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

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

ANNUAL REPORT 2013

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

COMPLIANCE OFFICER

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

QUALIFIED ACCOUNTANT

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

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

WEB SITE OF THE COMPANY

www.jinhengholdings.com

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

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

The Bank of East Asia
Bank of Communication
Bank of China

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITORS

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

LEGAL ADVISER

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

STOCK QUOTE

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CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board of Directors ("the Board"), I am pleased to present the audited financial results of Jinheng Automotive Safety Technology Holdings Limited ("the Company") and its subsidiaries ("the Group") for the financial year ended 31 December 2013.

BUSINESS REVIEW

For the year ended 31 December 2013, the Group recorded turnover of approximately HK$199.8 million, while it was approximately HK$261.0 million in last year. In the second half of 2013, the construction of the production plant in Tianjian, PRC was completed and was in testing stage. As a result the production capacity and efficiency of EMS was reduced and thus the overall turnover amount reduced. Furthermore, the reallocation project has also reduced the profit attributed to the shareholders of the Company, as certain expenses were incurred for reallocation and the additional depreciation of newly used fixed assets.

During the year under review, the Group has completed the acquisition of the 30% equity interest of Ever Tech Holdings Limited. After the completion of such acquisition, the Group also obtained 30% equity interest of Handyman Group Limited ("Handyman"), which owns certain technical know-how in related to the automobile gearing system and power-control system. The Group has commenced to further research and develop new integrated automobile power system with the use of these technologies in our research center in Tianjian plant. It is expected to provide contributions in the future by the means of diversify our products pool and expand the customer base.

In 2013, the Group had allocated more resources in the research and development activities to enhance our existing technology and enlarge our product range. In order to match with the recent development of the automobile design and technologies, such strategy is expected to continue in the coming year.

CHAIRMAN'S STATEMENT

OUTLOOK AND FUTURE PROSPECTS

The test-run of the production plant in Tianjian, PRC is expected to be completed in the first half of 2014, and the directors of the Company believe that our production processes may go into the right track soon.

The research and testing center Tianjian plant is equipped with equipment from domestic and oversea manufacturers, including an emission testing laboratory which can perform emission testing for more than 5 cars at the same time, and other simulation devices for research and testing purpose. It is considered that the research and testing center may allow the Group to utilise our technologies and provide rooms for the expansion of our product range and explore more potential business in the automobile spare part market in the PRC. It is expected to provide fruitful return once put into commercial production.

In order to allocate the existing resources of the Group in a more efficient manner, the Group is considering to restructure the existing businesses and focus more in the business area with higher potential, and is also planning to further develop trading business for automotive space parts. It is also expected that after the Tinajian production plant operates in full scale, the production capacity and efficiency will be enhanced. With the continuous launch of new products and utilise different investment opportunities, the Group will have improvement in the financial performance in the coming future.

APPRECIATION

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

Li Feng
Chairman

Hong Kong, 28 March 2014

RESULTS OF OPERATIONS

During the year ended 31 December 2013, the turnover amount and the average gross profit margin of the Group were approximately HK$199.8 million and approximately 9.0% respectively, while it was approximately HK$261.0 million and approximately 9.8% respectively in last year. The changes were mainly due to the production inefficiency of the EMS products, which the production facilities are under expansion and reallocation during the year. In order to maintain normal operations and returns under the construction period, the Group has put effort in the disposal of more automobile spare parts during the year, which generally contribute lower profit margin than the complete system products.

The other revenue of the Group during the year under review was decreased from approximately HK$36.5 million to approximately HK$14.6 million. The change was mainly due to the decrease of interest income from promissory notes, which was fully repaid during the second half of 2012.

During the current reporting period, the research and development expenses of the Group were approximately HK$55.7 million, while it was approximately HK$18.5 million in last year. Our research and testing center in Tianjian has commenced operation during the year, and the Group has put more effort to upgrade our existing products to cope with the demand from customers. The Group had also put more resources in the research of new products in order to capture the opportunities in the automobile spare parts market. Also the life cycle of certain previously capitalized development cost have completed and the remaining balance were fully amortized during the year.

For the year ended 31 December 2013, the distribution costs of the Group were approximately HK$5.5 million, which was decreased by approximately HK$1.6 million compared with last year. Such decrease is mainly due to the reduction of turnover during the year under review.

In 2013, the administrative expenses of the Group were approximately HK$58.0 million, which was increased by approximately 66.1% as compared with 2012. This is mainly due to the construction of plants in Tianjian, PRC reached the final stage and more expenses were incurred to speed up the progress. It is also resulted from the impairment provision of certain long-aged receivables.

The finance costs during the current year under review were decreased by approximately 18.5% to approximately HK$4.0 million as compared to 2012. This was mainly due to the Group is adjusting the combination of the financing vehicles in order to substantially reduce the finance costs.

For the year ended 31 December 2013, the Group recorded approximately HK$62.8 million loss for the year attributable to owners of the Company, while it was of approximately HK$33.6 million in last year. The increment of mainly due to the increment research and development expenses and administrative expenses as discussed above.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING AND TREASURY POLICY

As at 31 December 2013, the Group had bank and cash balances of approximately HK$41.0 million (2012: approximately HK$260.0 million) and net current assets of approximately HK$221.2 million, which decreased by approximately HK$125.1 million as compared with the last fiscal year. The change was mainly due to the contribution in constructing the Tianjian production plant and the increment of operating expenses. The total non-current assets of the Group were approximately HK$375.5 million in 2013, while it was approximately HK$343.7 million in the last year.

As at 31 December 2013, the Group had non-current liabilities of approximately HK$20.1 million, which represent the deferred tax liabilities.

The Group also had short-term bank loans of HK$59.1 million which included bank loans with an aggregate amount of approximately HK$42.3 million with fixed interest rates ranging from 6.0% to 7.2% per annum, and discounted bills of HK$16.8 million (equivalent to approximately RMB13.1 million) which were not yet matured at the year end date. The short-term bank loans were primarily used to finance short-term cash flows for our operations.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

Most of the trading transactions, assets and liabilities of the Group were denominated in Renminbi, Hong Kong dollars, US dollars or, to a lesser extent, Euro. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2013, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

CHARGE ON GROUP ASSETS

As at 31 December 2013, the Group has pledged certain patents, leasehold land and building of approximately HK$47.9 million, and certain discounted bills with recourse totaling HK$16.8 million were secured by the related bills receivable and were repayable within one year.

GEARING RATIO

The Group's gearing ratio, which was derived from the total liabilities to total assets, increased to 21.1% in 2013 from 20.4% in 2012.

FUTURE PLANS FOR MATERIAL INVESTMENTS

Except for those set out in the "Subsequent Events" in this report, the Group had authorized but not contracted for capital expenditure commitments of approximately HK$5.6 million in respect of acquisition of fixed assets as at 31 December 2013.

MATERIAL ACQUISITIONS AND DISPOSALS

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

SIGNIFICANT INVESTMENT

There was no other significant investment during the year.

CONTINGENT LIABILITIES

As at 31 December 2013, the directors of the Company were not aware of any material contingent liabilities.

SUBSEQUENT EVENTS

No subsequent events occurred after 31 December 2013, which may have a significant effect, on the assets and liabilities of future operations of the Group.

FOREIGN EXCHANGE EXPOSURE

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2013, the Group employed approximately 511 staff in the PRC and Hong Kong, representing an increase of 45 staff from 31 December 2012. The increase in staff was mainly from the PRC operations. The Group's remuneration to employees, including directors' emoluments decreased by approximately HK$1.8 million to approximately HK$28.7 million for the current fiscal year.

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

RETIREMENT SCHEMES

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

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Shenyang, Shanxi, Beijing and Tianjian, the PRC whereby the Group is required to make contributions to the Schemes at the rate 20% of the eligible employees' salaries.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

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

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

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

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

During the year ended 31 December 2013, the Company has purchased a total of 1,354,000 ordinary shares of the Company on the Stock Exchange at an aggregate cash consideration of HK$501,550 with the highest and lowest price paid per Share being HK$0.40 and HK$0.345 respectively. The Shares were repurchased on the market pursuant to the repurchase mandate granted by the Shareholders at the annual general meeting of the Company held on 18 June 2012, with a view that it would enhance shareholders' value in the long term. With the aggregation of the 776,000 ordinary shares repurchased at the end of 2012 and the 1,354,000 ordinary shares repurchased at the first half of 2013, the Company cancelled 2,130,000 ordinary shares on 23 May 2013.

A total of 132,848,888 new shares and 2,130,000 shares were cancelled were issued as a result of these transactions. The number of total issued share capital of the Company becomes 511,718,888 shares as of the date of this report.

COMPETING INTEREST

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Li Feng, aged 52, is the chairman of the Company. Mr. Li, joined the Group in 1997 and is responsible for the overall general management of the Group. Mr. Li graduated from the Beijing University of Aeronautics and Astronautics in 1983 with a bachelor's degree in missile designing. From 1983 to 1996, Mr. Li was employed at Taiyuan Aero-Instruments Co., Ltd. ("Taiyuan Aero") as engineer. Mr. Li was entitled to an annual remuneration of HK$840,000.

Mr. Xing Zhanwu, aged 50, is the chief executive officer of the Company. Mr. Xing joined the Group in 1997 and is responsible for the Group's sales and marketing as well as the Group's overall business development. Mr. Xing graduated from Northwestern Polytechnical University with a bachelor's degree in machinery manufacture engineering in 1984. From July 1984 to August 1996, Mr. Xing had worked at Taiyuan Aero as engineer. In January 1997, Mr. Xing joined the Group as general manager and led the Group to succeed in two pioneering airbag system development projects with FAW Car Company Limited ("FAW") and Dongtong Peugeot Citro'n. Mr. Xing was entitled to an annual remuneration of HK$840,000.

Mr. Yang Donglin, aged 48, is responsible for the overall technical and research and development of the Group. Mr. Yang graduated from Northwestern Polytechnical University in 1985 with a bachelor's degree in aircrafts designing. Mr. Yang had worked at Taiyuan Aero as engineer from 1985 to 1999. In 1997, Mr. Yang joined the Group and represented the Group in technical exchange programmes with overseas experts. Mr. Yang held the position of senior technician in a number of Group's airbag system development projects. Mr. Yang was entitled to an annual remuneration of HK$258,000 per annum.

Mr. Foo Tin Chung, Victor, aged 45, is the financial controller, qualified accountant, company secretary and compliance officer of the Company. Mr. Foo holds a bachelor's degree in accounting and information system in the University of New South Wales in Australia and completed his master degree in business administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is primarily responsible for the development of the Group's financial strategies, accounting and financial reporting and internal control procedures. He has over seventeen years' experience in the finance and accounting fields and held management position of listed groups in Hong Kong and was an auditor of an international audit firm. He joined the Group in July 2004 as the full time qualified accountant. Mr. Foo was entitled to an annual remuneration of HK$741,000. Mr. Foo is currently an independent non-executive director of Shandong Luoxin Pharmacy Stock Company Limited, a company listed on the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hui Hung Kwan, aged 42, has over 10 years of experience in the finance and accounting fields. Mr. Hui holds a bachelor's degree in business administration (hons) with a major in accounting in the Chinese University of Hong Kong. Mr. Hui is a member of the Hong Kong Institute of Certified Public Accountants and is a fellow member of the Association of Chartered Certified Accountants. Mr. Huiis the chief financial officer of China Creative Home Group Limited, a company listed on the Stock Exchange. He was a chief financial officer of a company listed on the main board of Singapore Exchange Securities Trading Limited, and he also worked in an audit firm in Hong Kong. There is no service agreement between the Company and Mr. Hui. The emoluments payable to Mr. Hui is HK$120,000 per annum. The appointment term of Mr. Hui was fixed for a term of three years and be subject to normal retirement and re-election by shareholders of the Company pursuant to the Articles and Association of the Company.

Mr. Chen Li Zhou, aged 34, is currently general manager of investment management in China Fortune International Trust Co., Ltd. Mr. Chen holds a master degree in business administration from Peking University. Mr. Chen was appointed as an independent non-executive Director in November 2012. There is no service agreement between the Company and Mr. Chen. The emoluments payable to Mr. Chen is HK$80,004 per annum which is determined by the Board with reference to his duties and responsibilities with the Company. The appointment terms of Mr. Chen were fixed for a term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company. Mr. Chen is currently a director of Zhejiang Founder Motor Co., Ltd., a company listed on the Shenzhen Stock Exchange. During the past 3 years, Mr. Chen was a director of Shandong Loften Aluminium Foil Co., Ltd., a company listed on the Shenzhen Stock Exchange, and has already resigned.

Mr. Zhu Tong, aged 42, is currently the assistant general manager of China Dragon Securities Co. Ltd. Mr. Zhu graduated from the Research Institute of the People's Bank of China in 1998 with a master's degree in international finance. Mr. Zhu was appointed as an independent non-executive Director in March 2004. There is no service agreement between the Company and Mr. Zhu. The emoluments payable to Mr. Zhu is HK$80,004 per annum. The appointment terms of Mr. Zhu were fixed for a term of three years and be subject to normal retirement and re-election by Shareholders pursuant to the Articles and Association of the Company.

SENIOR MANAGEMENT

Mr. Hao Dianqing, aged 62, is the vice president of the Group. He joined the Group in May 2003. Mr. Hao is responsible for the overall operation of Shanxi Avichina Jinheng Technology Limited (formerly know as "Shanxi Winner Auto-Parts Limited"). In 1985, Mr. Hao graduated from Beijing Institute of Aeronautics with an associate's degree in system and management engineering. In 2000, Mr. Hao graduated from the Zheng Zhou Institute of Aeronautic Technology with a bachelor's degree in accounting.

Mr. Zhu Jiangbin, aged 55, joined the Group in October 1999 and is currently the deputy general manager of Beijing GreatIdea. Mr. Zhu graduated from Northwestern Polytechnical University with a bachelor's degree in 1981. Prior to joining the Group, Mr. Zhu was employed at Taiyuan Aero.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report together with the audited financial statements of Jinheng Automotive Safety Technology Holdings Limited ("the Company") and its subsidiaries (together with the "Group") for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in production and sales of automotive safety products and other automotive components in the People's Republic of China ("the PRC"). The principal activities and other particulars of its subsidiaries are set out in note 23 to the consolidated financial statements.

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

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2013 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 27 to 31.

DIVIDENDS

The Directors did not recommend the payment of final dividend of the year ended 31 December 2013.

CHARITABLE DONATIONS

No donation was made by the Group during the year (2012: HK$Nil).

FIXED ASSETS

Details of movements in fixed assets are set out in note 19 to the consolidated financial statements.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 35(a) to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2013 are set out in note 31 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	33.0%	
Five largest customers in aggregate	87.3%	
The largest supplier		28.3%
Five largest suppliers in aggregate		41.4%

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

DIRECTORS

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

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

Non-executive director
Mr. Li Hong (resigned on 6 January 2014)

Independent non-executive directors
Mr. Hui Hung Kwan
Mr. Zhu Tong
Mr. Chen Li Zhou

In accordance with Articles 87(1) of the Articles of Association, the following Directors, namely, Messrs. Xing Zhanwu, Yang Donglin, Foo Tin Chung, Victor and Hui Hung Kwan will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, would offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

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

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

As at 31 December 2013, the interests and short positions of the directors and chief executives in shares and underlying shares and in debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances (the "SFO") as recorded in the register required to be kept under section 352 of SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Long positions in issued shares

Name of director	Capacity	Number of shares	Approximate percentage of shareholding
Li Feng	Beneficial owner	200,000	0.04%
	Interest of a controlled corporation (note)	(note)	(note)
Xing Zhanwu	Interest of a controlled corporation (note)	(note)	(note)
Li Hong	Interest of a controlled corporation (note)	(note)	(note)
Yang Donglin	Interest of a controlled corporation (note)	(note)	(note)
Foo Tin Chung, Victor	Beneficial owner	4,800,000	0.94%
	Interest of a controlled corporation (note)	(note)	(note)

REPORT OF THE DIRECTORS

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

Long positions in issued shares *(continued)*

Note: As at 31 December 2013, the following shareholders of the Company held an indirect interest in the Company through their interests in Applaud Group Limited ("Applaud Group") which held approximately 40.13% in the Company:

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

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

SHARE OPTION SCHEMES

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

The total number of securities available for issue under the 2009 Share Option Scheme as at 31 December 2013 was 44,350,000 shares which represented approximately 8.7% of the issued share capital of the Company as at 31 December 2013.

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

SUBSTANTIAL INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2013, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

	Capacity	Number of ordinary shares of the Company held	Approximately percentage of the total issued shares of the Company
Applaud Group Limited	Beneficial owner	205,340,802	40.13%

Short positions in shares

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

Short positions in underlying shares

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

Save as disclosed above, as at 31 December 2013, the directors or chief executive of the Company were not aware of any other person (other than the directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

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

ADOPTED CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2013, the Company has adopted the code set out in the Appendix 10 of the Listing Rules for securities transactions by Directors. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard set out in the adopted code regarding securities transactions by directors.

REPORT OF THE DIRECTORS

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2013, the Company has purchased a total of 1,354,000 ordinary shares of the Company on the Stock Exchange at an aggregate cash consideration of HK$501,550 with the highest and lowest price paid per Share being HK$0.40 and HK$0.345 respectively. The Shares were repurchased on the market pursuant to the repurchase mandate granted by the Shareholders at the annual general meeting of the Company held on 18 June 2012, with a view that it would enhance shareholders' value in the long term. With the aggregation of the 776,000 ordinary shares repurchased at the end of 2012 and the 1,354,000 ordinary shares repurchased at the first half of 2013, the Company cancelled 2,130,000 ordinary shares on 23 May 2013.

RELATED PARTY TRANSACTIONS

Related party transactions entered into by the Group for the year ended 31 December 2013, are disclosed in note 38 to the financial statements. Save as mentioned, there were no other discloseable non-exempted connected transactions or non-exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 38 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

AUDITORS

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

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

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

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

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

By order of the board

Li Feng
Chairman

Hong Kong, 28 March 2014

CORPORATE GOVERNANCE REPORT

The Company has complied with all of the code provisions of the Corporate Governance Code and Corporate Governance Report ("CG Code") as set out in Appendix 14 of the Listing Rules during the year ended 31 December 2013, except the following:

CG Code A.6.7 stipulates that independent non-executive directors of the Company and other non-executive directors of the Company should attend general meetings. Mr Chen Li Zhou and Mr Zhu Tong, being independent non-executive directors of the Company, were unable to attend the extraordinary general meeting of the Company held on 12 April 2013 and the annual general meeting of the Company held on 7 June 2013 as they were out town for other businesses.

THE BOARD

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

As at the date of this report, the Board comprises 7 Directors, including 4 executive Directors and 3 independent non-executive Directors, in compliance with the requirement of Listing Rules which states that "every board of directors of an issuer must include at least 3 independent non-executive directors".

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realizing the strategies and goals of the Group;

- being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;

- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to interim and annual reports of the Company, other price sensitive announcements published according to the Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information disclosable under statutory requirements;

- whilst executive Directors/chief executives, who oversee the overall business of the Company, are responsible for the daily operations of the Company, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy;

THE BOARD *(continued)*

- the management is well informed of its power with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company; and

- regularly reviewing its own functions and the powers conferred upon executive Directors/chief executives to ensure appropriate arrangements are in place.

COMMITMENTS

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

EXPERIENCE

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

BOARD MEETING

Members of the Board, who are well-informed of their duties and responsibilities, held a total of 6 meetings during the year 2013. The Directors are given sufficient time to review documents and information relating to matters to be discussed in Board meetings in advance.

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

- financial performance and results of each period as well as review of corporate governance measures;

- a proposal to seek approval from shareholders in general meeting for distribution of final dividends to shareholders;

- a proposal to seek approval from shareholders in general meeting for re-election and re-appointment of Directors;

- a proposal to seek approval from shareholders in general meeting for re-appointment the Company's auditors and fixing their remuneration;

- a proposal to seek approval from shareholders in general meeting for issuance new shares and repurchases shares;

THE BOARD *(continued)*

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

Details of Directors' attendance at Board meetings and general meetings held In 2013 are set out as follows:

	Attendance	
	General Meetings	Board
Executive Directors		
Mr. Li Feng	2/2	6/6
Mr. Xing Zhanwu	2/2	6/6
Mr. Yang Donglin	0/2	6/6
Mr. Foo Tin Chung, Victor	2/2	6/6
Non-Executive Director		
Mr. Li Hong	2/2	6/6
Independent Non-Executive Directors		
Mr. Hui Hung Kwan	2/2	6/6
Mr. Zhu Tong	0/2	6/6
Mr. Chen Li Zhou	0/2	6/6

CODE FOR DEALING IN SECURITIES OF THE COMPANY

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

CORPORATE GOVERNANCE REPORT

APPOINTMENT OF DIRECTORS

During their terms of office, the Directors all carried out their work in a dedicated, diligent and proactive manner with reasonable prudence. Meanwhile, they carried out the duties of directors imposed by the Company Law, the Articles of Association of the Company and the Listing Rules, complied with the relevant requirements, strictly implemented resolutions of general meetings, promoted the continuous and healthy development of the Company's operations, pressed for the improvement of the governance standard of the Company and exerted the decision-making function of the Board in its full swing. In this regard, on the annual general meeting held on 7 June 2013, Mr. Li Feng, Mr. Foo Tin Chung, Victor, Mr Zhu Tong and Mr. Chen Li Zhou were re-elected and re-appointed and subject to rotation and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company.

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

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

AUDIT COMMITTEE

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

Details of attendance of members at meetings of the audit committee held In 2013 are set out as follows:

	Attendance
Mr. Hui Hung Kwan	2/2
Mr. Zhu Tong	2/2
Mr. Chen Li Zhou	2/2

INTERNAL CONTROLS

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

REMUNERATION COMMITTEE

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

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

Details of attendance of members at meeting of the remuneration committee held In 2013 are set out as follows:

	Attendance
Mr. Zhu Tong	1/1
Mr. Xing Zhanwu	1/1
Mr. Chen Li Zhou	1/1

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE *(continued)*

Details of attendance of members at meeting of the nomination committee held In 2013 are set out as follows:

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

ACCOUNTABILITY AND AUDIT

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

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

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

INVESTOR RELATIONS

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

- delivery of the interim and annual results and reports to all shareholders;

- publication of announcements on the interim and annual results on the Stock Exchange website, and issue of other announcements and shareholders' circulars in accordance with the continuing disclosure obligations under the Listing Rules; and

- the general meeting of the Company is also an effective communication channel between the Board and shareholders.

INVESTOR RELATIONS *(continued)*

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

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

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

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

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

SHAREHOLDERS' RIGHTS

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

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

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

Unit 605, Beautiful Group Tower,
77 Connaught Road Central,
Hong Kong
Email: jinheng_hk@jinhengholdings.com

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

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

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

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF JINHENG AUTOMOTIVE SAFETY TECHNOLOGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Jinheng Automotive Safety Technology Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 109, which comprise the consolidated and Company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong 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.

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's loss 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.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong, 28 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 HK$	2012 HK$
Turnover	7	**199,820,947**	261,047,793
Cost of sales		**(181,783,813)**	(235,378,413)
Gross profit		**18,037,134**	25,669,380
Other revenue	8	**14,556,517**	36,477,993
Other net loss	9	**(5,155,312)**	(2,017,018)
Research and development expenses	10	**(55,715,121)**	(18,547,971)
Distribution costs		**(5,514,324)**	(7,135,193)
Administrative expenses		**(58,006,029)**	(34,915,030)
Loss from operations		**(91,797,135)**	(467,839)
Finance costs	11	**(4,037,591)**	(4,955,085)
Share of losses of associates	24	**(5,784,957)**	–
Loss before taxation	12	**(101,619,683)**	(5,422,924)
Taxation	13	**1,152,753**	(33,856,646)
Loss for the year		**(100,466,930)**	(39,279,570)
Other comprehensive income for the year, net of income tax:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		**11,952,906**	1,170,708
Other comprehensive income for the year		**11,952,906**	1,170,708
Total comprehensive loss for the year		**(88,514,024)**	(38,108,862)
Loss for the year attributable to:			
Owners of the Company		**(62,824,918)**	(33,571,296)
Non-controlling interests		**(37,642,012)**	(5,708,274)
		(100,466,930)	(39,279,570)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Note	2013 HK$	2012 HK$
Total comprehensive loss for the year attributable to:			
Owners of the Company		**(52,539,768)**	(32,624,806)
Non-controlling interests		**(35,974,256)**	(5,484,056)
		(88,514,024)	(38,108,862)
Loss per share			
– Basic	18	**(12.26)HK cents**	(6.53)HK cents
– Diluted		**(12.26)HK cents**	(6.53)HK cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 HK$	2012 HK$
Non-current assets			
Fixed assets			
– Property, plant and equipment	19	**135,106,875**	72,217,388
– Interests in leasehold land held for own use under operating leases	19	**37,466,163**	37,720,661
Deposits paid for acquisition of property, plant and equipment		**23,450,311**	91,257,272
Construction in progress	20	**81,826,184**	67,050,260
Intangible assets	21	**50,402,887**	70,119,432
Goodwill	22	**5,494,155**	5,336,984
Interests in associate	24	**41,730,243**	–
		375,476,818	343,701,997
Current assets			
Inventories	26	**46,344,023**	42,559,808
Trade receivables, prepayments and other receivables	27	**256,851,081**	182,381,783
Loan receivable	28	**11,000,400**	11,000,400
Cash and cash equivalents	29	**40,961,978**	259,974,508
		355,157,482	495,916,499
Current liabilities			
Trade and other payables	30	**70,955,624**	82,774,652
Current tax payable	25	**–**	379,541
Bank loans	31	**59,096,142**	43,868,159
Other loans	31	**3,866,837**	22,562,189
		133,918,603	149,584,541
Net current assets		**221,238,879**	346,331,958
Total assets less current liabilities		**596,715,697**	690,033,955

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	**2013** HK$	2012 HK$
Non-current liabilities			
Deferred tax liabilities	25	**20,124,266**	21,657,738
Net assets		**576,591,431**	668,376,217
Capital and reserves			
Share capital	35	**5,117,189**	5,138,489
Reserves	35	**549,017,433**	627,507,330
Total equity attributable to owners of the Company		**554,134,622**	632,645,819
Non-controlling interests		**22,456,809**	35,730,398
Total equity		**576,591,431**	668,376,217

Approved and authorised for issue by the board of directors on 28 March 2014

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	**2013 HK$**	2012 HK$
Non-current assets			
Investments in subsidiaries	23	**37,265,316**	37,265,316
Current assets			
Trade receivables, prepayments and other receivables	27	**523,856,084**	532,879,937
Cash and cash equivalents	29	**1,538,293**	52,085,238
		525,394,377	584,965,175
Current liabilities			
Trade and other payables	30	**21,617,035**	5,333,799
Net current assets		**503,777,342**	579,631,376
Net assets		**541,042,658**	616,896,692
Capital and reserves			
Share capital	35	**5,117,189**	5,138,489
Reserves	35	**535,925,469**	611,758,203
Total equity		**541,042,658**	616,896,692

Approved and authorised for issue by the board of directors on 28 March 2014

Xing Zhanwu
Director

Foo Tin Chung, Victor
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company								
	Share capital HK$	Share premium HK$	Statutory surplus reserve HK$	Exchange reserve HK$	Other reserve HK$	Retained profits HK$	Sub-total HK$	Non-controlling interests HK$	Total HK$
As at 1 January 2012	5,138,489	249,722,557	6,371,715	26,385,275	(26,927,346)	414,478,694	675,169,384	52,448,830	727,618,214
Loss for the year	–	–	–	–	–	(33,571,296)	(33,571,296)	(5,708,274)	(39,279,570)
Other comprehensive income for the year, net of income tax:									
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	946,490	–	–	946,490	224,218	1,170,708
Total comprehensive income/(loss) for the year	–	–	–	946,490	–	(33,571,296)	(32,624,806)	(5,484,056)	(38,108,862)
Change in ownership interests in a subsidiary	–	–	–	–	(1,888,386)	–	(1,888,386)	(11,234,376)	(13,122,762)
Repurchase of ordinary shares	–	–	–	–	(302,640)	–	(302,640)	–	(302,640)
Dividend paid during the year	–	–	–	–	–	(7,707,733)	(7,707,733)	–	(7,707,733)
Appropriations to statutory reserve	–	–	773,679	–	–	(773,679)	–	–	–
As at 31 December 2012 and 1 January 2013	5,138,489	249,722,557	7,145,394	27,331,765	(29,118,372)	372,425,986	632,645,819	35,730,398	668,376,217
Loss for the year	–	–	–	–	–	(62,824,918)	(62,824,918)	(37,642,012)	(100,466,930)
Other comprehensive income for the year, net of income tax:									
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	–	–	–	10,285,150	–	–	10,285,150	1,667,756	11,952,906
Total comprehensive income/(loss) for the year	–	–	–	10,285,150	–	(62,824,918)	(52,539,768)	(35,974,256)	(88,514,024)
Change in ownership interests in a subsidiary	–	–	–	–	(17,746,286)	–	(17,746,286)	17,746,286	–
Capital injection in a subsidiary	–	–	–	–	–	–	–	7,515,200	7,515,200
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	(2,560,819)	(2,560,819)
Repurchase and cancellation of ordinary shares	(21,300)	(830,700)	–	–	302,640	–	(549,360)	–	(549,360)
Dividend paid during the year	–	–	–	–	–	(7,675,783)	(7,675,783)	–	(7,675,783)
Appropriations to statutory reserve	–	–	786,815	–	–	(786,815)	–	–	–
As at 31 December 2013	**5,117,189**	**248,891,857**	**7,932,209**	**37,616,915**	**(46,562,018)**	**301,138,470**	**554,134,622**	**22,456,809**	**576,591,431**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$	2012 HK$
Operating activities		
Loss before taxation	**(101,619,683)**	(5,422,924)
Adjustments for:		
– Depreciation of property, plant and equipment	**14,956,029**	11,173,987
– Amortisation of intangible assets	**21,451,915**	16,327,674
– Amortisation of land held for own use under operating leases	**1,641,598**	1,439,079
– Finance costs	**4,037,591**	4,955,085
– Bank interest income	**(250,722)**	(322,789)
– Interest income from promissory notes	**–**	(17,134,239)
– Share of losses of associates	**5,784,957**	–
– Loss on disposal of property, plant and equipment	**5,393,008**	187,470
– Exchange (gain)/loss	**(237,696)**	2,526,075
– Reversal of impairment loss in respect of trade receivables	**–**	(696,527)
– Impairment loss recognised on trade receivables	**5,780,527**	–
Operating profit before changes in working capital	**(43,062,476)**	13,032,891
(Increase)/decrease in inventories	**(3,784,215)**	2,911,100
(Increase)/decrease in trade receivables, prepayments and other receivables	**(12,442,864)**	4,675,380
Decrease in trade and other payables	**(11,819,028)**	(39,896,503)
Cash used in operations	**(71,108,583)**	(19,277,132)
PRC income tax paid	**(1,407,122)**	(34,118,365)
Net cash used in operating activities	**(72,515,705)**	(53,395,497)
Investing activities		
Payment for purchase of property, plant and equipment	**(44,526,326)**	(7,816,951)
Payment for construction in progress	**(51,343,934)**	(81,967,562)
Payment for acquisition of intangible assets	**–**	(2,464,958)
Increase in deposits paid for acquisition of property, plant and equipment	**–**	(67,126,899)
Proceeds from disposal of jointly controlled entities	**–**	25,176,074
Proceeds from disposal of property, plant and equipment	**3,288,647**	–
Proceeds from disposal of interest in leasehold land held for own use under an operation lease	**–**	8,207,452
Proceeds received from maturity of promissory notes	**–**	384,070,860
Bank interest received	**250,722**	322,789
Interest received from promissory notes	**–**	18,740,173
Net cash outflow for acquisition of an associate	**(40,000,000)**	–
Net cash (used in)/generated from investing activities	**(132,330,891)**	277,140,978

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$	2012 HK$
Financing activities		
Proceeds from new bank loans	**58,201,875**	47,450,248
Repayment of bank loans	**(44,947,177)**	(40,088,262)
Proceeds from other loans	–	22,562,189
Repayment of other loans	**(18,915,511)**	(13,703,704)
Repurchase of ordinary shares	**(549,360)**	(302,640)
Payment for acquisition of additional interest in a subsidiary	–	(13,122,762)
Bank loan interest paid	**(3,567,085)**	(4,847,154)
Dividends paid	**(10,236,602)**	(7,707,733)
Net cash used in financing activities	**(20,013,860)**	(9,759,818)
Net (decrease)/increase in cash and cash equivalents	**(224,860,456)**	213,985,663
Effect of foreign exchange rate changes	**5,847,926**	587,713
Cash and cash equivalents as at 1 January	**259,974,508**	45,401,132
Cash and cash equivalents as at 31 December	**40,961,978**	259,974,508

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

1. GENERAL INFORMATION

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

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 23 to the consolidated financial statements.

As at 31 December 2013, the directors consider the immediate parent and ultimate controlling party of the Company and its subsidiaries (together referred to as the "Group") to be Applaud Group Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual periods beginning on or after 1 January 2013.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

Except for the amendments to HKAS 1, the application of these new HKFRSs has no material impact on the results and the financial position of the Group.

The nature of the impending changes in accounting policy on adoption of the amendments to HKAS 1 is described below.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012.

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

Other than the above mentioned, the Group has also applied for the first time the amendments to HKAS 36 in advance of the effective date (annual periods beginning on or after 1 January 2014).

Amendments to HKAS 36 – Impairment of Assets: Recoverable Amount Disclosure for Non-Financial Assets

The amendments to HKAS 36 are to remove the requirement disclose the recoverable amount of a cash-generating unit ("CGU") to which goodwill or other intangible asset with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, these amendments require the disclosure of additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendments to HKAS 36 are effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

Amendments to HKAS 36 – Impairment of Assets: Recoverable Amount Disclosure for Non-Financial Assets *(Continued)*

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

HKFRS 9	Financial Instruments[5]
HKFRS 9, HKFRS 7 and HKAS 39 (Amendments)	Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39[5]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[1]
HKAS 19 (Amendments)	Defined Benefits Plans: Employee Contributions[2]
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[1]
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting[1]
HKFRS 14	Regulatory Deferral Accounts[4]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010-2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HK(IFRIC)-Int 21	Levies[1]

[1] effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

[2] effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.

[3] effective for annual periods beginning on or after 1 January 2014, with limited exceptions.

[4] effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

[5] no mandatory effective date yet determined but is available for adoption

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

HKFRS 9 Financial Instruments *(Continued)*

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The date when entities would be required to apply HKFRS 9 was previously stated at 1 January 2015. This mandatory effective date has been removed to provide sufficient time for preparers of financial statements to make the transition to the new requirements, which will now become effective from a later date yet to be announced.

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

Amendments to HKFRS 7 and HKAS 32 – Offsetting Financial Assets and Financial Liabilities and the related disclosures

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The investment entities amendments apply to a particular class of business that qualify as investment entities. The term 'investment entity' refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. Such entities could include private equity organisations, venture capital organisations, pension funds, sovereign wealth funds and other investment funds.

Under HKFRS 10, reporting entities were required to consolidate all investees that they control (i.e. all subsidiaries). Preparers and users of financial statements have suggested that consolidating the subsidiaries of investment entities does not result in useful information for investors. Rather, reporting all investments, including investments in subsidiaries, at fair value, provides the most useful and relevant information.

In response to this, the amendments provide an exception to the consolidation requirements in HKFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The amendments are effective from 1 January 2014 with early adoption permitted in order to allow investment entities to apply the amendments at the same time they first apply the rest of HKFRS 10.

The directors anticipate that the application of these amendments to HKFRS 10, HKFRS 12 and HKFRS 27 (2011) will have no material impact on the Group's financial performance and positions.

Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).

This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting *(Continued)*

Similar relief will be included in HKFRS 9.

The amendments will be effective for annual periods beginning on or after 1 January 2014 and applied retrospectively. Earlier application is permitted.

The directors anticipate that the application of these amendments to HKAS 39 will have no material impact on the Group's financial performance and positions.

HKFRS 14 – Regulatory Deferral Accounts

HKFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous Generally Accepted Accounting Principles ("GAAP") requirements when they adopt HKFRS. However, to enhance comparability with entities that already apply HKFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents HKFRS financial statements is not eligible to apply the standard.

The amendments are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted.

HK (IFRIC) – Int 21 Levies

HK (IFRIC) – Int 21 is an interpretation of HKAS 37 and addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements. The principal question raised was about when the entity should recognise a liability to pay a levy. It clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. HK(IFRIC) – Int 21 is effective for annual periods beginning on or after 1 January 2014 with earlier application permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Basis of consolidation

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(d) Business combinations *(Continued)*

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

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

(e) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Property, plant and equipment

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

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

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

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

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.

– Machinery and equipment	3-10 years
– Motor vehicles	10 years
– Office equipment	5 years

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

(g) Construction in progress

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) Intangible assets (other than goodwill)

Intangible assets acquired separately

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

Internally-generated intangible assets – development costs

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

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

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible assets will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) Intangible assets (other than goodwill) *(Continued)*

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

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

Intangible assets acquired in a business combination

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

Derecognition of intangible assets

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

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

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

Both the period and method of amortisation are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Impairment of assets

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

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For unlisted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Impairment of assets *(Continued)*

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

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets

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

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets;

– investments in subsidiaries; and

– goodwill.

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

– Calculation of recoverable amount

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) Leasing

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

The Group as lessee

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

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

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

Leasehold land for own use

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Inventories

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

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

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

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

(l) Trade receivables and other receivables

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

(m) Interest-bearing borrowings

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) Trade and other payables

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

(o) Cash and cash equivalents

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

(p) Employee benefits

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

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

(ii) Equity-settled share-based payments

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

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

(iii) Termination benefits

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

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Income tax

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Income tax *(Continued)*

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(r) Provisions

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

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

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

(s) Government grant

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

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(t) Current assets and liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(u) Contingent liabilities and contingent assets

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

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

(v) Financial instruments

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

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

Financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(v) Financial instruments *(Continued)*

Effective interest method

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

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

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(v) Financial instruments *(Continued)*

Loans and receivables

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

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

Equity instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(v) Financial instruments *(Continued)*

Derecognition

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

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

(w) Revenue recognition

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

(i) *Sale of goods*

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

(ii) *Government grants*

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

(iii) *Interest income*

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

(iv) *Experiment fee income*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined. The results of operations outside Hong Kong are translated into Hong Kong dollars at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items of statement of financial position, including goodwill arising on consolidation of operations outside Hong Kong on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

(y) Borrowing cost

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

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

All borrowing costs are charged to the consolidated statements of profit or loss and other comprehensive income in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(z) Related parties

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

(1) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(2) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (1).

(vii) A person identified in (1)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. ACCOUNTING ESTIMATES AND JUDGMENTS

The methods, estimates and judgments the directors use in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgments, on matters that are inherently uncertain. Notes 5 and 22 contain information about the assumptions and the risk factors relating to goodwill impairment, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Depreciation and amortisation

Property, plant and equipment and intangible assets except for development costs (see note 21) are depreciated and amortised on a straight-line basis over their estimated useful lives. The Group annually reviews the useful life of an asset and its residual value, if any. The useful life is based on the Group's historical experience with similar assets and taking into account anticipated technology changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Valuation of inventories

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

4. ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(c) Allowance for impairment of doubtful debts

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

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

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

(e) Capitalisation and amortisation of development costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

4. ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(f) Income taxes

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

(g) Estimated impairment of goodwill

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

(h) Impairment of intangible assets

The Group tests annually whether intangible assets have suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of intangible assets have been determined based on discounted cash flow method (note 21)

5. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Financial risk management objectives and policies

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

Categories of financial instruments

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Financial assets				
Loans and receivables				
(including cash and cash equivalents)	**284,276,046**	431,520,677	**590,173,110**	574,636,925
Financial liabilities				
Amortised costs	**133,918,603**	149,205,000	**21,617,035**	5,333,799

Financial risk factors

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

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

(a) Credit risk

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

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

At the end of the reporting period, the Group has a certain level of concentrations of credit risk as 0% (2012: 46%) and 49% (2012: 55%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

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

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables and bills receivable are set out in note 27 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Liquidity risk

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

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

The Group

As at 31 December 2013

	Weighted average effective interest rate %	On demand or less than 1 year HK$	Over 1 year HK$	Total undiscounted cash flow HK$	Total carrying amount HK$
Non-derivative financial liabilities					
Trade and other payables	–	70,955,624	–	70,955,624	70,955,624
Bank loans	6.89	60,729,902	–	60,729,902	59,096,142
Other loans	10.00	4,148,257	–	4,148,257	3,866,837
		135,833,783	–	135,833,783	133,918,603

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

(b) Liquidity risk *(Continued)*

The Company

As at 31 December 2013

	Weighted average effective interest rate %	On demand or less than 1 year HK$	Over 1 year HK$	Total undiscounted cash flow HK$	Total carrying amount HK$
Non-derivative financial liabilities					
Amounts due to subsidiaries	–	**20,967,035**	–	**20,967,035**	**20,967,035**
Other payables and accruals	–	**650,000**	–	**650,000**	**650,000**
		21,617,035	–	**21,617,035**	**21,617,035**

The Group

As at 31 December 2012

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

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

(b) Liquidity risk *(Continued)*

The Company

As at 31 December 2012

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

(c) Currency risk

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

(d) Interest rate risk

(i) Exposure to interest rate risk

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

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

(ii) Sensitivity analysis

If interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's loss for the year would decrease/increase by HK$211,268 (2012: the Group's loss for the year would decrease/increase by HK$82,109). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank loans.

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

(e) Fair values

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

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively.

– the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

– the fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

Fair value measurements recognised in the consolidated statement of financial position

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

- Level 1 fair values measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair values measurements are those derived from inputs other than quited prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair values measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable data (unobservable inputs).

No analysis is disclosed since the Group has no financial instruments that are measured subsequent to initial recognition at fair value during the years ended 31 December 2013 and 2012.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. SEGMENT INFORMATION

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

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

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

Information about geographical areas

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

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

Information about major customers

For the year ended 31 December 2013, revenue generated from three (2012: four) customers of the Group amounting to HK$152,965,552 (2012: HK$208,496,065) has individually accounted for over 10% of the Group's total revenue. No other single customer contributed 10% or more to the Group's revenue for both 2013 and 2012.

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

	2013	2012
	HK$	HK$
Customer A	**66,029,415**	32,050,836
Customer B	**56,641,950**	72,887,950
Customer C	**30,294,187**	39,641,450
Customer D (note)	–	63,915,829

Note:

No information on turnover for the current year is disclosed for this customer since it contributed less than 10% to Group's Turnover for the year ended 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. TURNOVER

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

An analysis of turnover is as follows:

	2013 HK$	2012 HK$
Sales of automotive safety system components and other automotive components	**143,174,901**	185,798,193
Sales of electronic airbag systems	**56,646,046**	75,249,600
	199,820,947	261,047,793

8. OTHER REVENUE

	2013 HK$	2012 HK$
Interest income from promissory notes	–	17,134,239
Bank interest income	**250,722**	322,789
Subsidy income (note)	**5,442,371**	10,320,418
Sub-contract income	**2,772,234**	5,346,518
Sundry income	**6,091,190**	3,354,029
	14,556,517	36,477,993

Note:

During the year ended 31 December 2013, subsidy income mainly represents the reward for innovative and high-end technology enterprise in the PRC. Subsidy income received by the Group is recognised in the consolidated statement of profit or loss and other comprehensive income when received and no specific conditions have been required to fulfill. The subsidy income recognised during the year are non-recurring. There are no unfulfilled conditions or contingencies relating to those subsidy income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. OTHER NET LOSS

	2013	2012
	HK$	HK$
Reversal of impairment loss in respect of trade receivables	–	696,527
Net foreign exchange gain/(loss)	**237,696**	(2,526,075)
Loss on disposal of property, plant and equipment	**(5,393,008)**	(187,470)
	(5,155,312)	(2,017,018)

10. RESEARCH AND DEVELOPMENT EXPENSES

	2013	2012
	HK$	HK$
Research and development costs incurred	**55,715,121**	21,012,929
Less: development costs capitalised during the year (note 21)	–	(2,464,958)
	55,715,121	18,547,971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

11. FINANCE COSTS

	2013 HK$	2012 HK$
Interest expense on bank loans wholly repayable within a year	**2,164,898**	3,301,914
Interest expense on other loans	**470,506**	107,931
Discounting charges on discounted bills	**1,402,187**	1,545,240
	4,037,591	4,955,085

12. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2013 HK$	2012 HK$
Auditors' remuneration	**600,000**	600,000
Staff costs		
– Salaries, wages and bonuses	**22,340,385**	26,178,041
– Contributions to retirement benefits schemes and welfare	**6,317,513**	4,293,340
Depreciation of property, plant and equipment	**14,956,029**	11,173,987
Amortisation of leasehold land held for own use under operating leases	**1,641,598**	1,439,079
Amortisation of intangible assets (note 21)		
– Development costs	**16,834,224**	11,823,580
– Patents	**4,617,691**	4,504,094
Operating lease charges in respect of rented properties	**1,686,602**	1,843,146
Impairment loss recognised on trade receivables	**5,780,527**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. TAXATION

(a) Income tax recognised in profit or loss:

	2013	2012
	HK$	HK$
Current tax		
PRC enterprise income tax for the year (note 25(a))	**1,027,581**	1,366,373
Under provision in prior years		
Income tax in relation to disposal of business (Note)	–	32,162,766
PRC enterprise income tax (note 25(a))	–	411,921
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	**(2,180,334)**	(84,414)
Total income tax recognised in profit or loss	**(1,152,753)**	33,856,646

Note:

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

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

	Note	**2013**	2012
Shenyang Jinheng Jinsida Automotive Electronic Co., Limited ("Jinheng Jinsida")	(i) and (ii)	**25%**	12.5%
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Limited ("Beijing Great Idea")	(i) and (ii)	**25%**	12.5%
Troitec Automotive Electronics Co., Ltd ("Troitec")	(i) and (ii)	**25%**	12.5%
Shanxi Avichina Jinheng Technology Limited (formerly known as "Shanxi Winner Auto-Parts Limited") ("Shanxi Jinheng")	(iii)	**15%**	15%
Tianjian Troitec Automotive Electronic Co., Ltd ("Tianjian Troitec")	(iii)	**15%**	15%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

13. TAXATION *(CONTINUED)*

(a) Income tax in the recognised in profit or loss: *(Continued)*

Notes:

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. TAXATION *(CONTINUED)*

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

	2013	2012
	HK$	HK$
Loss before taxation	**(101,619,683)**	(5,422,924)
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**(24,020,875)**	(2,255,042)
Under provision of tax in prior years	–	32,574,687
Tax effect of non-deductible expenses	**11,934,174**	416,802
Tax effect of non-taxable revenue	**(1,682,737)**	(2,871,816)
Tax effect of tax concessions	**1,673,503**	1,461,800
Tax effect of unrecognised temporary differences and tax losses	**12,425,466**	4,677,594
Tax effect of share of profits of subsidiaries (note i)	**(1,482,284)**	(147,379)
Taxation	**(1,152,753)**	33,856,646

Note:

(i) Tax effect of share of profits of subsidiaries

Hong Kong enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 5% on dividends derived from sources in the PRC. Distributions of the pre-2008 earnings are exempted from the above-mentioned withholding tax. During the year ended 31 December 2013, withholding tax of HK$1,482,284 has been credited to consolidated statement of profit or loss and other comprehensive income 2012: HK$147,379).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

Year ended 31 December 2013

	Fees HK$	Salaries, allowance and benefits in kind HK$	Discretionary bonuses HK$	Share-based payments HK$	Contributions to retirement benefit schemes HK$	Total HK$
Executive directors						
Mr. Li Feng	–	840,000	–	–	–	840,000
Mr. Xing Zhanwu	–	840,000	–	–	–	840,000
Mr. Yang Donglin	–	258,000	–	–	–	258,000
Mr. Foo Tin Chung, Victor	–	741,000	–	–	15,000	756,000
Non-executive directors						
Mr. Li Hong (resigned on 6 January 2014)	210,000	–	–	–	–	210,000
Independent non-executive directors						
Mr. Zhu Tong	80,004	–	–	–	–	80,004
Mr. Hui Hung Kwan	120,000	–	–	–	–	120,000
Mr. Chen Li Zhou	80,004	–	–	–	–	80,004
Total	490,008	2,679,000	–	–	15,000	3,184,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. DIRECTORS' REMUNERATION *(CONTINUED)*

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

Year ended 31 December 2012

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

There were no amounts paid during the year to the directors in connection with their retirement from employment with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

During the years ended 31 December 2012 and 2013, the executive director of the Company, Mr. Xing Zhanwu, was also the chief executive officer of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2012: four) are directors whose emoluments are disclosed in note 14. The aggregate of the emoluments in respect of the other individual for the years ended 31 December 2013 and 2012 is as follows:

	2013	2012
	HK$	HK$
Salaries and other emoluments	**420,000**	287,000
Contribution to retirement scheme	**15,000**	13,075
	435,000	300,075

The above individual's emoluments in 2013 were within the band of HK$1 to HK$500,000.

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

During the year ended 31 December 2013 and 2012, emoluments paid by the Group to any of senior management all are within the band of HK$1 to HK$500,000.

16. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The loss attributable to owners of the Company includes a loss of HK$67,628,891 (2012: loss of HK$51,815,280) which has been dealt with in the financial statements of the Company.

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17. DIVIDENDS

(a) Dividends attributable to the year

	2013	2012
	HK$	HK$
No final dividend proposed after the end of the reporting period (2012: 1.5 HK cents per share)	–	7,707,733

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2013.

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

	2013	2012
	HK$	HK$
Final dividend in respect of the previous financial year, approved and paid during the year of 1.5 HK cents per share (2012: 1.5 HK cents per share)	**7,675,783**	7,707,733

In 23 May 2013, 2,130,000 shares were cancelled by the company before the record date of the final dividend for the year ended 31 December 2012. As such, final dividend paid was less than the proposed dividend for the year ended 31 December 2012.

18. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to owners of the Company of HK$62,824,918 (2012: HK$33,571,296) and the weighted average of 512,553,380 (2012: 513,848,888) ordinary shares in issue during the year.

(b) Diluted loss per share

For the year ended 31 December 2012 and 2013, diluted loss per share are the same as the basic loss per share as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2012 and 2013.

19. FIXED ASSETS

The Group

	Buildings held for own use HK$	Machinery and equipment HK$	Motor vehicles HK$	Office equipment HK$	Sub-total HK$	Interests in leasehold land held for own use under operating leases HK$	Total HK$
Cost:							
As at 1 January 2012	21,380,458	66,910,124	11,555,468	11,293,091	111,139,141	18,688,035	129,827,176
Additions	–	6,646,829	487,937	682,185	7,816,951	–	7,816,951
Transfer from construction in progress (note 20)	–	–	–	–	–	24,320,384	24,320,384
Exchange alignment	168,761	624,273	67,514	90,411	950,959	418,641	1,369,600
Disposals	(18,519)	(170,940)	(277,723)	(13,226)	(480,408)	–	(480,408)
As at 31 December 2012 and 1 January 2013	21,530,700	74,010,286	11,833,196	12,052,461	119,426,643	43,427,060	162,853,703
Additions	33,945,305	8,614,604	341,791	1,624,626	44,526,326	–	44,526,326
Transfer from construction in progress (note 20)	–	38,736,316	–	–	38,736,316	–	38,736,316
Exchange alignment	1,190,677	3,115,072	175,395	351,842	4,832,986	1,306,269	6,139,255
Disposals	(118,752)	(3,528,848)	(5,927,623)	(6,739,490)	(16,314,713)	–	(16,314,713)
As at 31 December 2013	**56,547,930**	**120,947,430**	**6,422,759**	**7,289,439**	**191,207,558**	**44,733,329**	**235,940,887**
Accumulated depreciation:							
As at 1 January 2012	3,263,853	25,552,420	913,925	6,164,342	35,894,540	4,086,750	39,981,290
Charge for the year	1,014,676	8,152,863	988,321	1,018,127	11,173,987	1,439,079	12,613,066
Exchange alignment	48,450	307,395	21,881	55,940	433,666	180,570	614,236
Written back on disposal	(2,222)	(67,931)	(218,602)	(4,183)	(292,938)	–	(292,938)
As at 31 December 2012 and 1 January 2013	4,324,757	33,944,747	1,705,525	7,234,226	47,209,255	5,706,399	52,915,654
Charge for the year	2,115,943	10,908,335	1,058,178	873,573	14,956,029	1,641,598	16,597,627
Exchange alignment	209,744	1,137,583	63,261	157,869	1,568,457	(80,831)	1,487,626
Written back on disposal	(29,783)	(1,841,838)	(1,655,488)	(4,105,949)	(7,633,058)	–	(7,633,058)
As at 31 December 2013	**6,620,661**	**44,148,827**	**1,171,476**	**4,159,719**	**56,100,683**	**7,267,166**	**63,367,849**
Carrying amounts:							
As at 31 December 2013	**49,927,269**	**76,798,603**	**5,251,283**	**3,129,720**	**135,106,875**	**37,466,163**	**172,573,038**
As at 31 December 2012	17,205,943	40,065,539	10,127,671	4,818,235	72,217,388	37,720,661	109,938,049

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19. FIXED ASSETS *(CONTINUED)*

(a) As at 31 December 2013 and 2012, the Group's interests in leasehold land and buildings are held by the subsidiaries in the PRC, which represent the land use rights together with the buildings thereon situated in Shanxi and Tianjian in the PRC.

(b) As at 31 December 2013, leasehold lands with carrying amount of HK$37,466,163 (2012: HK$37,720,661) are situated outside Hong Kong under medium-term leases.

(c) As at 31 December 2013, the carrying amount of leasehold land and building of the Group pledged for the Group's bank loans amounted to HK$47,884,865 (2012: Leasehold land HK$37,720,661)

20. CONSTRUCTION IN PROGRESS

The Group

	2013	2012
	HK$	HK$
Cost:		
As at 1 January	**67,050,260**	8,692,904
Exchange alignment	**2,168,306**	710,178
Additions	**51,343,934**	81,967,562
Transfer to fixed assets (note 19)	**(38,736,316)**	(24,320,384)
As at 31 December	**81,826,184**	67,050,260

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21. INTANGIBLE ASSETS

The Group

	Acquired technology HK$	Development costs HK$	Patents HK$	Total HK$
Cost:				
As at 1 January 2012	5,256,495	54,230,266	79,113,582	138,600,343
Exchange alignment	42,098	432,296	590,398	1,064,792
Additions	–	2,464,958	–	2,464,958
As at 31 December 2012 and 1 January 2013	5,298,593	57,127,520	79,703,980	142,130,093
Exchange alignment	551,983	792,437	2,347,238	3,691,658
As at 31 December 2013	**5,850,576**	**57,919,957**	**82,051,218**	**145,821,751**
Accumulated amortisation:				
As at 1 January 2012	5,256,495	28,356,070	21,473,688	55,086,253
Exchange alignment	42,098	343,964	210,672	596,734
Charge for the year	–	11,823,580	4,504,094	16,327,674
As at 31 December 2012 and 1 January 2013	5,298,593	40,523,614	26,188,454	72,010,661
Exchange alignment	551,983	562,119	842,186	1,956,288
Charge for the year	–	16,834,224	4,617,691	21,451,915
As at 31 December 2013	**5,850,576**	**57,919,957**	**31,648,331**	**95,418,864**
Carrying amounts:				
As at 31 December 2013	–	–	**50,402,887**	**50,402,887**
As at 31 December 2012	–	16,603,906	53,515,526	70,119,432

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21. INTANGIBLE ASSETS *(CONTINUED)*

Acquired technology comprises the following:

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

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

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

Amortisation charges for the year of HK$5,057,303 (2012: HK$12,110,975) and HK$16,394,612 (2012: HK$4,216,699) are included in "cost of sales" and "research and development expenses" respectively.

22. GOODWILL

The Group

	2013	2012
	HK$	HK$
As at 1 January	**5,336,984**	5,297,450
Exchange alignment	**157,171**	39,534
As at 31 December	**5,494,155**	5,336,984

Impairment tests for cash-generating units containing goodwill

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

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

The recoverable amounts of the CGU are based on value-in-use calculations which is determined by the discounted cash flow method. The data from the Group's detailed planning is used to project cash flows of the subsidiaries (cash generating units) to which the goodwill related for 1 to 5 years ending 31 December 2014 to 2018. For the years following the detailed planning period, the assumed growth rates with range from 31% to 50% are used which comply with general expectations for the relevant CGU. The present value of cash flows is calculated by discount rates of 12%. The gross profit margin is approximately of 23%.

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22. GOODWILL *(CONTINUED)*

Impairment tests for cash-generating units containing goodwill *(Continued)*

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

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

23. INVESTMENTS IN SUBSIDIARIES

The Company

	2013	2012
	HK$	HK$
Unlisted shares, at cost	**37,265,316**	37,265,316

(a) General information of subsidiaries

Details of the Group's material subsidiaries at the end of the reporting period are set out below:

Name of subsidiary	Place of incorporation/ registration/ operations	Class of shares held	Paid up registered capital	Proportion of ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2013	2012	**2013**	2012	
				%	%	%	%	
Shengyang Jinheng Jinsida Automotive Electronic Co., Ltd. ("Jinheng Jinsida")	The PRC, limited liability company	Registered and paid up capital	HK$25,500,000	–	–	**100**	100	Production and sales of automotive electronic products in the PRC
Jinheng Automotive Electronic (Hong Kong) Limited ("Jinheng Electronic HK")	Hong Kong, limited liability company	Ordinary	HK$100	–	–	**100**	100	Investment holding in Hong Kong
Great Idea Group Limited ("Great Idea")	Hong Kong, limited liability company	Ordinary	HK$1	–	–	**100**	100	Investment holding in Hong Kong

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23. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

The Company

(a) General information of subsidiaries

Name of subsidiary	Place of incorporation/ registration/ operations	Class of shares held	Paid up registered capital	Proportion of ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2013 %	2012 %	**2013** %	2012 %	
Beijing Jinheng Great Idea Automotive Electronic Systems Co., Ltd. ("Beijing Great Idea")	The PRC, limited liability company	Registered and paid up capital	HK$130,000,000	–	–	**100**	100	Production and sales of automotive electronic parts in the PRC
Jinheng Engine Limited ("Jinheng Engine")	British Virgin Islands, limited liability company	Ordinary	US$1	**100**	100	–	–	Investment holding in Hong Kong
Jay Trumps Investments Limited ("Jay Trumps")	British Virgin Islands, limited liability company	Ordinary	US$100	**100**	100	–	–	Trading of automotive spare parts in the PRC
Jinheng Automotive Electronic (BVI) Limited ("Jinheng Electronic BVI")	British Virgin Islands, limited liability company	Ordinary	US$1	**100**	100	–	–	Investment holding in Hong Kong
Auto Full International Limited ("Auto Full")	Hong Kong, limited liability company	Ordinary	HK$100	–	–	**100**	100	Investment holding in Hong Kong
Jinheng EMS (BVI) Limited ("Jinheng EMS (BVI)")	British Virgin Islands, limited liability company	Ordinary	US$1	–	–	**100**	100	Investment holding in Hong Kong
Smooth Ever Limited ("Smooth Ever")	British Virgin Islands, limited liability company	Ordinary	US$1	**100**	100	–	–	Investment holding in Hong Kong
First Able Group Limited ("First Able")	Hong Kong, limited liability company	Ordinary	HK$1	–	–	**100**	100	Investment holding in Hong Kong

23. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

The Company

(a) General information of subsidiaries

Name of subsidiary	Place of incorporation/ registration/ operations	Class of shares held	Paid up registered capital	Proportion of ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2013 %	2012 %	**2013** %	2012 %	
Honest Bright Group Limited ("Honest Bright")	British Virgin Islands, limited liability company	Ordinary	US$1,000	**–**	–	**65.8**	51.2	Investment holding in Hong Kong
Properline Investments Limited ("Properline")	Hong Kong, limited liability company	Ordinary	HK$1	**–**	–	**65.8**	51.2	Investment holding in Hong Kong
Sure Lucky Investments Limited ("Sure Lucky")	Hong Kong, limited liability company	Ordinary	HK$1	**–**	–	**65.8**	51.2	Investment holding in Hong Kong
Troitec Automotive Electronic Co., Ltd. ("Troitec")	The PRC, limited liability company	Registered and paid up capital	RMB 82,270,400	**–**	–	**65.8**	51.2	Production and sales of automotive components in the PRC
Tianjian Troitec Automotive Electronics Co., Ltd. ("Tianjian Troitec")*	The PRC, limited liability company	Registered and paid up capital	RMB 50,000,000	**–**	–	**51.7**	41.0	Production and sales of automotive components in the PRC
Tai Tong Investments Limited ("Tai Tong")	British Virgin Islands, limited liability company	Ordinary	US$3	**100**	100	**–**	–	Investment holding in Hong Kong
Harvest Full International Limited ("Harvest Full")	Hong Kong, limited liability company	Ordinary	HK$1	**–**	–	**100**	100	Investment holding in Hong Kong
Shiny Bright Holdings Limited ("Shiny Bright")	British Virgin Islands, limited liability company	Ordinary	US$77,753	**–**	–	**65.8**	51.2	Investment holding in Hong Kong

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23. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

The Company

(a) General information of subsidiaries

Name of subsidiary	Place of incorporation/ registration/ operations	Class of shares held	Paid up registered capital	Proportion of ownership interest held by the Company				Principal activities
				Directly		Indirectly		
				2013 %	2012 %	**2013** %	2012 %	
Shanxi Avichina Jinheng Technology Limited (formerly known as "Shanxi Winner Auto-Parts Limited") ("Shanxi Jinheng")	The PRC, limited liability company	Registered and paid up capital	RMB 30,040,000	**–**	–	**60**	60	Produciton and sales of automotive components in the PRC
Winner Investment Limited ("Winner Investment")	Hong Kong, limited liability company	Ordinary	HK$10,000	**–**	–	**100**	100	Investment holding in Hong Kong

Note:

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

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests

Name of company	Place of incorporation, registration and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profits allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	**2013** HK$'000	2012 HK$'000	**2013** HK$'000	2012 HK$'000
Shanxi Jinheng	The PRC	**40%**	40%	**133,072**	1,309,472	**39,256,605**	39,123,533
Individually immaterial subsidiaries with non-controlling interests						**(16,799,796)**	(3,393,135)
						22,456,809	35,730,398

23. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

The Company

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intragroup eliminations.

Shanxi Jinheng

	2013	2012
	HK$	HK$
Current assets	**101,183,665**	102,406,005
Non-current assets	**42,686,119**	44,864,134
Current liabilities	**(46,669,305)**	(52,124,362)
Non-current liabilities	**(341,650)**	(147,118)
Equity attributable to owners of the Company	**58,115,297**	56,999,195
Non-controlling interests	**38,743,532**	37,999,464

	2013	2012
	HK$	HK$
Revenue	**95,465,914**	79,734,902
Expenses	**(91,085,279)**	(76,729,275)
Profit for the year	**4,380,635**	3,005,627
Profit attributable to owners of the Company	**2,628,381**	1,803,376
Profit attributable to owners of the non-controlling interests	**1,752,254**	1,202,251
Profit for the year	**4,380,635**	3,005,627
Total comprehensive income attributable to owners of the Company	**4,957,332**	654,686
Total comprehensive income attributable to owners of the non-controlling interests	**3,304,887**	436,457
Total comprehensive income for the year	**8,262,219**	1,091,143
Dividend paid to non-controlling interests	**2,560,819**	–
Net cash inflow from operating activities	**11,267,595**	8,154,009
Net cash outflow from investing activities	**(2,966,035)**	(2,130,882)
Net cash outflow from financing activities	**(11,689,151)**	(5,863,982)
Net cash (outflow)/inflow	**(3,387,591)**	159,145

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. INTERESTS IN ASSOCIATE

Details of the Group's interests in associate are as follows:

	2013 HK$	2012 HK$
Cost of investment in associate unlisted	40,000,000	–
Amount due from an associate (Note)	7,515,200	–
Share of post-acquisition loss and other comprehensive income, net of dividend received	(5,784,957)	–
	41,730,243	–

Note:

The amount due from an associate is unsecured, interest-free and have no fixed terms for repayment.

Details of the Group's associate at the end of the reporting period are as follow:

Name of entity	Form of entity	Place of incorporation	Principal place of operation	Class of shares held	Proportion of ownership interest held by the Group	Proportion of voting rights held by the Group	Principal activities
Ever Tech Holdings Limited ("Ever Tech")	Limited liability company	British Virgin Islands	PRC	Ordinary	30%	30%	Investment holding

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

Associate is accounted for using the equity method in these consolidated financial statements.

	2013 HK$	2012 HK$
Current assets	10,000,000	–
Non-current assets	24,063,433	–
Current liabilities	(10,704,565)	–
Non-current liabilities	–	–
Revenue	–	–
Loss for the year	26,358,127	–
Other comprehensive loss for the year	–	–
Total comprehensive loss for the year	26,358,127	–
Dividends received from the associate during the year	–	–

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24. INTERESTS IN ASSOCIATE *(CONTINUED)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013	2012
	HK$	HK$
Net assets of associate	**23,358,868**	–
Proportion of the Group ownership interest in Ever Tech	**30%**	–
	7,007,660	–
Effect of fair value adjustments at acquisition	**34,722,583**	–
Carrying amount of the Group's interest in Ever Tech	**41,730,243**	–

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

The Group

	2013	2012
	HK$	HK$
As at 1 January	**379,541**	556,846
Provision for PRC income tax for the year (note 13)	**1,027,581**	1,366,373
Under provision for PRC enterprise income tax in prior year (note 13)	–	411,921
Income tax in related to disposal of business (note 13)	–	32,162,766
Income tax paid in related to disposal of business	–	(32,162,766)
PRC income tax paid	**(1,407,122)**	(1,955,599)
As at 31 December	–	379,541

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

(b) Deferred tax (assets)/liabilities recognised

The Group

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

	Development costs HK$	Acquired technology and patents HK$	Fixed assets HK$	Tax losses HK$	Unremitted earnings HK$	Others HK$	Total HK$
As at 1 January 2012	6,359,252	14,988,687	1,719,095	(6,964,611)	1,695,878	3,167,257	20,965,558
Charged/(credit) to consolidated statement of profit or loss and other comprehensive income (note 13)	(1,981,777)	(563,012)	(24,117)	2,356,105	(147,379)	275,766	(84,414)
Exchange alignment	(29,126)	667,450	78,383	(11,864)	–	71,751	776,594
As at 31 December 2012 and 1 January 2013	4,348,349	15,093,125	1,773,361	(4,620,370)	1,548,499	3,514,774	21,657,738
Charged/(credit) to consolidated statement of profit or loss and other comprehensive income (note 13)	(257,626)	(577,212)	(66,324)	–	(1,482,283)	203,111	(2,180,334)
Exchange alignment	139,592	461,064	91,677	(136,070)	–	90,599	646,862
As at 31 December 2013	**4,230,315**	**14,976,977**	**1,798,714**	**(4,756,440)**	**66,216**	**3,808,484**	**20,124,266**

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

	2013 HK$	2012 HK$
Net deferred tax liabilities recognised on the statement of financial position	**20,124,266**	21,657,738

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 3, the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$46,920,594 (2012: HK$73,018,604) as it is not probable the future taxable profits against which the losses can be utilised will be available in relevant tax jurisdiction and entity. The tax losses will expire in the coming two to five years. (2012: two to five years)

There were no unrecognised deferred taxation for the Company as at 31 December 2013 and 2012.

26. INVENTORIES

	The Group	
	2013	2012
	HK$	HK$
Raw materials	**27,075,839**	25,619,538
Work-in-progress	**2,934,863**	2,385,515
Finished goods	**15,630,154**	12,503,455
Spare parts and consumables	**703,167**	2,051,300
	46,344,023	42,559,808

The amount of inventories recognised as an expense amounted to HK$174,968,293 during the year ended 31 December 2013 (2012: HK$175,381,215).

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27. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Trade receivables	**73,693,978**	93,976,265	–	–
Less: allowance for doubtful debts	**(6,212,689)**	(432,162)	–	–
	67,481,289	93,544,103	–	–
Bill receivables	**82,000,829**	43,953,714	–	–
	149,482,118	137,497,817	–	–
Amounts due from subsidiaries	–	–	**523,587,026**	522,551,687
Deposits and prepayments	**24,537,413**	21,836,014	**269,058**	10,328,250
Other receivables	**82,831,550**	23,047,952	–	–
	256,851,081	182,381,783	**523,856,084**	532,879,937

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

As at 31 December 2013, HK$16,842,621 (2012: HK$12,773,632) of bill receivables were pledged to the banks to secure short-term bank loans as set out in note 31 to the consolidated financial statement. All the bill receivables will be matured within six months (2012: six months) after the end of the reporting period. All the bill receivables are denominated in RMB.

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

27. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

(a) Ageing analysis

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

	The Group	
	2013	2012
	HK$	HK$
Within 3 months	**59,784,086**	73,033,908
Over 3 months but less than 6 months	**2,376,687**	7,847,824
Over 6 months but less than 12 months	**5,230,087**	7,772,641
Over 12 months	**90,429**	4,889,730
	67,481,289	93,544,103

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

(b) Impairment of trade receivables

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

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

	The Group	
	2013	2012
	HK$	HK$
Overdue by:		
Over 12 months	**6,212,689**	432,162

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27. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

(b) Impairment of trade receivables *(Continued)*

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

	The Group	
	2013	2012
	HK$	HK$
As at 1 January	**432,162**	1,128,689
Impairment loss recognised/(reversed)	**5,780,527**	(696,527)
Exchange alignment	**–**	–
As at 31 December	**6,212,689**	432,162

As at 31 December 2013, the Group's trade receivables of HK$6,212,689 (2012: HK$432,162) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties. Consequently, specific allowances for doubtful debts of HK$6,212,689 (2012: HK$432,162) were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

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

	The Group	
	2013	2012
	HK$	HK$
Neither past due nor impaired	**59,784,086**	73,033,908
Overdue by:		
Less than 3 months	**2,376,687**	7,847,824
3 to 12 months	**5,230,087**	7,772,641
More than 12 months	**90,429**	4,889,730
	7,697,203	20,510,195
Total	**67,481,289**	93,544,103

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES *(CONTINUED)*

(c) Trade receivables that are not impaired *(Continued)*

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

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

28. LOAN RECEIVABLE

As at 31 December 2013, a loan of HK$11,000,400 (2012: HK$11,000,400) was advanced to Ever Tech. The loan receivable carries interest at 2.5% (2012: 2.5%) per annum and is recoverable on demand. The loan receivable is secured by the 34.2% (2012: 48.8%) equity interests in Honest Bright held by Ever Tech.

29. CASH AND CASH EQUIVALENTS

	The Group		**The Company**	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Cash and cash equivalents in the statement of financial position and statement of cash flows	**40,961,978**	259,974,508	**1,538,293**	52,085,238

Cash and cash equivalents of the Group of HK$36,218,771 (2012: HK$34,473,009) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

30. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Trade payables	**41,305,705**	48,195,090	**–**	–
Amounts due to subsidiaries	**–**	–	**20,967,035**	4,423,215
Other payables and accruals	**29,649,919**	34,579,562	**650,000**	910,584
	70,955,624	82,774,652	**21,617,035**	5,333,799

As at 31 December 2013, included in other payables and accruals are amount due to an associate of HK$10,000,000 (2012: HK$10,000,000) (see note 38(c)).

As at 31 December 2013, included in other payables are deferred income of HK$639,725 (2012: HK$815,310), HK$Nil (2012: HK$3,047,264) and HK$460,948 (2012: HK$447,761) related to government grant received for subsidising the construction of production plants of product development of subsidiaries in Beijing, Shanxi and Tianjian respectively, the PRC.

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

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

An ageing analysis of trade payables is as follows:

	The Group	
	2013	2012
	HK$	HK$
Within 3 months	**30,084,002**	20,067,348
Over 3 months but less than 6 months	**3,334,977**	20,404,972
Over 6 months but less than 12 months	**3,843,942**	4,396,906
Over 12 months	**4,042,784**	3,325,864
	41,305,705	48,195,090

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31. BORROWINGS

	The Group	
	2013	2012
	HK$	HK$
Bank loans (notes (a) and (b))	**59,096,142**	43,868,159
Other loans (note (c) and (d))	**3,866,837**	22,562,189
	62,962,979	66,430,348
Secured (notes (a) and (b))	**59,096,142**	43,868,159
Unsecured (note (c) and (d))	**3,866,837**	22,562,189
	62,962,979	66,430,348
Carrying amount repayable:		
On demand or within one year	**62,962,979**	66,430,348
Less: amounts shown under current liabilities	**(62,962,979)**	(66,430,348)
	–	–

As at 31 December 2013 and 2012, terms of bank loans were summarised as follows:

(a) As at 31 December 2013, the short-term secured bank loans of HK$12,804,097, HK$23,047,375 and HK$6,402,049 which carry interest rate of 6.00%, 6.90% and 7.20% per annum respectively. As at 31 December 2012, the short term bank loans of HK$12,773,632 and HK$8,992,537 which carry interest rate of 6.56% and 8.83% per annum.

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

As at 31 December 2013, the loan was secured by Group's patents, leasehold land and building of HK$47,884,865 (2012: patents and leasehold land of HK$37,720,661).

(b) Included in short-term secured bank loans are discounted bills with recourse of HK$16,842,621 (2012: HK$12,773,632) are secured by the related bills receivables.

(c) As at 31 December 2013, other loans of HK$3,866,837 (2012: HK$3,905,473) were obtained from independent third parties, which are unsecured, repayable within one year and carry interest rate of 10% (2012: 10%) per annum.

(d) As at 31 December 2012, other loans of HK$18,656,716 were obtained from independent third party, which are unsecured, repayable within one year and non-interest bearing.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

32. CONTINGENT LIABILITIES

As at 31 December 2013 and 2012, the Group and the Company did not have any significant contingent liabilities.

33. EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Shanxi, Beijing, Shenyang and Tianjian, whereby the Group is required to make contributions to the Schemes at rates 20% of the eligible employees' salaries.

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

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

34. SHARE OPTION SCHEME

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

(i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant, which must be a business day;

(ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five consecutive business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

No options had been granted or remained outstanding for each of the years ended 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

35. CAPITAL AND RESERVES

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

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

	Share capital HK$	Share premium HK$	Capital reserve HK$	Retained profits HK$	Total HK$
As at 1 January 2012	5,138,489	249,722,557	–	421,861,299	676,722,345
Loss for the year	–	–	–	(51,815,280)	(51,815,280)
Repurchase of ordinary shares	–	–	(302,640)	–	(302,640)
Dividends paid during the year	–	–	–	(7,707,733)	(7,707,733)
As at 31 December 2012 and 1 January 2013	5,138,489	249,722,557	(302,640)	362,338,286	616,896,692
Loss for the year	–	–	–	(67,628,891)	(67,628,891)
Repurchase and cancellation of ordinary shares (note)	(21,300)	(830,700)	302,640	–	(549,360)
Dividends paid during the year	–	–	–	(7,675,783)	(7,675,783)
As at 31 December 2013	**5,117,189**	**248,891,857**	–	**287,033,612**	**541,042,658**

Note:

During the year ended 31 December 2013, the Company repurchased a total of 1,354,000 ordinary shares of the Company (2012: 776,000 ordinary shares) by the amount of HK$501,550 (2012: HK$306,760) and 2,130,000 ordinary shares were cancelled on 23 May 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

35. CAPITAL AND RESERVES *(CONTINUED)*

(a) Share capital

(i) Authorised and issued share capital

	2013		2012	
	Number of shares	**HK$**	Number of shares	HK$
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000,000**	10,000,000,000	100,000,000
Issued:				
At 1 January	**513,848,888**	**5,138,489**	513,848,888	5,138,489
Cancellation of ordinary shares	**(2,130,000)**	**(21,300)**	–	–
At 31 December	**511,718,888**	**5,117,189**	513,848,888	5,138,489

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

(b) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory surplus reserve

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

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

(iii) Exchange reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

35. CAPITAL AND RESERVES *(CONTINUED)*

(b) Nature and purpose of reserves *(Continued)*

(iv) Other reserve

Other reserve of the Group comprises the following:

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

(c) Distributability of reserves

The Company had distributable reserves of HK$535,925,469 as at 31 December 2013 (2012: HK$612,060,843), which include the Company's share premium and retained profits.

(d) Capital management

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

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

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

During year ended 31 December 2013, the Group has complied with all the externally imposed capital requirements. The Group also has a strategy to maintain the net debt-to-adjusted capital ratio at or below 60% (2012: 60%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

35. CAPITAL AND RESERVES *(CONTINUED)*

(d) Capital management *(Continued)*

The net debt-to-adjusted capital ratio at 31 December 2013 was as follows:

		The Group		The Company	
		2013	2012	**2013**	2012
	Note	**HK$**	HK$	**HK$**	HK$
Bank loans	31	**59,096,142**	43,868,159	–	–
Other loans	31	**3,866,837**	22,562,189	–	–
		62,962,979	66,430,348	–	–
Less: Cash and cash equivalents	29	**(40,961,978)**	(259,974,508)	**(1,538,293)**	(52,085,238)
Net debt		**22,001,001**	(193,544,160)	**(1,538,293)**	(52,085,238)
Total equity		**576,591,431**	668,376,217	**541,042,658**	616,896,692
Net debt-to-adjusted capital ratio		**3.82%**	N/A	**N/A**	N/A

36. CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARY

During the year ended 31 December 2013, the Group acquired 30% equity interest in Ever Tech from an independent third party for a cash consideration of HK$40,000,000. The Group then increased its ownership in Honest Bright from 51.2% to 65.8%. The Group recognised a decrease in non-controlling interest of approximately HK$17,746,286 and decrease in other reserve of approximately HK$17,746,286 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

37. COMMITMENTS AND CONTINGENCIES

(a) Capital commitments outstanding at 31 December 2013 and 2012 not provided for in the consolidated financial statements were as follows:

	The Group	
	2013	2012
	HK$	HK$
Contracted for property, plant and equipment but not provided for	**5,602,461**	12,251,384

(b) At 31 December 2013 and 2012, the total future minimum lease payments under non-cancellable operating lease were repayable as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$	HK$	**HK$**	HK$
Within 1 year	**416,232**	1,422,703	**416,232**	113,707
After 1 year but within 5 years	**219,678**	163,625	**219,678**	–
	635,910	1,586,328	**635,910**	113,707

At 31 December 2013, the Group leases a number of properties and office equipment under operating leases were terminated during the year. (2012: 1 to 2 years).

38. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Recurring

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 14 and certain of the highest paid employee as disclosed in note 15, is as follows:

	The Group	
	2013	2012
	HK$	HK$
Short-term employee benefits	**3,589,008**	3,456,008
Post-employment benefits	**30,000**	26,825
	3,619,008	3,482,833

Total remuneration is included in "staff costs" (see note 12).

(b) Amounts due to an associate

	The Group	
	2013	2012
	HK$	HK$
Ever Tech	**10,000,000**	10,000,000

The amount due to Ever Tech is unsecured, interest free and are expected to be settled within one year. This amount is included in "trade and other payables" in the consolidated statement of financial position (see note 30).

39. EVENTS AFTER THE REPORTING PERIOD

There were no significant events that have occurred subsequent to the end of the reporting period.

40. AUTHORISATION FOR ISSUE OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2014.

FIVE YEARS SUMMARY

For the year ended 31 December 2013

	2009 HK$	2010 HK$	2011 HK$	2012 HK$	**2013** **HK$**
OPERATING RESULTS					
Turnover	974,737,866	815,690,559	290,767,562	261,047,793	**199,820,947**
Profit/(loss) from operations	63,981,834	691,706,065	23,978,604	(467,839)	**(91,797,135)**
Finance costs	(25,741,674)	(16,237,700)	(7,987,414)	(4,955,085)	**(4,037,591)**
Share of loss of jointly controlled entities	(788,911)	(1,050,178)	(185,760)	–	**–**
Share of losses of associates	–	–	–	–	**(5,784,957)**
Profit/(loss) before taxation	37,451,249	674,418,187	15,805,430	(5,422,924)	**(101,619,683)**
Taxation	(8,249,830)	(11,901,712)	(4,353,806)	(33,856,646)	**1,152,753**
Profit/(loss) for the year	29,201,419	662,516,475	11,451,624	(39,279,570)	**(100,466,930)**
Attributable to:					
Owners of the Company	21,227,178	665,489,888	8,169,030	(33,571,296)	**(62,824,918)**
Non-controlling interests	7,974,241	(2,973,413)	3,282,594	(5,708,274)	**(37,642,012)**
Profit/(loss) for the year	29,201,419	662,516,475	11,451,624	(39,279,570)	**(100,466,930)**
Earnings/(loss) per share					
– Basic	4.79 cents	1.38 dollars	1.59 cents	(6.53) cents	**(12.26) cents**
– Diluted	4.77 cents	1.36 dollars	1.59 cents	(6.53) cents	**(12.26) cents**
Assets and liabilities					
Non-current assets	615,380,386	248,931,390	211,480,703	343,701,997	**375,476,818**
Net current assets	563,242	476,378,000	537,103,069	346,331,958	**221,238,879**
Total assets less current liabilities	615,943,628	725,309,390	748,583,772	690,033,955	**596,715,697**
Non-current liabilities	(97,845,666)	(18,264,613)	(20,965,558)	(21,657,738)	**(20,124,266)**
NET ASSETS	518,097,962	707,044,777	727,618,214	668,376,217	**576,591,431**
Capital and reserves					
Share capital	4,435,000	5,138,489	5,138,489	5,138,489	**5,117,189**
Reserves	441,085,790	659,965,776	670,030,895	627,507,330	**549,017,433**
Total equity attributable to owners of the Company	445,520,790	665,104,265	675,169,384	632,645,819	**554,134,622**
Non-controlling interests	72,577,172	41,940,512	52,448,830	35,730,398	**22,456,809**
TOTAL EQUITY	518,097,962	707,044,777	727,618,214	668,376,217	**576,591,431**