain on disposal of property, plant and equipment                 | <b>(8)</b>      | 1,445    |
| Government grant   | <b>7,342</b>    | 5,066    |
| Net exchange gains   | <b>7,845</b>    | 471      |
| Others   | <b>(231)</b>    | 480      |
|  | <b>25,144</b>   | 8,031    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 24 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs and general and administrative expenses are analysed as follows:

|   | <b>2013</b>      | 2012      |
|---|------------------|-----------|
|   | <b>HK\$'000</b>  | HK\$'000  |
| Depreciation (Note 6)   |                  |           |
| – Owned assets  | <b>178,319</b>   | 141,265   |
| – Leased assets   | <b>17,048</b>    | 6,094     |
|   | <b>195,367</b>   | 147,359   |
| Employment expenses (Note 25)                                 |                  |           |
| – research and development                                    | <b>32,086</b>    | 23,043    |
| – share options granted                                       | <b>39,648</b>    | 3,884     |
| – others  | <b>563,271</b>   | 463,308   |
| Amortisation of leasehold land and land use rights (Note 7)   | <b>2,934</b>     | 2,751     |
| Auditor's remuneration  | <b>3,546</b>     | 3,546     |
| Changes in inventories of finished goods and work in progress | <b>(35,034)</b>  | 30,567    |
| Raw materials and consumables used                            | <b>1,408,445</b> | 1,260,984 |
| Provision/(reversal of provision) for inventory obsolescence  | <b>3,639</b>     | (155)     |
| Research and development                                      | <b>15,880</b>    | 43,091    |
| Subcontracting expenses                                       | <b>72,985</b>    | 43,171    |
| Utilities expenses  | <b>63,073</b>    | 56,873    |
| Transportation expenses                                       | <b>34,755</b>    | 25,791    |
| Packaging expenses  | <b>87,494</b>    | 61,469    |
| Marketing expenses  | <b>4,079</b>     | 8,219     |
| Office expenses   | <b>28,537</b>    | 19,735    |
| Operating lease payments for properties                       | <b>3,421</b>     | 2,204     |
| Others  | <b>63,259</b>    | 75,503    |
|   | <b>2,587,385</b> | 2,271,343 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25 EMPLOYMENT EXPENSES

|   | <b>2013</b>     | 2012     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Wages, salaries and bonus                           | <b>510,621</b>  | 435,806  |
| Share options granted (Notes 21 and 22)             | <b>39,648</b>   | 3,884    |
| Staff welfare                                       | <b>56,517</b>   | 26,875   |
| Retirement benefit – defined contribution plans (a) | <b>28,219</b>   | 23,670   |
|   | <b>635,005</b>  | 490,235  |

#### (a) Retirement benefits – defined contribution plans

As stipulated by rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan for its employees in Mainland China, which is a defined contribution plan. The Group and its employees contribute approximately 8% and 5%, respectively, of the employees' salary as specified by the local government, and the Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subject to a cap of HK\$1,250 per month.

During the year ended 31 December 2013, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately HK\$28,219,000 (2012: HK\$23,670,000). As at 31 December 2013, the Group was not entitled to any forfeited contributions to reduce its future contributions (2012: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 EMPLOYMENT EXPENSES (CONTINUED)

## (b) Directors' and chief executive's emoluments

The remuneration of each director for the year ended 31 December 2013 is set out below:

| Name of director                           | Fees       | Salaries      | Discretionary bonus | Share-based payments | Employer's contribution to pension scheme | Total         |
|--|------------|---------------|---------------------|----------------------|---|---------------|
|  | HK\$'000   | HK\$'000      | HK\$'000            | HK\$'000             | HK\$'000                                  | HK\$'000      |
| <u>Executive directors</u>                 |            |               |                     |                      |   |               |
| Mr. Zhang Hwo Jie                          | -          | 3,600         | 800                 | 3,605                | 15  | 8,020         |
| Mr. Zhang Jian Hua                         | -          | 3,600         | 800                 | 3,605                | 15  | 8,020         |
| Mr. Zhang Yaohua <sup>(1)</sup>            | -          | 3,600         | 800                 | 3,605                | 15  | 8,020         |
| <u>Independent non-executive directors</u> |            |               |                     |                      |   |               |
| Dr. Lui Sun Wing <sup>(2)</sup>            | 4          | -             | -                   | 68                   | 1   | 73            |
| Mr. Choy Tak Ho                            | 160        | -             | -                   | 184                  | -   | 344           |
| Mr. Leung Tai Chiu                         | 160        | -             | -                   | 184                  | -   | 344           |
| Mr. Lam Hiu Lo <sup>(3)</sup>              | 156        | -             | -                   | 234                  | 8   | 398           |
|  | <b>480</b> | <b>10,800</b> | <b>2,400</b>        | <b>11,485</b>        | <b>54</b>                                 | <b>25,219</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25 EMPLOYMENT EXPENSES (CONTINUED)

#### (b) Directors' and chief executive's emoluments (Continued)

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

| Name of director                               | Fees<br>HK\$'000 | Salaries<br>HK\$'000 | Discretionary<br>bonus<br>HK\$'000 | Share-based<br>payments<br>HK\$'000 | Employer's<br>contribution<br>to pension<br>scheme<br>HK\$'000 | Total<br>HK\$'000 |
|--|------------------|----------------------|------------------------------------|-------------------------------------|--|-------------------|
| <u>Executive directors</u>                     |                  |                      |                                    |                                     |  |                   |
| Mr. Zhang Hwo Jie                              | -                | 2,820                | 400                                | 451                                 | 14   | 3,685             |
| Mr. Zhang Jian Hua                             | -                | 2,820                | 400                                | 451                                 | 14   | 3,685             |
| Mr. Zhang Yaohua <sup>(1)</sup>                | -                | 2,820                | 400                                | 451                                 | 14   | 3,685             |
| Mr. Nomo Kenshiro <sup>(4)</sup>               | -                | 480                  | 80                                 | -                                   | -  | 560               |
| <u>Independent<br/>non-executive directors</u> |                  |                      |                                    |                                     |  |                   |
| Dr. Lui Sun Wing <sup>(2)</sup>                | 140              | -                    | -                                  | 8                                   | 6  | 154               |
| Mr. Choy Tak Ho                                | 140              | -                    | -                                  | 8                                   | -  | 148               |
| Mr. Leung Tai Chiu                             | 140              | -                    | -                                  | 8                                   | -  | 148               |
|  | <u>420</u>       | <u>8,940</u>         | <u>1,280</u>                       | <u>1,377</u>                        | <u>48</u>  | <u>12,065</u>     |

None of the directors waived or agreed to waive any emoluments paid/payable by the Group during the year (2012: nil).

Note:

- (1) Mr. Zhang Yaohua is also the Chief Executive Officer of the Group.
- (2) Dr. Lui Sun Wing ceased to be an independent non-executive director of the Company with effect from 11 January 2013.
- (3) Mr. Lam Hiu Lo was appointed as an independent non-executive director of the Company with effect from 11 January 2013.
- (4) Mr. Nomo Kenshiro ceased to be a director of the Company with effect from 11 January 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25 EMPLOYMENT EXPENSES (CONTINUED)

#### (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2012: four) directors whose emoluments are reflected in the analysis presented above.

The emoluments payable to the remaining two (2012: one) individuals are as follows:

|   | <b>2013</b>     | 2012     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Salaries  | <b>1,603</b>    | 1,260    |
| Bonus   | <b>200</b>      | 110      |
| Share options granted                           | <b>2,676</b>    | 112      |
| Retirement benefit – defined contribution plans | <b>21</b>       | 14       |
|   | <b>4,500</b>    | 1,496    |

The emoluments fell within the following bands:

|                                | <b>Number of individuals</b> |      |
|--------------------------------|------------------------------|------|
|                                | <b>2013</b>                  | 2012 |
| Emolument bands                |                              |      |
| HK\$1,000,001 to HK\$1,500,000 | –                            | 1    |
| HK\$1,500,001 to HK\$2,000,000 | <b>1</b>                     | –    |
| HK\$2,000,001 to HK\$2,500,000 | –                            | –    |
| HK\$2,500,001 to HK\$3,000,000 | <b>1</b>                     | –    |
|                                | <b>2</b>                     | 1    |

During the year, no emolument was paid by the Group to any of the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2012: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25 EMPLOYMENT EXPENSES (CONTINUED)

#### (d) Senior management remuneration by band

The emoluments for the four (2012: five) senior management members listed in the section headed "Directors and Senior Management Profile" of this annual report included three (2012: four) executive directors whose emoluments are reflected in the analysis presented above.

The emoluments for the remaining one (2012: one) senior management member fell within the following band:

|                               | <b>Number of individuals</b> |      |
|-------------------------------|------------------------------|------|
|                               | <b>2013</b>                  | 2012 |
| HK\$0 – HK\$1,500,000         | –                            | 1    |
| HK\$2,500,001 – HK\$3,000,000 | <b>1</b>                     | –    |
|                               | <b>1</b>                     | 1    |

### 26 FINANCE INCOME/COSTS

|  | <b>2013</b>     | 2012     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| <i>Finance income</i>                                  |                 |          |
| Interest income on bank deposits                       | <b>10,418</b>   | 4,807    |
| <i>Finance costs</i>                                   |                 |          |
| Interest expense on:                                   |                 |          |
| Bank borrowings wholly repayable within five years     | <b>3,078</b>    | 7,452    |
| Bank borrowings not wholly repayable within five years | <b>22,189</b>   | 14,182   |
| Finance lease liabilities                              | <b>3,449</b>    | 1,878    |
|  | <b>28,716</b>   | 23,512   |

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the years ended 31 December 2013 and 2012, the interest on bank borrowings which contain a repayment on demand clause amounting to HK\$615,000 and HK\$1,528,000 respectively.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27 INCOME TAX EXPENSE

|   | <b>2013</b>     | 2012     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Current taxation                          |                 |          |
| – Hong Kong profits tax                   | <b>15</b>       | 812      |
| – Mainland China corporate income tax     | <b>17,843</b>   | 14,965   |
| Over-provision in prior years             | <b>(4,584)</b>  | (825)    |
| Deferred income tax credited for the year | <b>(490)</b>    | (490)    |
|   | <b>12,784</b>   | 14,462   |

**(a) Hong Kong profits tax**

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the year (2012: 16.5%).

**(b) Mainland China corporate income tax**

Income tax in the subsidiaries of the Group established in Mainland China has been provided at the following tax rate:

- (i) Provision for China corporate income tax was calculated on the statutory rate of 25% (2012: 25%) on the assessable income of each of the group's entities except that certain subsidiaries of the Company operating in Mainland China are eligible for certain tax exemptions and concessions including tax holiday and reduced income tax rate during the period. Accordingly, the China corporate income tax for such subsidiaries has been provided for after taking into account of their tax exemptions and concessions.
- (ii) During the years ended 31 December 2012 and 2013, EVA Precision Industrial (Suzhou) Limited, Shenzhen EVA Mould Manufacturing Limited, Chongqing Digidie Auto Body Ltd., Yihe Precision Hardware (Shenzhen) Co., Ltd. and Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. were recognised by the Chinese Government as a "National High and New Technology Enterprise" and were therefore subject to a preferential tax rate of 15% during the years ended 31 December 2012 and 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27 INCOME TAX EXPENSE (CONTINUED)

#### (b) Mainland China corporate income tax (Continued)

Under the new Corporate Income Tax Law of Mainland China, dividend distributions out of profit of foreign invested enterprises earned after January 2008 will be subject to corporate withholding income tax at 10%, or at a reduced rate of 5% for certain jurisdiction of foreign investor with tax treaty arrangement.

#### (c) Overseas income tax

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and, accordingly, is exempted from Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and accordingly, are exempted from British Virgin Islands income tax.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the domestic tax rate applicable to profits in the respective countries/ places of business of the consolidated entities as follows:

|   | <b>2013</b>     | 2012     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Profit before income tax  | <b>72,259</b>   | 84,070   |
| Tax calculated at domestic rates applicable<br>in the respective countries/places of business | <b>4,061</b>    | 9,669    |
| Income not subject to tax   | <b>(782)</b>    | (179)    |
| Expenses not deductible for tax purpose   | <b>1,146</b>    | 1,282    |
| Tax losses for which no deferred income tax<br>asset was recognised                           | <b>12,943</b>   | 4,515    |
| Over-provision in prior years   | <b>(4,584)</b>  | (825)    |
| Tax charge  | <b>12,784</b>   | 14,462   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27 INCOME TAX EXPENSE (CONTINUED)

#### (c) Overseas income tax (Continued)

The weighted average applicable tax rate for the year ended 31 December 2013 was approximately 5.6% (2012: 11.5%). The decrease is due to changes in the profitability of the subsidiaries in the respective jurisdictions.

### 28 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$54,601,000 (2012: HK\$27,728,000).

### 29 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the company.

#### Basic

|   | <b>2013</b>      | 2012      |
|---|------------------|-----------|
| Profit attributable to equity holders of the Company (HK\$'000) | <b>55,427</b>    | 70,889    |
| Weighted average number of ordinary shares in issue ('000)      | <b>1,679,760</b> | 1,733,043 |
| Basic earnings per share (HK cents per share)                   | <b>3.3</b>       | 4.1       |

#### Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares (i.e. share options). A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29 EARNINGS PER SHARE (CONTINUED)

#### Diluted (Continued)

|  | <b>2013</b>      | 2012      |
|--|------------------|-----------|
| Profit attributable to equity holders of the Company (HK\$'000)                  | <b>55,427</b>    | 70,889    |
| Weighted average number of ordinary shares in issue ('000)                       | <b>1,679,760</b> | 1,733,043 |
| – adjustment for share options ('000)  | <b>61,646</b>    | 9,090     |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | <b>1,741,406</b> | 1,742,133 |
| Diluted earnings per share (HK cents per share)                                  | <b>3.2</b>       | 4.1       |

### 30 DIVIDENDS

|   | <b>2013</b>     | 2012     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Interim dividend paid of HK0.48 cent (2012: HK0.7 cent) per ordinary share    | <b>8,063</b>    | 12,106   |
| Proposed final dividend of HK0.51 cent (2012: HK0.55 cent) per ordinary share | <b>8,567</b>    | 9,239    |
|   | <b>16,630</b>   | 21,345   |

A dividend in respect of the year ended 31 December 2013 of HK0.51 cent per share, amounting to a total dividend of HK\$8,567,000, is to be proposed at the annual general meeting on 21 May 2014. These financial statements do not reflect this dividend payable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

|  | <b>2013</b>      | 2012     |
|--|------------------|----------|
|  | <b>HK\$'000</b>  | HK\$'000 |
| Profit for the year  | <b>59,475</b>    | 69,608   |
| Adjustments for:   |                  |          |
| – Income tax   | <b>12,784</b>    | 14,462   |
| – Depreciation   | <b>195,367</b>   | 147,359  |
| – Amortisation of leasehold land and land use rights                         | <b>2,934</b>     | 2,751    |
| – Loss/(gain) on disposal of property, plant and equipment                   | <b>8</b>         | (1,445)  |
| – Share-based payments   | <b>39,648</b>    | 3,884    |
| – Gain on financial assets at fair value through profit or loss              | <b>(5,091)</b>   | (569)    |
| – Gain from deemed disposal of investments accounted for using equity method | <b>(5,105)</b>   | –        |
| – Share of loss of investments accounted for using the equity method         | <b>3,072</b>     | 999      |
| – Interest income  | <b>(10,418)</b>  | (4,807)  |
| – Interest expense   | <b>28,716</b>    | 23,512   |
| Changes in working capital:  |                  |          |
| – Inventories  | <b>(39,750)</b>  | 32,213   |
| – Trade receivables  | <b>(129,613)</b> | (29,679) |
| – Loan and interest receivables  | <b>(129,664)</b> | (6,166)  |
| – Prepayments, deposits and other receivables                                | <b>(45,707)</b>  | (64,825) |
| – Trade payables   | <b>122,159</b>   | 3,878    |
| – Accruals and other payables  | <b>74,369</b>    | 35,735   |
| Cash generated from operations   | <b>173,184</b>   | 226,910  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

In the consolidated statement of cash flows, proceeds from sales of property, plant and equipment comprise:

|                                       | <b>Property, plant and equipment</b> |              |
|---------------------------------------|--------------------------------------|--------------|
|                                       | <b>2013</b>                          | 2012         |
|                                       | <b>HK\$'000</b>                      | HK\$'000     |
| Net book amount                       | <b>8</b>                             | 26,011       |
| (Loss)/gain on disposal               | <b>(8)</b>                           | 1,445        |
|                                       | -                                    | 27,456       |
| Transfer of assets to a joint venture | -                                    | (3,760)      |
| Sales proceeds not yet received       | -                                    | (20,347)     |
|                                       | -                                    | 3,349        |
|                                       | <b>-</b>                             | <b>3,349</b> |

### 32 COMMITMENTS – GROUP

#### (a) Capital Commitments

Capital expenditures at the statement of financial position date contracted but not yet incurred are as follows:

|                                   | <b>2013</b>     | 2012     |
|-----------------------------------|-----------------|----------|
|                                   | <b>HK\$'000</b> | HK\$'000 |
| Contracted but not provided for   |                 |          |
| – Construction of buildings       | <b>44,153</b>   | 83,044   |
| – Purchase of plant and machinery | <b>27,869</b>   | 138,054  |
|                                   | <b>72,022</b>   | 221,098  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32 COMMITMENTS – GROUP (CONTINUED)

#### (b) Operating lease commitments – group company as lessee

The future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases of the group are as follows:

|   | <b>2013</b>     | 2012     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Not later than one year                           | <b>13,099</b>   | 11,094   |
| Later than one year but not later than five years | <b>40,979</b>   | 36,321   |
| Later than five years                             | <b>129,762</b>  | 136,111  |
|   | <b>183,840</b>  | 183,526  |

### 33 RELATED-PARTY TRANSACTIONS

Mr. Zhang How Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua, the Company's executive directors, have beneficial interest in Prosper Empire Limited which owns 38.19% (2012: 38.2%) of the Company's shares as at 31 December 2013.

#### (a) The following transactions were carried out with related parties:

As disclosed in the Company's Prospectus dated 29 April 2005, on 28 April 2005, the Company entered into a deed of tax indemnity with Prosper Empire Limited which is a 38.19% shareholder of the Company as at 31 December 2013 and Mr. Zhang Hwo Jie, Mr. Zhang Jian Hua and Mr. Zhang Yaohua who are directors and beneficial shareholders of the Company (together the "Indemnifiers") under which each of the Indemnifiers has jointly and severally undertaken to indemnify the Group in connection with, inter alia, any taxation falling on any member of the Group (other than those established subsequent to the listing of the Company) resulting from any income, profits gains, transactions, events, matters, things of businesses earned, accrued, received, entered into, carried on, or occurring on or before the listing date of the Company. This deed of tax indemnity was approved by the Board of Directors on 20 April 2005.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 33 RELATED-PARTY TRANSACTIONS (CONTINUED)

**(a)** The following transactions were carried out with related parties: (Continued)

In 2005, EVA Limited, a wholly owned subsidiary of the Group, proposed to settle with The Hong Kong Inland Revenue Department (the "HKIRD") regarding their offshore claims which were queried by the HKIRD. There has been no response from the HKIRD to the proposal of EVA Limited. However, up to 31 December 2013, EVA Limited had already paid approximately HK\$11,588,000, in the form of estimated tax assessments and tax reserve certificates, to the HKIRD in respect of the periods prior to 11 May 2005, the listing date of the Company. Payments of approximately HK\$4,038,000 (2012: HK\$4,038,000) had been indemnified by the Indemnifiers. The remaining balance of approximately HK\$7,550,000 (2012: HK\$7,550,000) will also be indemnified by the Indemnifiers should the final determination of such tax liabilities be made by the HKIRD.

**(b) Key management compensation**

|  | <b>2013</b>     | 2012     |
|--|-----------------|----------|
|  | <b>HK\$'000</b> | HK\$'000 |
| Salaries, allowances and bonus                   | <b>17,015</b>   | 13,050   |
| Share-based payments                             | <b>18,942</b>   | 1,943    |
| Retirement benefits - defined contribution plans | <b>324</b>      | 281      |
|  | <b>36,281</b>   | 15,274   |



## FIVE YEARS FINANCIAL SUMMARY

|  | <b>2013</b>        | 2012        | 2011      | 2010      | 2009      |
|--|--------------------|-------------|-----------|-----------|-----------|
|  | <b>HK\$'000</b>    | HK\$'000    | HK\$'000  | HK\$'000  | HK\$'000  |
| <b>CONSOLIDATED RESULTS</b>                          |                    |             |           |           |           |
| Turnover   | <b>2,655,715</b>   | 2,367,023   | 1,977,845 | 1,703,099 | 1,026,097 |
| Profit for the year                                  | <b>59,475</b>      | 69,608      | 209,773   | 303,418   | 31,519    |
| Non-controlling interests                            | <b>(4,048)</b>     | 1,281       | 606       | (754)     | –         |
| Profit attributable to equity holders of the Company | <b>55,427</b>      | 70,889      | 210,379   | 302,664   | 31,519    |
| <b>CONSOLIDATED BALANCE SHEET</b>                    |                    |             |           |           |           |
| Non-current assets                                   | <b>2,212,981</b>   | 2,034,602   | 1,698,864 | 1,192,843 | 1,008,503 |
| Current assets                                       | <b>2,135,863</b>   | 1,789,133   | 1,298,932 | 1,031,626 | 546,623   |
| Current liabilities                                  | <b>(1,474,868)</b> | (1,129,675) | (867,969) | (598,818) | (561,576) |
| Non-current liabilities                              | <b>(704,025)</b>   | (618,384)   | (85,415)  | (35,255)  | (96,734)  |
| Net assets   | <b>2,169,951</b>   | 2,075,676   | 2,044,412 | 1,590,396 | 896,816   |
| Share capital  | <b>167,977</b>     | 167,947     | 175,905   | 81,629    | 61,802    |
| Reserves   | <b>1,934,280</b>   | 1,845,703   | 1,855,024 | 1,499,437 | 835,014   |
| Non-controlling interests                            | <b>67,694</b>      | 62,026      | 13,483    | 9,330     | –         |
| Total equity   | <b>2,169,951</b>   | 2,075,676   | 2,044,412 | 1,590,396 | 896,816   |



**EVA Precision Industrial Holdings Limited**  
**億和精密工業控股有限公司**

**Unit 8, 6th Floor, Greenfield Tower, Concordia Plaza**  
**No.1 Science Museum Road, Kowloon, Hong Kong**

香港九龍科學館道1號康宏廣場南座6樓8室

Telephone 電話: 852-2620 6488  
Facsimile 傳真: 852-2191 9978  
Website 網站: www.eva-group.com

**EVA Industrial Garden**  
**Tang Xing Road, Shi Yan Town**  
**Bao An District, Shenzhen**  
**Guangdong Province, the People's Republic of China**

中國廣東省深圳市寶安區石岩鎮塘興路億和科技工業園

Telephone 電話: 0755-2762 9999  
Facsimile 傳真: 0755-2762 9181  
Postcode 郵編: 518108

**EVA Industrial Garden, 268 Ma Yun Road**  
**Suzhou National New and Hi-Tech Industrial Development Zone**  
**Jiangsu Province, the People's Republic of China**

中國江蘇省蘇州高新區馬運路268號億和科技工業園

Telephone 電話: 0512-8917 9999  
Facsimile 傳真: 0512-8887 1281  
Postcode 郵編: 215129

**EVA Industrial Garden**  
**Nan Huan Road, Gong Ming Town**  
**Guang Ming New District, Shenzhen**  
**Guangdong Province, the People's Republic of China**

中國廣東省深圳市光明新區公明街道南環路億和科技工業園

Telephone 電話: 0755-8172 9999  
Facsimile 傳真: 0755-2906 8899  
Postcode 郵編: 518106

**EVA Industrial Garden**  
**No. 31 Torch Road**  
**Torch Development Zone, Zhongshan**  
**Guangdong Province, the People's Republic of China**

中國廣東省中山市火炬開發區火炬路31號億和科技工業園

Telephone 電話: 0760-8996 9999  
Facsimile 傳真: 0760-8992 3300  
Postcode 郵編: 528437

**Chongqing Digidie Auto Body Ltd.**  
**No.1 Jianqiao Road**  
**Jianqiao Industrial Zone A, Dadukou District**  
**Chongqing, the People's Republic of China**

中國重慶市大渡口區建橋工業園A區建橋大道1號重慶數碼模車身模具有限公司

Telephone 電話: 023-6155 4600  
Facsimile 傳真: 023-6155 4617  
Postcode 郵編: 400084

**Digidie Stamping Technology (Wuhan) Limited**  
**No. 19 Changfu Industrial Park, Caidian Economic Development Zone, Wuhan**  
**Hubei Province, the People's Republic of China**

中國湖北省武漢市蔡甸經濟開發區常福工業園19號  
數碼模沖壓技術(武漢)有限公司

Telephone 電話: 027-8661 9999  
Facsimile 傳真: 027-8661 9999-209  
Postcode 郵編: 430120

**EVA Mould Industrial Base, Industrial District No. 9**  
**Tian Liao Community, Gong Ming Administrative Centre**  
**Guang Ming New District, Shenzhen**  
**Guangdong Province, the People's Republic of China**

中國廣東省深圳市光明新區公明辦事處田寮社區第九工業區億和模具產業基地

Telephone 電話: 0755-2751 2091/2765 4111/8172 1999/8172 0333  
Facsimile 傳真: 0755-2751 6356/2764 8817/8178 5289  
Postcode 郵編: 518132