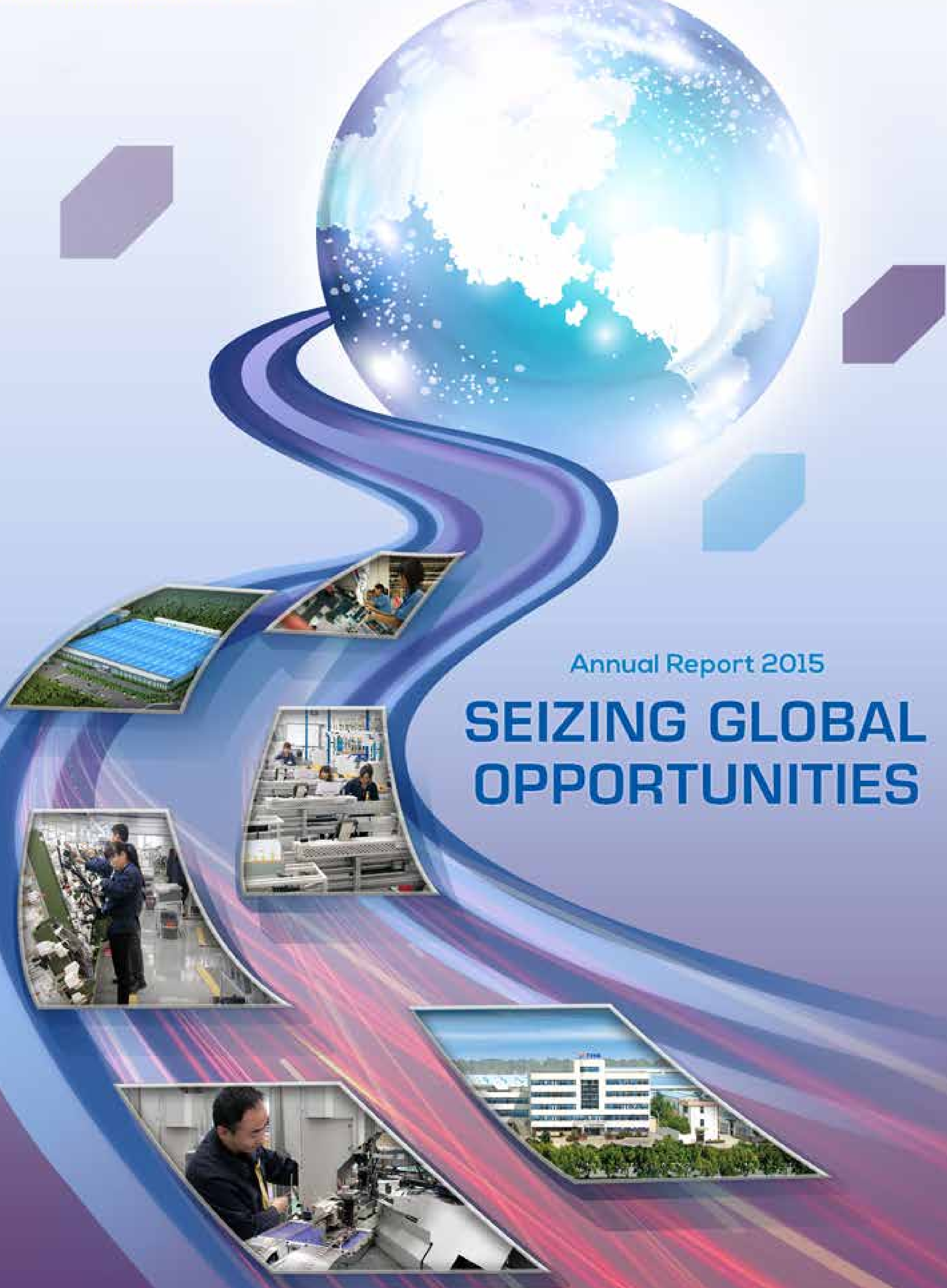
CHINA AUTO ELECTRONICS GROUP LIMITED



Annual Report 2015

SEIZING GLOBAL OPPORTUNITIES

CORPORATE PROFILE

We are one of the leading automotive electrical and electronics distribution system manufacturers in the People's Republic of China ("PRC") and the largest PRC domestic manufacturer of automotive wire harnesses and connectors.

We supply to automotive manufacturers in both PRC and United States of America. We have 16 production facilities across the PRC with our headquarter located in Hebi City, Henan Province, PRC and have a subsidiary in United States of America.

We place significant emphasis on research and development ("R&D") and have established R&D institutes, focusing on wire harnesses, connectors, fuse boxes, fuses and central junction boxes, automotive electronic products and new energy vehicle technology. We have an R&D centre focusing on automotive electrical and automotive distribution system, new products, new technology and providing technological services and consultation in Shanghai, PRC.

CONTENTS

01 Our Manufacturing Facilities
01 Our R&D Focus
02 Our Products
04 Chairman's Statement
06 Operations Review
08 Board of Directors
11 Corporate Information

OUR MANUFACTURING FACILITIES

We are one of the largest automotive wire harness and connectors manufacturers in the PRC, with 16 manufacturing facilities in Hebi, Zhengzhou, Wuhu, Jiangxi, Harbin, Shenyang, Fujian, Shanghai, Chongqing and Liuzhou. We also have a research and development center and warehouse facilities in North America.

Our manufacturing facilities are fully integrated. We use CAD and application software, such as Pro-Engineering and Unigraphics, for the conceptualization and design of moulds, CAM, wire-cutting machines, CNC machines and EDMs for the fabrication of the tools and dies, plastic kneading and blending machines and plastic injection moulds for the production of plastic housings, and precision metal stamping machines for the precision metal stamping process to form the desired parts for the terminals. We also design and build our own assembly stations for wire harness.

We have been certified as OEM supplier by major automotive manufacturer, including Fiat Chrysler Automobiles, Dongfeng Motor Corporation, Shanghai Volkswagen Automotive Co., Ltd, FAW-Volkswagen Automobile Co., Ltd, General Motors Corporation, Chery Automobile Co., Ltd, Changan Automobile Group Ltd, and Geely Automobile. We were awarded the QS 9000 Quality Management System Certificate in 1998, the ISO/TS 16949 Quality Management System Certificate in 2002 and the VDA 6.1 Quality Management System Certificate by TUV Rheinland. We were also awarded the ISO 14004 Environment Management System Certificate in 2004.

OUR R&D FOCUS

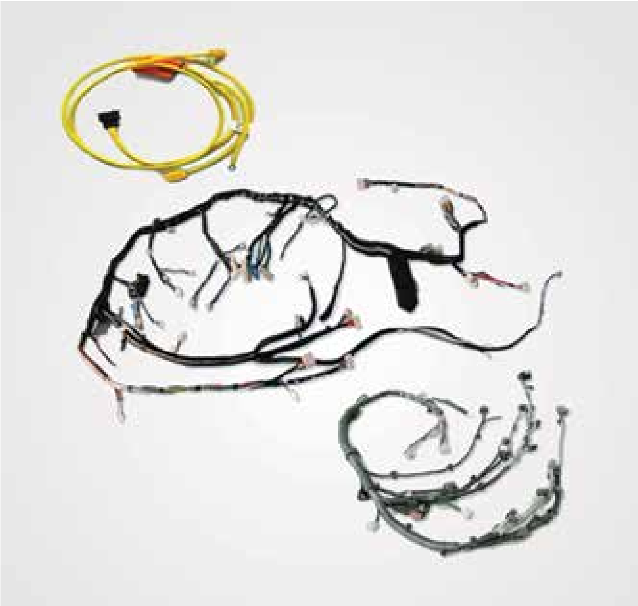
We place significant emphasis on R&D, which we believe is one of our key competitive strengths. Our main R&D centre is located in Hebi City, Henan Province, PRC. In addition, we also have a R&D centre in Shanghai, which focuses mainly on automotive electrical and electronics distribution system, new products and technologies, and provides technological and consultation services.

We have also established research institutes focusing on different areas:

- The Wire Harness Research Institute focuses on the R&D of wire harness. This Institute is capable of designing a variety of vehicle harnesses, with over 100 types of new harness being developed every year.
- The Connector Research Institute focuses mainly on the R&D of connectors, fuse boxes, fuses and central junction boxes for the automotive industry. This Institute also focuses on the R&D of high precision, quality and efficient injection moulds which are used in the manufacture of connectors.
- The Electrical and Electronics Research Institute focuses on the R&D of automotive electrical and electronics products and engine management system. With strong development capability and wide range of advanced test equipment, this Institute provides a solid foundation for new product development.
- The New Energy Technology Center is involved on R&D of wire connection system and fuse box for high voltage distribution portion system.

OUR PRODUCTS

WIRE HARNESSES



A wire harness is an assembly of wires with connectors attached to their ends that are bundled together and transmits electricity between two or more points.

Wire harness link the power and signal distribution systems within an automobile and are critical to the function and performance of an automobile. An average automobile will typically have lengths of wire harness. Wire harness used by different automakers may differ.

We manufacture hundreds of varieties of wire harness, which are used in different parts of an automobile and supply primarily to automakers.

CONNECTORS

Connectors are devices that connect one or more wires together or link the wire harness with other components within the automobile. Connectors are designed to protect the connection points from the external environment of the automobile, which can be harsh and varies depending on where in the automobile they are located.

The main components of a connector are the housing and the terminal. The housing is the connector's casing and is usually made of moulded plastic. Its main functions are to hold the terminals and protect them from shorting, dust, dirt, moisture and electrical interference.

The terminal is the metal component in a connector that conducts electric current and is inserted into the connector housing.

Connectors installed in different parts of an automobile differ from one another in various respects, including the design and size of both the housings and the terminals.

In addition, the connectors used by different automakers may also differ. We manufacture more than 10,000 varieties of housings and terminals, which are used in different parts of an automobile.

We also manufacture fuse boxes and central junction boxes. Fuse boxes are devices that serve to hold a number of fuses. Central junction boxes are devices which connect different wire harness to distribute the flow of electricity between different compartments in an automobile, through connection and protection devices integrated into such central junction boxes.

Our Products

OTHER PRODUCTS

Our other products include crimping machines and moulds. Crimping machines are machines used to create a crimp connection, which is a permanent electrical and mechanical connection between a wire or wires and a conductor.

Crimping involves the application of an external force, which deforms the individual strands of a wire by stressing them to beyond the yield point of the material to produce a reliable connection.

Moulds are the foundation for the commercial production of plastic injection moulding and metal stamped products such as the plastic housings and metal terminals in connectors. The mould is essentially a steel tool made up of many operating mechanisms and parts assembled together.

We also have a whole host of electronic products, including tire pressure monitoring system ("TPMS"), GPS vehicle tracking device, BCM (Body Control Module) and ECU. With our emphasis on R&D, we have also developed the automobile headlight adjusting device, which allows the driver to adjust the direction of the headlights manually from inside the automobile so as to provide better illumination.

During the year, we had also started new products in new energy vehicle for wire harness connection system and fuse box which provide high voltage portion for the whole solution of power distribution connection system in new energy vehicle.

CHAIRMAN'S STATEMENT

Zhang Jingtang
Executive Chairman and Director

DEAR SHAREHOLDERS,

On behalf of the Board of Directors of China Auto Electronics Group Limited ("CAEG" or the "Company") and its subsidiaries (collectively, the "Group"), I would like to present our Annual Report for the financial year ended 31 December 2015 ("FY2015").

The growth of China automotive industries was affected by the economic slowdown in 2015, the production in China for automobile was 24.5 million units which represented year on year increase of 3.25% while the sales of automobile was 24.6 million units, showing an increase of 4.68% on year, which was lower than the previous year growth and the initial forecast.

However, for the Group, under the team effort, the group achieved a turnover of RMB 2.8 billion, which represented an increase of 20.9% from 2014 and much higher than the industrial growth rate in China of 17%, achieving record height of growth in all economic and technical indicators.

In the past year, the Group reviewed the product portfolio and the customers structures and decided to target the high end market, our international business is producing for Chrysler DT Global project with an annual turnover of USD 60 million worth of production and is expected to start production in November 2016, our Chongqing market managed to be accepted into Ford Chang'an Suppliers' system and is expected to start supplying the customer for B500 in 2018, we have also secured a RMB 230 million per year business from Nextev in which the group will help to manufacture and supply 100,000 sets of the new energy automobile wire harness.

Through many years of accumulated precipitation technology and now we have reached the necessary standards and level of excellent in our products in fuse boxes, 064 connectors, copper-aluminium battery cables and auto-stripping crimping machines and other products.

After so many years of efforts, the Group is becoming a technical enterprise, having centers recognized by the government and the laboratories certified by the country, the group has also set up the research centers for academician and post doctorate degree holders, as at today, the group has 395 patents and 13 invention patents.

In 2015, the Group issued convertible bond for SGD 60 million which helped to ease the cash flow of the company and reduced the finance cost of the group and forming a good foundation for the growth of the Group.

Chairman's Statement

In 2015, the Group was awarded various awards such as "South East Automotive Design Award of Excellent", "FAW Jilin Automotive Company Quality Assurance Award", the recognition by our customers will further enhance the reputation of the Tian Hai brand and increase the market competitiveness of the group.

Creation of value is always the mission of our company, constantly create value for the shareholders has always been the pursuit of me and my management team.

In order to achieve strategic goals of the Company in 2016, the Group has started to increase the production capability in 2015. A 40,000 square meters new plant was opened in Hebi North Industrial Park and more capabilities facilities will be added in other areas of the group in 2016. The Group will also focus on promoting industrial 4.0. Through automation and intellectualization design of manufacturing processes, to go on our way of "intellectualized THB". We will put more efforts to achieve breakthrough development of products in new energy vehicles, automotive electronics, international business development and product localization, carrying out group management system, further improving the internal control system and company reform, together with manufacturing system for industry 4.0 to push for the speedy development for our business.

A blueprint of THB in the future is to achieve the objectives of THB of "Centennial THB, Ten Billions THB, and intellectualized THB". We will continue to work relentlessly towards making THB a vibrant, prosperous and innovative brand and achieving the "THB Blueprint".

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my deep gratitude to our valued shareholders, reliable business partners and associates for their unfaltering support and confidence in us. I would like to also thank all our employees, the management team and my fellow directors, for their unwavering dedication, efforts, commitment and valuable guidance which has been the driving force that have helped steer the Group through challenges and obstacles in achieving the results we had for 2015.

ZHANG JINGTANG
Executive Chairman

OPERATIONS REVIEW

OVERALL

For the financial year ended 31 December 2015 ("FY2015"), Group revenue increased by 20.9% to RMB 2.8 billion (FY2014: RMB 2.3 billion), while net profit after tax reduced by 5.1% to RMB 127.7 million (FY2014: RMB 134.5 million).

REVENUE

Revenue from our China Operations improved by 25.0% to RMB 2.2 billion, while American Operations recorded an increase by 7.6% to RMB 579.4 million during the year. The increase in American Operations sales was mainly attributable to higher number of new car models being launched to meet customers' demands in the US.

PROFITABILITY

Gross profit margin for the Group decreased 1.2% to 18.8% (FY2014: 20.0%), while the gross profit of the Group had increased by 14.2% to RMB 523.1 million. The gross profit of China had increased by 16.1% due to higher sales volume while the American operations had decreased by 16.4% mainly due to higher cost of production.

Research and development expenses increased by RMB 20.4 million (or 28.1%) to RMB 92.9 million, which was incurred for the development of new projects to seek opportunities to secure future sales with new and existing customers.

Operations Review

General and administrative expenses increased by RMB 25.3 million (or 16.4%) to RMB 178.7 million, which was mainly due to increase in staff related expenses of about RMB 7.9 million and increase in office and banking expenses of RMB 16.4 million.

Income tax expense increased by RMB 10.2 million (or 41.4%), which was in line with higher taxable income from increased profits for the financial year under review.

BALANCE SHEETS

Property, plant and equipment increased by RMB 97.6 million to RMB 378.5 million, which was mainly due to new purchase of plant and equipment of RMB 138.5 million, and currency translation difference of RMB 0.6 million but offset by depreciation expenses of RMB 37.8 million and disposal of plant and equipment of RMB 3.7 million.

The increase in land use rights of RMB 37.8 million was due to addition of RMB 40.7 million but offset by amortization of RMB 2.9 million.

The increase in inventories, trade and other receivables was in line with the increase in sales activities. The increase in trade and other payables was mainly due to increase in production activities as a result of increase in sales during the financial year under review.

The short-term borrowings had also decreased, which was due to repayment. The increase in long term borrowings was due to the issuance of convertible bonds during the financial year under review.

CASH FLOWS

The Group generated RMB 98.4 million (FY2014: RMB 172.4 million) from operating activities, which was resulted from profit made during the year and after offsetting the higher amount of trade receivable and inventories during the financial year ended under review. After payments for investing activities of RMB 162.2 million (FY2014: RMB 48.0 million) and cash generated from financing activities of RMB 317.7 million (FY2014: outflow of RMB 97.0 million), the cash and cash equivalent as at 31 December 2015 amounted to RMB 382.1 million.

OUTLOOK

The PRC automotive industry in 2016 continue to show stable growth which would bode well for the Group’s performance. The Group will continue to streamline its operations and concentrate on high end technological products, and its effort to increase sales and expansion to overseas markets as well as impose stringent cost controls.

Barring any unforeseen circumstances, the Group remains cautiously optimistic of its performance in 2016.

BOARD OF DIRECTORS

ZHANG JINGTANG

Executive Chairman and Director

Mr Zhang Jingtang is the Executive Chairman of the Group. He is responsible for providing the Group's overall corporate directions and strategies, and oversees its manufacturing and operation activities.

Mr Zhang started his career as an engineer in 1983, and later joined Enterprise Administration Department at the Hebi Industry Bureau to be a Director from 1986 to 1988. In 1988, he joined the Group as a Deputy Factory Manager, and rose through the ranks to become a Director and Chairman of a wholly owned subsidiary of the Group since 2008.

Mr Zhang graduated from Henan Normal University in 1982 with a Bachelor of Physics. In 1988, he obtained the Professional and Technical Qualification of Economist conferred by the Hebi Municipal Government. He was also awarded the Senior Professional Manager Qualification in 2006 by the PRC Ministry of Manpower National Centre of Human Resource Mobility and PRC Research Centre for Professional Managers.

WANG LAISHENG

Executive Director

Mr Wang Laisheng is the Executive Director of the Company.

In 1979, Mr Wang joined Hebi Automotive Electric Appliances Factory ("Hebi Factory"), which was the predecessor of the Group's principal subsidiary, Henan Tianhai Electric Co., Ltd ("Tianhai CL"), and became the Deputy Factory Manager in 1984. His career with the Group covered many areas including manufacture of connectors, as well as the Group's technology and product development. Mr Wang was instrumental in the restructuring and IPO listing exercise when the Group was listed on Singapore Exchange Mainboard in 2007.

Mr Wang graduated from the Party School of the Hebi Municipal Party Committee in 1988, and was certified as a Senior Qualified Engineer by the Henan Provincial Government in 1989. Since 1990, Mr Wang has been a Committee Member of the National Automobile Standardization Technical Committee established by the National Bureau of Quality and Technical Supervision. He received several accolades which include an Honorary Certificate for the development of China's automobile engineering technologies by the PRC State Council in 1991, an appointment as Deputy Chairman of the China Automobile Electronics and Electric Development Centre in 1993, and was named as an Outstanding Expert by the Henan Provincial Government in 1995.

YANG YONG JUN

Non-Executive Director

Mr Yang Yong Jun joined the working life in 1994 in Tian Hai group as the section head of the security in charge of safety and fire-fighting and security of the group's properties after his graduation from the college specializing in laws and economic.

He was promoted in 1999 to be the division manager of security and environment in charge of overall group safety and security and overseeing the environment issues.

He was instrumental in leading the team to obtain the certification of TUV ISO/TS 16949-2002 quality management system certification.

He was subsequently appointed head of legal department and one of his achievement during this time was the certification of TUV ISO/TS 14001:2004 environmental system certification, and ISO/IEC 17025:2005 Laboratory management system certification by China National Accreditation Service for Conformity Assessment.

He was elected as the head of labor union in 2012.

Board of Directors

SHEN ZHIFU
Non-Executive Director

Mr Shen Zhifu is the Non-Executive Director of the Company.

Mr Shen joined the Group in 1976 and has since held managerial positions such as Workshop Director and Deputy Factory Manager in the Group's factories. Subsequently, he was also responsible for the Group's international sales and business development, as well as development, production, sales and marketing of our Group's electronics products.

Mr Shen graduated from the Party School of Henan Provincial Party Committee in 1992 with a major in Economics. He was named a Pioneer Model Worker by the Henan Provincial Government in 1999, and was appointed as Deputy Director of Automobile Electronics Technology Branch of the Society of Automotive Engineers of China in 2004. In 2006, he was appointed as a Member of the Petrol Machine and Kerosene Oil Engine Committee of the Chinese Society of Internal Combustion Engines.

SIM HONG BOON
Lead Independent Director

Mr Sim Hong Boon is the Lead Independent Director and Chairman of the Nomination Committee of our Company. He is a Fellow (Life) of the Singapore Institute of Architects, Fellow of the Royal Australian Institute of Architects, Fellow of the Society of Project Management Singapore, Member of the British Institute of Architects, Member of the Singapore Institute of Planners and Member of the Malaysian Institute of Architects.

Mr Sim served on various local and international professional organisations. He was the President of the Singapore Institute of Architects (1974-1978), Member of the Board of Architects (1973-1980) and Professional Engineers' Board (1977-1980), Member of the Commonwealth Board of Architectural Education (1975-1987), Honorary Secretary of the Architects' Regional Council Asia ("Arcasia") and Chairman, Arcasia Board of Architectural Education (1976-1987).

Mr Sim held several directorships in private and listed companies in Singapore, China and Holland. He was the Chairman of the Supervisory Board, Aabe Fabrieken B.V. and Aabe Holland (1983-1993).

He held several foreign government appointments, as Advisor to the Commanding Office for the Development of the Jinan Yao Qiang Airport (1989), Advisor for Trade & Economic Development to the Municipal Government of City of Jinan (1993), Advisor to the Committee for the Development of Jinan High Technology Industrial Park (1993), Senior Economic Advisor to the Municipal Government of Zao Zhuang City, Shandong Province and Representative of the Indian Tourism Development Corporation for East and South East Asia (2005). He was a Member of the Singapore Shandong Business Council (1993-1999) and (2004-2006) and an Executive Committee Member of the Shandong Business Club (1995-1999).

Mr Sim received the Public Service Medal National Day Award in 1981 and the Public Service Star (BBM) in 2003. In 2005, he was appointed a Justice of Peace by the President of Singapore.

Mr Sim graduated with Associate ship in Architecture from Perth Technical College Western Australia in 1965 and a Master of Arts (Urban Planning) degree in 1974 from the National University of Singapore.

Board of Directors

ZHANG SHULIN
Independent Director

Mr Zhang Shulin is the Independent Director of the Company.

Mr Zhang was an engineer with Hebei Xingtai Hongxing Automobile Factory from 1970 to 1983, and was an Engineer with Jingjinji Automobile Industry Venture Corporation from 1983 to 1985. In 1985, Mr Zhang joined China National Automotive Industry Corporation, a government authority on enterprise administrations for the automotive industry, as Director of the Planning Department and was responsible for the automotive manufacture project planning. He was appointed as Associate Director of the Automobile Industry Department of Ministry of Mechanics Industry in 1993 and was later appointed as Associate Director and Secretary-General of China Association of Automotive Manufacturers by the National Mechanics Industry Bureau in 1998. He is currently the Chief Consultant of China Automotive Technology and Research Centre.

Mr Zhang graduated from Tsing Hua University with a Bachelor of Automatic Control in 1965. He was certified as a Senior Qualified Engineer (Professor Level) by the Ministry of Mechanics Industry, PRC in 1996.

CHUA MENG HING
Lead Independent Director

Chua Meng Hing was appointed to our Board on 9 November 2015. Currently, Mr Chua is the Managing Director (PRC) for Transaction Origination of Stirling Coleman Capital Limited and Lead Independent Director for Dapai International Holdings Co. Ltd. Prior to the current appointment, Mr. Chua was the Vice President and Director of Finance of Xylem China and India (a Company resulting from the spin-off of ITT Corporation).

Mr Chua started his career since 1991 in various big auditing firms, namely, KPMG, PricewaterhouseCoopers and Arthur Andersen. Mr Chua was the Financial Controller of Compart Asia Pte Ltd from October 1995 to September 1997 and the Operations Director of Edgematrix Pte. Ltd in 2000.

Mr Chua obtained his Bachelor of Accountancy from the National University of Singapore in 1991 and is also a Chartered Accountant, Institute of Singapore Chartered Accountants, Singapore. Mr Chua is also an EMBA from Washington University-Fudan University.

CORPORATE INFORMATION

Board of Directors

Zhang Jingtang
(Executive Chairman)

Wang Laisheng
(Executive Director)

Yang Yong Jun
(Non Executive Director)

Shen Zhifu
(Non Executive Director)

Sim Hong Boon
(Lead Independent Director)

Zhang Shulin
(Independent Director)

Chua Meng Hing
(Independent Director)

Audit Committee

Chua Meng Hing (Chairman)
Sim Hong Boon
Zhang Shulin

Nominating Committee

Sim Hong Boon (Chairman)
Zhang Shulin
Chua Meng Hing

Remuneration Committee

Zhang Shulin (Chairman)
Sim Hong Boon
Chua Meng Hing

Proceeds Oversight Committee

Chua Meng Hing (Chairman)
Sim Hong Boon
Zhang Shulin
Yang Yong Jun

Company Secretary

Teo Chee Shi

Management Team

Zhang Jingtang
(Executive Chairman)

Wang Laisheng
(Executive Director)

Zhang Ying
(Chief Executive Officer)

Teo Chee Shi
(Chief Financial Officer)

Zhou Ping
(Deputy Chief Executive Officer)

Qin Hong
(Deputy Chief Executive Officer)

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Bermuda Resident Representative

Estera Services (Bermuda) Limited (formerly Appleby Services (Bermuda) Ltd)
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Singapore Share Registrar and Share Transfer Agent

B.A.C.S. Private Limited
8 Robinson Road #03-00
ASO Building
Singapore 048544

Bermuda Share Registrar

Estera Management (Bermuda) Limited (formerly Appleby Management (Bermuda) Limited)
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Auditors

PricewaterhouseCoopers LLP
Certified Public Accountants
8 Cross Street, #17-00
PWC Building
Singapore 048424
Partner-in-charge:
Tham Tuck Seng
(Appointed since 29 April 2011)

Company Registration Number

34300

CONTENTS

13 Corporate Governance Report
26 Directors' Statement
28 Independent Auditor's Report
29 Consolidated Statement of Comprehensive Income
30 Balance Sheets - Group and Company
31 Consolidated Statement of Changes in Equity
32 Statement of Changes in Equity – Company
33 Consolidated Statement of Cash Flows
34 Notes to The Financial Statements
82 Major Properties
84 Statistics of Shareholdings
86 Notice of Annual General Meeting

CORPORATE GOVERNANCE REPORT

The Board of Directors acknowledges the importance of good corporate governance and continues to affirm their commitment by maintaining a high standard of corporate governance within the Company. Good corporate governance provides the framework for an ethical and accountable corporate environment, which will safeguard the interests of shareholders, enhance shareholders' value and encourage investors' confidence.

This report outlines the Company's corporate governance processes and activities that were in place during the financial year ended 31 December 2015 ("FY2015"), with specific reference made to each of the principles and guidelines of the Singapore Code of Corporate Governance 2012 (the "Code"). Deviations from the Code are explained below. The Company has generally adhered to the principles and guidelines as set out in the Code.

BOARD MATTERS

THE BOARD'S CONDUCT OF AFFAIRS

Principle 1: Every company should be headed by an effective Board to lead and control the Company. The Board is collectively responsible for the success of the Company. The Board works with the Management to achieve this and the Management remains accountable to the Board.

The Board is entrusted with the responsibility for the corporate governance of the Company. It designates the overall strategy for the Company. It also supervises the executive management and monitors their performance periodically.

Apart from their statutory responsibilities, the Board is responsible for:

(i) Reviewing the financial performance and condition of the Group.

(ii) Approving the Group's strategic plans, key operational initiatives, major investment and funding decisions; and

(iii) Identifying principal risks of the Group's businesses and monitoring the CEO's implementation of appropriate systems to manage risks.

To further assist in the execution of its responsibilities, the Board has established a number of Board Committees which include an Audit Committee, a Nominating Committee, a Remuneration Committee and Proceeds Oversight Committee (collectively, "Board Committees").

The Board meets on a quarterly basis and whenever necessary to discharge their duties. The number of meetings held by the Board and Board Committees and attendance for FY2015 are summarized in the table below:

		Board Committees		
	Board	**Audit**	**Nominating**	**Remuneration**
Number of meetings held	7	4	1	1
		Number of meetings attended		
Zhang Jingtang	7	–	–	–
Wang Laisheng	7	–	–	–
Yang Yong Jun	6	–	–	–
Shen Zhifu	7	–	–	–
Sim Hong Boon	6	4	1	1
Zhang Shulin	6	3	1	1
Ho Ker Chern	3	3	1	1
Chua Meng Hing	1	1	–	–

There are no meetings for the Proceeds Oversight Committee for FY2015.

Matters which specifically require the Board's decision or approval include those involving Corporate Strategies and Business Plans, Investment and Divestment Proposals, Funding Decisions of the Group, nomination of Board of Directors and appointment of key personnel, quarterly and full-year results announcement, the annual report and accounts, material acquisitions and disposal of assets, and all matters of strategic importance.

CORPORATE GOVERNANCE REPORT

All other matters are delegated to committees of the Board whose actions are monitored and endorsed by the Board. These committees include the Audit Committee, the Nominating Committee, the Remuneration Committee and the Proceeds Oversight Committee, all of which operate within clearly defined and written terms of reference and functional procedures, which are reviewed on a regular basis. Each of these committees reports its activities regularly to the Board.

The Board ensures that incoming newly appointed Directors will be given an orientation on the Group's business strategies and operations and governance practices to facilitate the effective discharge of their duties. Newly appointed Directors will also be provided a formal letter setting out their duties and obligations.

Board members have been and will be encouraged to attend seminars and receive training to improve themselves in the discharge of their duties as Directors. The Company will work closely with professionals to provide its Directors with updates on changes to relevant laws, regulations and accounting standards.

BOARD COMPOSITION AND GUIDANCE

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises seven members as at 31 December 2015:

Zhang Jingtang	Executive Chairman
Wang Laisheng	Executive Director
Yang Yong Jun	Non Executive Director (appointed on 24.4.2015)
Shen Zhifu	Non Executive Director
Sim Hong Boon	Lead Independent Director
Zhang Shulin	Independent Director
Chua Meng Hing	Independent Director (appointed on 9.11.2015)
Ho Ker Chern	Independent Director (resigned on 17.8.2015)

Each individual director has been appointed on the basis of the strength of his knowledge, experience and potential to contribute to the proper guidance of the Company and its business.

The Company strives to maintain a resolute and independent element on the Board as provided in the Code. As there are three Independent Directors on the Board, the requirement of the Code that at least one-third of the Board comprise Independent Directors is satisfied. The Board considers an Independent Director as one who has no relationship with the Company, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent judgment of the Group's affairs.

The Independent Directors have confirmed that they do not have any relationship with the Company or its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Directors' independent business judgment with a view to the best interests of the Company. The Nominating Committee has reviewed and determined that the said Directors are independent. The independence of each Director has been and will be reviewed annually by the Nominating Committee based on the guidelines set forth in the Code.

The Board has examined its size and is satisfied that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Company. The Nominating Committee is of the view that no individual or small group of individuals shall dominate the Board's decision-making process.

The Nominating Committee is of the view that the current Board comprises persons who as a group provide capabilities required for the Board to be effective. Details of the Board members' qualifications and experience are presented in this Annual Report under the heading "Board of Directors".

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Principle 3: There should be a clear division of responsibilities at the top of the Company – the working of the Board and the executive responsibility of the Company's business – which will ensure a balance of power and authority, such that no individual represents a considerable concentration of power.

The Executive Chairman of the Company is Mr Zhang Jingtang. The Chief Executive Officer of the Company is Mr Zhang Ying. There is a clear division of responsibilities between the Executive Chairman and the Chief Executive Officer to ensure that there is an appropriate balance of power, increased accountability and sufficient capacity of the Board for independent decision-making.

As the Executive Chairman of the Company, Mr Zhang Jingtang, is responsible for the workings of the Board, ensuring the integrity and effectiveness of the governance process. He ensures smooth and efficient communication between the Company and the shareholders as well as fostering positive and constructive relations between the Board and Management. He ensures that board meetings are held when necessary and takes an active role in facilitating board proceedings (such as preparing meeting agenda in consultation with the Chief Executive Officer) as well as assisting in compliance with the Company's guidelines on corporate governance.

The Chief Executive Officer of the Company, Mr Zhang Ying, who is not a member of the Board, manages the business of the Company and implements the Board's decisions. He is also in charge of the marketing department and instrumental in planning strategic alliances which are beneficial to the Company.

BOARD MEMBERSHIP

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

NOMINATING COMMITTEE

The Nominating Committee ("NC") comprises the following Independent and Non-Executive Directors:

Sim Hong Boon	Chairman
Zhang Shulin	Member
Chua Meng Hing	Member

The Nominating Committee meets at least once a year or as and when necessary. Its focus is guided by the terms of reference adopted from the Code of Corporate Governance.

The principal role and functions of the Nominating Committee are, as follows:

- to make recommendations to the Board on all board appointments and re-nominations having regard to the director's contribution and performance;
- to recommend Directors who are retiring by rotation to be put forward for re-election;
- to determine annually whether a director is independent, taking into account the definition of an Independent Director in the Code;
- to decide whether a director is able to and has adequately carried out his duties as a director of the Company, in particular, where the director concerned has multiple board representations;
- to assess the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board; and
- to carry out such other duties as may be agreed to by the Nominating Committee and the Board. The Nominating Committee will ensure that there is a formal and transparent process for all appointments to the Board. It has adopted written terms of reference defining its membership, administration and duties. A meeting has been held to review the independent status of each member of the new Board and to nominate each of them for re-appointment at the forthcoming annual general meeting ("AGM").

CORPORATE GOVERNANCE REPORT

Bye-Law 104 of the Company's Bye-Laws requires one-third of the Directors to retire from office at least once every three years at an AGM there is no director retiring under Bye-law 104 during this year AGM.

Bye-Law 107A provided that any director appointed by the Company in a general meeting to fill a casual vacancy shall hold office only until the next following AGM and shall then be eligible for re-election at the meeting.

Bye-Law 107B provides that any new director appointed by the Board from time to time to fill a casual vacancy shall hold office only until the next following AGM and shall then be eligible for re-election at the meeting.

The Board recommended Mr Yang Yong Jun to be nominated for re-election under Bye-Law 107A while Mr Chua Meng Hing to be nominated for re-election under Bye-Law 107B in the forthcoming Annual General Meeting.

In its search, nomination and selection for new Directors, the NC identifies the key attributes that an incoming Director should have, based on a matrix of the CG Guideline 4.6 attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes the NC taps on the resources of Directors' personal contacts and recommendations of potential candidates, and goes through a short-listing process. If candidates identified from this process are not suitable, executive recruitment agencies are appointed to assist in the search process. Interviews are set up with potential candidates for NC members to assess them, before a decision is reached.

The Chairman of the Board will give feedback to the NC on the appointment of New Directors or retirement or resignation of existing Directors, following the outcome of an annual performance evaluation of individual Directors, and the NC will take into consideration his/her views in this regard.

The date of initial appointment and last re-election of each director, together with their directorships in other listed companies are set out below:

Name	Appointment	Date of initial appointment	Date of last re-election	Directorship in other listed companies
Zhang Jingtang	Executive Chairman	1 July 2010	23 April 2014	None
Wang Laisheng	Executive Director	21 September 2007	23 April 2014	None
Yang Yong Jun	Non-Executive Director	24 April 2015		None
Shen Zhifu	Non-Executive Director	21 September 2007	23 April 2014	None
Sim Hong Boon	Lead Independent Director	21 September 2007	24 April 2015	None
Zhang Shulin	Independent Director	21 September 2007	24 April 2015	None
Chua Meng Hing	Independent Director	9 November 2015		Dapai International Holdings Co. Ltd

BOARD PERFORMANCE

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its Board Committees and the contribution by each director to the effectiveness of the Board.

The Company believes that the Board's performance is ultimately reflected in the performance of the Company. The Board is charged with two key responsibilities: setting strategic directions and ensuring the effectiveness of the Company.

The Nominating Committee continued to use existing internal guidelines to evaluate the Board's performance and effectiveness as a whole and the performance of individual Directors, based on performance criteria set by the Board.

The assessment process involves and includes obtaining input from Board members, applying the performance criteria of the Nominating Committee which have been approved by the Board. Such input is collated and reviewed by the Chairman of the Nominating Committee, who presents a summary of the overall assessment to the Nominating Committee for review. Areas where the Board's performance and effectiveness could be enhanced and recommendations for improvements are then submitted to the Board for discussion and, where appropriate, approval for implementation.

The individual performance criteria include qualitative and quantitative factors such as performance of principal functions and fiduciary duties, level of participation at meetings and attendance record.

CORPORATE GOVERNANCE REPORT

ACCESS TO INFORMATION

Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete adequate and timely information prior to board meetings and on an ongoing basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

Each member of the Board has full access to such information regarding the Company as may be required for the execution of his duties and responsibilities. Prior to each Board meeting, the members of the Board are each provided with the relevant documents and information necessary, including background and explanatory statements, financial statements, budgets, forecasts and progress reports of the Company's business operations, for them to familiarize themselves and comprehend the issues to be contemplated and make well and informed decisions thereon.

As a general rule, notices are sent to the Directors one week in advance of Board meetings, followed by the Board papers in order for the Directors to be adequately prepared for the meetings. Senior management personnel, if required, will attend board meetings to address queries from the Directors. The Directors also have unrestricted access to the Company's senior management.

The Directors have separate and independent access to the Company Secretary. The Company Secretary attends all Board meetings and ensures that Board procedures and the provisions of applicable laws, the Bye-Laws and the Listing Manual of the SGX-ST are followed. The Company Secretary also assists with the circulation of Board papers and updates the Directors on changes in laws and regulations relevant to the Group. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

REMUNERATION MATTERS

PROCEDURE FOR DEVELOPING REMUNERATION POLICIES

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee comprises the following Independent and Non-Executive Directors:

Zhang Shulin	Chairman
Sim Hong Boon	Member
Chua Meng Hing	Member

The Remuneration Committee meets at least once a year with all members of the committee in attendance, its focus is guided by the terms of reference adopted from the Code of Corporate Governance.

The principal role and functions of the Remuneration Committee are, as follows:

– to recommend to the Board a framework of remuneration for the directors and senior management;

– to determine specific remuneration packages for each executive director;

– in the case of service contracts of directors, to review and to recommend to the Board the terms of renewal of the service contracts;

– to consider the various disclos ure requirements for directors' and key executives' remuneration, particularly those required by regulatory bodies such as the Singapore Exchange Securities Trading Limited, and ensure that there is adequate disclosure in the financial statements to ensure and enhance transparency between the Company and relevant interested parties;

– to administer any share option or share incentive scheme of the Company; and

– to carry out such other duties as may be agreed to by the Remuneration Committee and the Board.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee had been established for the purpose of ensuring that there is a formal and transparent procedure for fixing the remuneration packages of individual Directors. All aspects of the remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits in kind will be reviewed by the Remuneration Committee. The ultimate principle is that no Director should be involved in determining his own remuneration. It has adopted written terms of reference defining its membership, functions and administration.

In its review and approval of the recommendations on remuneration policies and packages for the Directors, the Remuneration Committee covers all aspects of remuneration including but not limited to Directors' fees, salaries, allowances, bonuses, share options and benefits-in-kind. The Remuneration Committee's recommendations are made in consultation with the management and submitted for endorsement by the entire Board.

Remuneration of senior management staff is reviewed by the Company's Human Resources Department in consultation with the senior management. The review takes into consideration the value-added and the extent of contribution of the staff towards the financial health and business needs of the Company. The Company will offer competitive remuneration packages to recruit, motivate and retain valuable staff. The Remuneration Committee also administers the employee share option scheme of the Company.

The Remuneration Committee members will abstain from deliberations in respect of their own remuneration and the Remuneration Committee is empowered to review human resource management policies of the Group.

In addition, the remuneration of employees who are related to the Directors and substantial shareholders of the Company will be reviewed annually by the Remuneration Committee to ensure that their remuneration packages are in line with our staff remuneration guidelines and commensurate with their respective job scopes and level of responsibilities. Any bonuses, pay increase and/or promotions for these related employees will also be subject to the review and approval of the Remuneration Committee. In the event that a member of the Remuneration Committee is related to the employee under review, he will abstain from the review.

LEVEL AND MIX OF REMUNERATION

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the Company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the Company. However, companies should avoid paying more than is necessary for this purpose.

In determining remuneration packages, the Remuneration Committee will ensure that the Directors are adequately but not excessively remunerated as compared to the industry standards a significant proportion of executive directors' remuneration is structured so as to link rewards to corporate and individual performance.

The remuneration policy of the Company seeks, amongst other things, to align the interests of employees with the Company, to reward and encourage performance based on its core values and to ensure that remuneration is commercially competitive to attract and retain talent. The typical remuneration package consists of fixed and variable components, with the base salary making up the fixed component. The variable component can be in the form of a performance bonus, share options, performance shares and/or other long-term incentives.

Independent Directors and non-executive Directors are paid a fee which also takes into consideration market practices and norms. Directors' fees are to be approved by shareholders at Annual General Meeting.

DISCLOSURE ON REMUNERATION

Principle 9: Each Company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration in the Company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

The Remuneration Committee recommends to the Board a framework of remuneration for the Board and senior management personnel to ensure that the structure is competitive and sufficient to attract, retain and motivate senior management to run the Company successfully in order to maximize shareholders' value. The recommendations of the Remuneration Committee on the remuneration of Directors and senior management will be submitted for endorsement by the Board. The members of the Remuneration Committee do not participate in any decisions concerning their own remuneration.

CORPORATE GOVERNANCE REPORT

The breakdown, showing the level and mix of each individual Director's remuneration during the financial year under review by percentage (%), is as follows:

Remuneration Band and Name of Director	Salary	Directors fees	Performance bonus	Other benefits
Below $250,000				
Zhang Jingtang	85%	–	1%	14%
Wang Laisheng	99%	–	1%	–
Yang Yong Jun	85%	–	1%	14%
Shen Zhifu	98%	–	2%	–
Sim Hong Boon	–	100%	–	–
Zhang Shulin	–	100%	–	–
Chua Meng Hing	–	100%	–	–

The key executives (who were not Directors) of the Group during the financial year under review fell within the remuneration band of below $250,000:

Remuneration Band and Name of Key Executive	Salary	Performance bonus	Other benefits
Zhang Ying	61%	35%	4%
Teo Chee Shi	100%	0%	0%
Zhou Ping	86%	1%	13%
Qin Hong	86%	1%	13%

No employee who was an immediate family member of a Director was paid more than S$50,000 during FY2015. "Immediate family member" means the spouse, child, adopted child, step-child, brother, sister, and parent of such person.

In view of confidentiality of remuneration matters, the Board is of the opinion that it is in the best interest of the Group not to disclose the exact remuneration of the Directors and Key Executives in the Annual Report.

ACCOUNTABILITY AND AUDIT

ACCOUNTABILITY

Principle 10: The Board is accountable to the shareholders while the Management is accountable to the Board. The Board should present a balanced and understandable assessment of the Company's performance, position and prospects.

In line with the continuing disclosure obligations of the Company under the SGX-ST Listing Manual, the Board's policy is that shareholders shall be informed of the Company's major developments. Information is presented to shareholders on a timely basis through SGXNET and/or the press. In presenting the annual financial statements and half-year and full-year result announcements to its shareholders, the Board's objective is to present a reasonable understanding of the Group's financial position, performance and prospects to its shareholders.

The Management currently provides the Board with management accounts of the Group's performance, position and prospects on a regular basis.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that the Management maintains a sound system of risk management and internal controls to safeguard the shareholders' investments and the Company's assets and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

The Board acknowledges that it is responsible for the overall internal control framework, but recognizes that no cost effective internal control system will preclude all errors and irregularities, as such a system is designed to manage (rather than eliminate the risk of failure) and achieve its business objectives. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss. The Board, in concurrence with the Audit Committee, believes that in the absence of any evidence to the contrary, the system of internal controls addressing financial, operational, compliance and risk management system that has been maintained by the Company's Management throughout the financial year ended 31 December 2015 and up to the date of this Report is adequate to meet the needs of the Company in its current business environment.

AUDIT COMMITTEE

Principle 12: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The Audit Committee comprises the following Independent and Non-Executive Directors:

Chua Meng HIng	Chairman
Sim Hong Boon	Member
Zhang Shulin	Member

The Audit Committee meets at least four times a year or as and when necessary. Its focus is guided by the terms of reference adopted from the Code of Corporate Governance.

The principal role and functions of the Audit Committee are, as follows:

– reviewing with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their audit report, their management letter and the management's response;

– reviewing the quarterly and full-year results and annual financial statements before submission to the Board for approval, focusing in particular, on significant financial reporting issues, changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, the going concern statement, compliance with accounting standards and compliance with applicable accounting standards and stock exchange and statutory/regulatory requirements;

– reviewing procedures and ensuring the co-ordination between the external auditors and the Management, reviewing the co-operation and assistance given by the Management to the external auditors, and discussing problems and concerns, if any, arising from the interim and final audits and any matters which the auditors may wish to discuss (in the absence of the Management where necessary);

– ensuring that the internal audit function is adequate and that a clear reporting structure is in place between the Audit Committee and the internal auditors, and reviewing the scope and results of the internal audit procedures including the effectiveness of the internal audit function;

– ensuring that a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls, risk management and information technology controls is conducted at least annually by the internal auditors;

– reviewing and discussing with the external auditors, and commissioning and reviewing the findings of internal investigations into, any suspected fraud or irregularity, or suspected failure of internal controls, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results and/or financial position, and the management's response;

– reviewing the risk profile of the Company, its internal controls and risk management procedures and the appropriate steps to be taken to mitigate and manage risks at acceptable levels as determined by the Board;

CORPORATE GOVERNANCE REPORT

- reviewing the scope and results of the audit and its cost effectiveness and the independence and objectivity of the external auditors, and where the external auditors also supply a substantial volume of non-audit services to the Company, keeping the nature and extent of such services under review, so as to balance the maintenance of objectivity and value for money;

- reviewing the independence of the external auditors annually, and considering for recommending to the Board the appointment, remuneration, terms of engagement or re-appointment of the external and internal auditors and matters relating to the resignation or dismissal of the auditors;

- reviewing and approving any interested person transactions falling within the scope of Chapter 9 of the SGX-ST Listing Manual;

- reviewing any potential conflicts of interests that may arise in respect of any Director of the Company for the time being;

- reviewing arrangements by which staff of the Company may, in confidence, raise concerns about possible impropriety in matters of financial reporting and other matters and the adequacy of procedures for independent investigation and appropriate follow-up actions in response to such complaints;

- reviewing and approving future hedging policy, instruments used for hedging and foreign exchange policy and practices of the Group (if the same becomes applicable to the Group in the future);

- undertaking such other reviews and projects as may be requested by the Board and reporting to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee; and

- generally undertaking such other functions and duties as may be required by law or the SGX-ST Listing Manual, or by such amendments made thereto from time to time.

The amount of fees payable to auditors for audit services for the financial year ended 31 December 2015 is S$495,000 (2014:S$385,000). Non-audit services are rendered by the auditors for the financial year ended 31 December 2015 is S$11,111.00 (2014: Nil).

The Audit Committee reviews interested person transactions falling within the scope of Chapter 9 of the SGX- ST Listing manual and conflict of interest situations which may raise issues on management integrity. The Audit Committee wishes to report that there were no interested person transactions to be reported for the financial year ended 31 December 2015.

The Audit Committee has adopted written terms of reference defining its membership, administration and duties.

The members of the Audit Committee have sufficient financial and/or management expertise, as assessed by the Board in its business judgment, to discharge the Audit Committee's functions.

The Audit Committee has met with the external auditors without the presence of the Management at least once in every financial year.

The Audit Committee from time to time reviews the arrangements by which the staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, with the objective of ensuring that arrangements are in place for the independent investigation of such matters for appropriate follow-up action.

The Audit Committee has reasonable resources to enable it to discharge its functions properly.

The Board has received assurance from the CEO and CFO that:

(a) the financial records for the Group have been properly maintained, the balance sheet and statement of changes in equity of the Company and the consolidated financial statements of the Group for the year ended 31 December 2015 give a true and fair view of the Group's operations and finances; and

(b) the system of risk management and internal controls in place for the Group is adequate and effective in addressing the material risks faced by the Group in its current business environment including material financial, operational, compliance and information technology risks. The CEO and CFO have obtained similar assurance from the respective risk and control owners.

CORPORATE GOVERNANCE REPORT

The Company complies with Rules 712 and 715 of the listing manual of the Singapore Exchange Securities Trading Limited in relation to the appointment of auditors.

WHISTLE-BLOWING POLICY

The Company has established a whistle-blowing policy (the "Policy") as an avenue for employees and external parties to raise concerns about possible improprieties in matters of financial reporting or other matters and offer reassurance that they will be protected from reprisals or victimisation for whistle-blowing in good faith. The Policy encourages employees to raise concerns, in confidence, about possible irregularities.

All complaints should be made to the Lead Independent Director, Chairman of the Audit Committee or CEO directly, in which case the CEO will report the complaints received to the Lead Independent Director and Chairman of the Audit Committee without delay. The Lead Independent Director, Chairman of the Audit Committee or CEO will forward the complaints to the Company Secretary for record purposes.

The Group has a well-defined process which ensures independent investigation of such matters and the assurance that employees will be protected from reprisals, within the limits of the law.

The Policy applies to all employees of the Group and has been publicized to the employees and will be communicated to every new employee upon joining the Company.

INTERNAL AUDIT

Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.

The objective of the internal audit function is to provide an independent review of the effectiveness of the Group's internal controls and provide reasonable assurance to the Audit Committee and the Management that the Group's risk management, controls and governance processes are adequate and effective.

The Company has engaged Baker Tilly Consultancy (Singapore) Pte Ltd, to conduct review on the adequacy and effectiveness of the internal control system of the Group, based on agreed audit scope. The internal auditors plan their internal audit schedules in consultation with, but independent of, the Management. The internal audit plan is submitted to the Audit Committee for approval prior to the commencement of the internal audit. The Audit Committee reviews the audit report of the internal auditors.

The Audit Committee had reviewed the annual internal audit plan for the financial year ended 31 December 2015. The Audit Committee is satisfied that the internal audit functions have been adequately carried out and has appropriate standing within the Group.

In the financial year ended 31 December 2015, the internal auditors had carried out their internal audit review on Henan Tianhai Electric Co., Ltd, and Fujian Juan Kuang Wireharness Electric Co., Ltd for the following cycles:

Henan Tianhai Electric Co., Ltd

- Revenue to collection
- Credit management
- Inventory management

Fujian Juan Kuang Wireharness Electric Co., Ltd

- Inventory management
- Procurement to payables
- Fixed assets management

The Audit Committee reviewed the findings raised by the internal auditors and noted no significant internal control weakness. The internal auditors had been requested to follow up with the Management on the implementation of the recommendation and report to the Audit Committee accordingly.

CORPORATE GOVERNANCE REPORT

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognize, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

Principle 15: Companies should actively engage their shareholders and promote regular, effective and fair communication with shareholders.

Principle 16: Companies should encourage greater shareholder participation at the Annual General Meeting, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

The Company believes in regular and timely communication with investors. The Company welcomes all meetings with investors and analysts.

The Company also encourages shareholders to attend the Company's Annual General Meetings. Board members and key management personnel, as well as the external auditors, will be present to address any queries from shareholders.

The Company is committed to regular and proactive communication with its shareholders in line with continuous disclosure obligations of the Company under the SGX-ST Listing Manual. Pertinent information will be disclosed to shareholders in a timely, fair and equitable manner. The Company does not practice selective disclosure. Price sensitive information is first publicly released before the Company meets with any group of investors or analysts.

Pertinent information is communicated to shareholders through:

1) quarterly and full-year results announcements which are published on the SGXNET and in news releases;

2) the Company's annual reports that are prepared and issued to all shareholders; and

3) notices of and explanatory memoranda, for Annual General Meeting and extraordinary general meetings.

Annual General Meetings are the main forum for communication with shareholders. Annual reports and notices of the Annual General Meeting are sent to all shareholders. The members of the Audit Committee, Nominating Committee and Remuneration Committee will be present at Annual General Meeting to answer questions relating to the work of these committees. The external auditors will also be present to assist the Directors in addressing any relevant queries by shareholders. The Board welcomes the views of shareholders on matters affecting the Company, whether at shareholders' meetings or on an ad hoc basis.

DEALINGS IN SECURITIES

The Group has adopted and implemented policies in line with Rule 1207(19) of SGX-ST Listing Manual with regards to the SGX-ST's best practices in relation to the dealing of shares of the Company. The policies have been made known to directors, executive officers and any other persons as determined by the Management who may possess unpublished material price- sensitive information of the Group.

The Group has reminded its Directors and officers that it is an offence under the Securities and Futures Act, Chapter 289, for a listed issuer or its officers to deal in the listed issuer's securities as well as securities of other listed issuers when the officers are in possession of unpublished material price- sensitive information in relation to those securities. Dealings in the Company's securities during the period commencing one month before any announcement of the Company's financial statements and ending on the date of the announcements of the results is prohibited. Directors and executives are expected and reminded to observe insider-trading laws at all times even when dealing in securities within permitted trading periods. The Group has further reminded its Directors and officers not to deal in the Company's securities on short- term considerations.

CORPORATE GOVERNANCE REPORT

OTHER INFORMATION REQUIRED BY THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

Save for the service agreements with our Executive Chairman and Executive Directors, no material contracts to which the Company or its subsidiaries is a party and which involve interests of the Chief Executive Officer, Directors or controlling shareholders subsisted at the end of the financial year or have been entered into since the end of the previous financial year.

Non-Audit Fees

There are non-audit fees payable to the Auditors for the financial year ended 31 December 2015 for tax advisory service for one of the subsidiary on transfer pricing. There are no material contracts entered into by the Company and its subsidiaries during the financial year ended 31 December 2015 or still subsisting as at 31 December 2015 which involved the interests of any of the Directors or controlling shareholders of the Company.

INTERESTED PERSON TRANSACTIONS

There is no general mandate obtained for interested person transaction.

There are no interested person transactions ("IPTs") entered into during the financial year ended 31 December 2015 under review.

RISK MANAGEMENT

The Group regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as take appropriate measures to control and mitigate these risks. The Company reviews all significant control policies and procedures and highlights all significant matters to our Audit Committee and the board.

Pursuant to the 2012 Code, the Company has established a risk management framework to assess the adequacy and effectiveness of the Company's risk management and internal control systems, specifically on financial, operational compliance and information technology risks. The Board through the Audit Committee, will continuously identify, review and monitor the key risks, control measures and management activities as part of the risk management process.

USE OF PROCEED FROM THE ISSUANCE OF CONVERTIBLE BONDS

The company had on 14 August 2015 entered into a conditional purchase agreement with Oriental Success International Ltd and Brain International Ltd for the proposed issue of SGD 60 million in aggregate princial amount of unsecure convertible bonds due in 2018.

The company had on 28 September 2015 received the in-principle approval of the SGX-ST for the listing and quotation of up to 666,666,667 new ordinary shares in the capital of the Company to be issued upon conversion of the Convertible Bonds.

To further enhance the monitoring of the Use of Proceeds, the Board set up a Proceeds Oversight Committee with the following

Proceeds Oversight Committee

To ensure that the application of the Net Proceeds is consistent with the allocation set out in Section 2.8 of the Circular dated 19 October 2015 ("**Allocation**"), with the following procedures:

(a) the Net Proceeds will be deposited into a specific and separate bank account in Singapore;

(b) the disbursement of the Net Proceeds of any amount exceeding S$1 million for a single transaction or series of transactions relating to the same subject matter where the total disbursement is more than S$1 million will be subject to the prior approval of the Proceeds Oversight Committee;

(c) Chairman of the Proceeds Oversight Committee will monitor the disbursement of Net Proceeds and prepare and/or update the schedule of cash movement ("**Net Proceeds Schedule**") from the aforementioned bank account;

CORPORATE GOVERNANCE REPORT

(d) the Net Proceeds Schedule will be subject to review by the Proceeds Oversight Committee on a monthly basis and a further review by the Audit Committee on a quarterly basis;

(e) appropriate supporting documents will be maintained by the Chairman of the Proceeds Oversight Committee in connection with the disbursement of the Net Proceeds; and

(f) the re-deployment of Net Proceeds for other purposes will be subject to the prior approval of the Proceeds Oversight Committee, the Board and Shareholders (where appropriate).

The Proceeds Oversight Committee will be delegated authority by the Board to provide independent oversight over the disbursement and use of the Net Proceeds.

The Proceeds Oversight Committee will be chaired by the Chairman of the Audit Committee of the Company (the “AC Chairman”).

The Proceeds Oversight Committee comprise the following directors:

Mr Chua Meng Hing	Chairman
Mr Sim Hong Boon	Member
Mr Zhang Shulin	Member
Mr Yang Yong Jun	Member

The key terms of reference of the Proceeds Oversight Committee are as follows:

(i) to consider, review and approve the disbursement of Net Proceeds by the Company and/or its subsidiaries for any amount exceeding S$1 million for a single transaction or series of transactions relating to the same subject matter where the total disbursement is more than S$1 million for consistency with the Allocation;

(ii) to review the Net Proceeds Schedule on a monthly basis;

(iii) to request and review the relevant supporting documents in connection with the disbursement and utilisation of the Net Proceeds;

(iv) to review, from time to time, the guidelines and procedures established in relation to the Allocation to ensure that the Net Proceeds have been utilised in accordance with the Allocation, and to recommend and oversee the implementation of the additional internal controls, guidelines and procedures, if required;

(v) to review and approve the re-deployment of Net Proceeds for other purposes;

(vi) to update the Board on the disbursement and utilisation of the Net Proceeds, as and when required;

(vii) to recommend to the Board any appropriate extensions or changes in the role and powers of the Proceeds Oversight Committee; and

(viii) to carry out such other duties as may be agreed by the Proceeds Oversight Committee and the Board.

The Proceeds Oversight Committee will have full and unrestricted access to the internal auditors (if necessary) and the management, to enable it to discharge its functions.

As at 31 December 2015, the Group had not utilised any of the net proceeds from the Convertible Bonds Issue. The Group will make periodic announcements as and when the net proceeds from the Convertible Bonds Issue are materially disbursed.

DIRECTORS' STATEMENT

For the financial year ended 31 December 2015

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 December 2015, balance sheet of the Company as at 31 December 2015 and statement of changes in equity of the Company for the financial year ended 31 December 2015.

In the opinion of the directors,

(a) the balance sheet and the statement of changes in equity of the Company and the consolidated financial statements of the Group as set out on pages 29 to 81 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2015 and the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year covered by the consolidated financial statements; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Directors

The directors of the Company in office at the date of this statement are as follows:

<u>Executive Directors</u>
Zhang Jingtang (Executive Chairman)
Wang Laisheng

<u>Non-Executive Directors</u>
Yang Yong Jun (appointed on 24 April 2015)
Shen Zhifu

<u>Independent Directors</u>
Sim Hong Boon
Zhang Shulin
Chua Meng Hing (appointed on 9 November 2015)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was 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.

Directors' interests in shares or debentures

(a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		**Holdings in which director is deemed to have an interest**	
	At 01.01.2015	At 31.12.2015 or date of appointment, if later	**At 01.01.2015**	At 31.12.2015 or date of appointment, if later
Company				
<u>(No. of ordinary shares)</u>				
Wang Laisheng [(1)]	–	–	193,114,000	193,114,000
Yang Yong Jun [(2)]	–	–	143,886,000	143,886,000

DIRECTORS' STATEMENT

For the financial year ended 31 December 2015

(1) Wang Laisheng is deemed to have an interest in the 193,114,000 shares held by Zoro Express International Ltd. ("Zoro"), by virtue of his approximately 35.22% beneficial interest in Zoro. He holds the remaining beneficial interests in Zoro for and on behalf of certain senior managers of the former Henan Tianhai Electric (Group) Corporation, a collective enterprise which has been restructured as a limited liability company and was indirectly acquired by the Company pursuant to the reverse takeover which was completed in September 2007.

(2) Yang Yong Jun is deemed to have an interest in the 143,886,000 shares held by Shine Sound Investments Ltd. ("Shine Sound"), by virtue of his voting control over the shares in Shine Sound. He holds the entire issued share capital in Shine Sound as bare trustee for and on behalf of certain representative of the employees of the former Henan Tianhai Electric (Group) Corporation, a collective enterprise which has been restructured as a limited liability company and was indirectly acquired by the Company pursuant to the reverse takeover which was completed in September 2007.

(b) The directors' interests in the ordinary shares of the Company as at 21 January 2016 were the same as those as at 31 December 2015.

Audit Committee

The members of the Audit Committee at the end of the financial year are as follows:

Chua Meng Hing – Chairman
Sim Hong Boon
Zhang Shulin

All members of the Audit Committee are independent and non-executive directors.

The Audit Committee carried out its functions in accordance with the Code of Corporate Governance. In performing those functions, the Committee reviewed:

- the scope and results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Group's management to the independent auditor; and
- the balance sheet and statement of changes in equity of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2015 before their submission to the Board of Directors, as well as the Independent Auditor's report on the balance sheet and statement of changes in equity of the Company and the consolidated financial statements of the Group.

The Audit Committee has recommended to the Board that the independent auditor, PricewaterhouseCoopers LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the Board

Zhang Jingtang
Executive Chairman

Wang Laisheng
Director

23 May 2016

INDEPENDENT AUDITOR'S REPORT

To The Members of China Auto Electronics Group Limited

We have audited the accompanying financial statements of China Auto Electronics Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 29 to 81, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2015, the consolidated statement of changes in equity of the Group and the statement of changes in equity of the Company, the consolidated statement of comprehensive income, and the consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2015, and of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended on that date.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants

Singapore, 23 May 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
Revenue	4	**2,776,781**	2,295,848
Cost of sales		**(2,253,656)**	(1,837,744)
Gross profit		**523,125**	458,104
Interest income – bank deposits		**7,759**	10,854
Other income	5	**7,259**	5,741
Other (losses)/gains – net	6	**(8,787)**	6,464
Selling and distribution expenses		**(60,808)**	(45,736)
Research and development expenses		**(92,919)**	(72,544)
General and administrative expenses		**(178,710)**	(153,388)
Finance expenses	7	**(34,236)**	(50,242)
Profit before income tax	8	**162,683**	159,253
Income tax expense	9	**(34,975)**	(24,733)
Profit after income tax		**127,708**	134,520
Other comprehensive income, net of tax			
Currency translation difference	22	**(2,203)**	(1,655)
Total comprehensive income for the year		**125,505**	132,865
Profit attributable to:			
Owners of the Company		**121,086**	125,585
Non-controlling interests		**6,622**	8,935
		127,708	134,520
Total comprehensive income attributable to:			
Owners of the Company		**118,883**	123,930
Non-controlling interests		**6,622**	8,935
		125,505	132,865
Earnings per share (RMB cents)			
Basic	12	**17.76**	18.43
Diluted	12	**9.03**	18.43

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

BALANCE SHEETS - GROUP AND COMPANY

As at 31 December 2015

		Group		Company	
		2015	2014	2015	2014
	Note	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	13	**378,476**	280,869	**13**	–
Intangible assets	14	**105,795**	68,038	**–**	–
Investment in subsidiaries	15	**–**	–	**198,512**	198,512
Deferred income tax assets	16	**20,295**	9,663	**–**	–
Total non-current assets		**504,566**	358,570	**198,525**	198,512
Current assets					
Inventories	17	**526,125**	448,160	**–**	–
Trade and other receivables	18	**1,177,562**	929,441	**304,523**	304,523
Financial assets, available-for- sale	19	**1,800**	1,800	**–**	–
Bank deposits pledged	20	**88,291**	237,547	**–**	–
Cash and cash equivalents	20	**382,098**	129,245	**276,040**	798
Total current assets		**2,175,876**	1,746,193	**580,563**	305,321
TOTAL ASSETS		**2,680,442**	2,104,763	**779,088**	503,833
LIABILITIES					
Non-current liabilities					
Borrowings	24	**350,677**	20,247	**291,740**	–
Deferred income	25	**50,279**	20,439	**–**	–
Total non-current liabilities		**400,956**	40,686	**291,740**	–
Current liabilities					
Trade and other payables	23	**964,036**	821,871	**52,007**	44,696
Borrowings	24	**415,632**	479,383	**–**	–
Provision for income tax		**21,229**	7,339	**–**	–
Total current liabilities		**1,400,897**	1,308,593	**52,007**	44,696
NET CURRENT ASSETS		**774,979**	437,600	**528,556**	260,625
TOTAL LIABILITIES		**1,801,853**	1,349,279	**343,747**	44,696
NET ASSETS		**878,589**	755,484	**435,341**	459,137
EQUITY					
Share capital	21	**490,115**	490,115	**623,026**	623,026
Other reserves	22	**260,019**	250,746	**71,753**	71,753
Retained earnings/(Accumulated losses)		**78,025**	(31,585)	**(259,438)**	(235,642)
Equity attributable to owners of the Company		**828,159**	709,276	**435,341**	459,137
Non-controlling interests		**50,430**	46,208	**–**	–
TOTAL EQUITY		**878,589**	755,484	**435,341**	459,137
TOTAL EQUITY AND LIABILITIES		**2,680,442**	2,104,763	**779,088**	503,833

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 31 December 2015

	Share capital RMB'000	Other reserves RMB'000	Retained earnings / (Accumulated losses) RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Group	Note 21	Note 22				
At 1 January 2014	490,115	237,373	(140,821)	586,667	40,052	626,719
Profit after income tax	–	–	125,585	125,585	8,935	134,520
Currency translation difference	–	(1,655)	–	(1,655)	–	(1,655)
Total comprehensive income/ (loss) for the year	–	(1,655)	125,585	123,930	8,935	132,865
Changes in shareholding in non-controlling interests of subsidiaries	–	(1,321)	–	(1,321)	(379)	(1,700)
Dividend payments to non-controlling interests	–	–	–	–	(2,400)	(2,400)
Transfer to PRC statutory reserves	–	16,349	(16,349)	–	–	–
At 31 December 2014	490,115	250,746	(31,585)	709,276	46,208	755,484
At 1 January 2015	490,115	250,746	(31,585)	709,276	46,208	755,484
Profit after income tax	–	–	121,086	121,086	6,622	127,708
Currency translation difference	–	(2,203)	–	(2,203)	–	(2,203)
Total comprehensive income/ (loss) for the year	–	(2,203)	121,086	118,883	6,622	125,505
Dividend payments to non-controlling interests	–	–	–	–	(2,400)	(2,400)
Transfer to PRC statutory reserves	–	11,476	(11,476)	–	–	–
At 31 December 2015	490,115	260,019	78,025	828,159	50,430	878,589

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

STATEMENT OF CHANGES IN EQUITY - COMPANY

For the financial year ended 31 December 2015

	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Company	Note 21	Note 22		
At 1 January 2014	623,026	71,753	(235,340)	459,439
Loss after income tax, representing total comprehensive loss for the year	–	–	(302)	(302)
At 31 December 2014	623,026	71,753	(235,642)	459,137
At 1 January 2015	623,026	71,753	(235,642)	459,137
Loss after income tax, representing total comprehensive loss for the year	–	–	(23,796)	(23,796)
At 31 December 2015	623,026	71,753	(259,438)	435,341

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**162,683**	159,253
Adjustments for:			
Depreciation of property, plant and equipment	13	**37,771**	32,135
Amortisation of intangible assets	14	**2,984**	2,071
Allowance for slow-moving inventories	17	**37,316**	18,365
Allowance for impairment on trade and other receivables	18	**5,454**	7,214
Waiver of trade payables	6	**–**	(698)
Loss/(gain) from disposal of property, plant and equipment	6	**683**	(183)
Interest income		**(7,759)**	(10,854)
Finance expenses	7	**34,236**	50,242
Fair value losses on financial liabilities at fair value through profit or loss	6	**19,736**	–
Amortisation of government grant	25	**(3,574)**	(2,213)
Foreign currency translation loss		**1,102**	685
Operating profit before working capital changes		**290,632**	256,017
Changes in working capital			
Inventories		**(115,281)**	(62,329)
Trade and other receivables		**(259,156)**	(58,807)
Trade and other payables		**195,908**	51,438
Cash generated from operations		**112,103**	186,319
Costs-related government grants received	25	**10,285**	–
Interest received		**7,759**	10,854
Income tax paid		**(31,717)**	(24,781)
Net cash provided by operating activities		**98,430**	172,392
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(147,519)**	(46,713)
Net cash outflow from acquisition of additional interest of a subsidiary	15	**–**	(1,700)
Purchases of intangible assets		**(40,741)**	(376)
Proceeds from disposal of property, plant and equipment		**2,980**	787
Assets-related government grants received	25	**23,129**	–
Net cash used in investing activities		**(162,151)**	(48,002)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	24	**944,136**	1,005,571
Repayments of borrowings	24	**(971,902)**	(1,111,621)
Changes in bills payable	23	**(51,312)**	43,466
Cash receipts from issuance of convertible bond	24	**272,004**	–
Decrease in pledged bank deposits	20	**149,256**	16,263
Interest paid		**(22,106)**	(48,296)
Dividends paid to non-controlling interests		**(2,400)**	(2,400)
Net cash provided by/(used in) financing activities		**317,676**	(97,017)
Net increase in cash and cash equivalents		**253,955**	27,373
Exchange loss on cash and cash equivalents		**(1,102)**	(685)
Cash and cash equivalents at beginning of financial year		**129,245**	102,557
Cash and cash equivalents at end of financial year	20	**382,098**	129,245

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

These note form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

China Auto Electronics Group Limited (the "Company"), is a limited company domiciled and incorporated in Bermuda and listed on the Mainboard of the Singapore Exchange Securities Trading Limited since 9 July 2007.

The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business is at 233 East Part of Qibin Road, Qibin District, Hebi, Henan, People's Republic of China ("PRC").

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are disclosed in Note 15.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS") under the historical cost convention, except as disclosed in the accounting policies below. The financial statements are presented in Chinese Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except as otherwise indicated.

Certain comparative amounts have been reclassified to better reflect the nature of the underlying transactions and to make the comparative comparable with the current year. These reclassifications only impacted the reclassification of the consolidated statement comprehensive income, and had no effect on reported total assets, liabilities, equity or profit.

	As previously reported	Reclassification	As stated
	31 December 2014		31 December 2014
	RMB'000	RMB'000	RMB'000
Consolidated statement of comprehensive income			
Other income	13,074	(7,333)	5,741
Other gains	–	6,464	6,464
Other expenses	(10,153)	10,153	–
General and administrative expenses	(146,050)	(7,338)	(153,388)
Finance expenses	(48,296)	(1,946)	(50,242)

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2015

On 1 January 2015, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application from the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Group's and Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Sales are presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met.

(a) *Sale of goods*

Revenue from sale of goods is recognised when the Group has delivered the products to the customers and significant risks and rewards of ownership are transferred to the customer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(b) *Interest income*

Interest income is recognised using the effective interest method.

(c) *Rental income*

Rental income from operating leases (net of any incentives given to the lessees) is recognised on a straight-line basis over the lease term.

(3) Government grants

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

Government grants receivable are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income. Government grants relating to property, plant and equipment are recognised as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(4) Group accounting

(a) Subsidiaries

(i) Consolidation

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

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Group accounting (continued)

(a) Subsidiaries (continued)

(ii) Acquisitions

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of (i) the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (ii) fair value of the identifiable assets acquired net of the fair values of the liabilities and any contingent liabilities assumed is recorded as goodwill. Please refer to the paragraph "Intangible assets - Goodwill" for the accounting policy on goodwill subsequent to the initial recognition.

(iii) Disposals

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained equity interest in the entity is re-measured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to the paragraph "Investments in subsidiaries and associated companies" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(b) Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Group. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised within equity attributable to the equity holders of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(5) Property, plant and equipment

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs (refer to Note 2-(7) on borrowing costs) and any fair value gains or losses on qualifying cash flow hedges of property, plant and equipment that are transferred from the hedging reserve.

Construction-in-progress is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Estimated useful lives	Estimated residual value as a percentage of cost
Buildings	10 or 35 years	5%
Machinery and equipment	5 to 10 years	5%
Furniture, fittings and equipment	3 or 5 years	5%
Motor vehicles	5 to 10 years	5%

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss. Any amount in revaluation reserve relating to that asset is transferred to retained profits directly.

(6) Intangible assets and land use rights

(i) Land use rights

Land use rights are initially recognised at cost. Following initial recognition, land use rights are carried at cost less accumulated amortisation and accumulated impairment losses.

The land use rights are amortised to profit or loss on a straight-line basis over 50 years, which is the lease term of the land.

(ii) Goodwill

Goodwill on acquisitions of subsidiaries and businesses on or after 1 January 2010 represents the excess of (i) the aggregate of the consideration transferred, the aggregate amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the identifiable assets acquired, net of the fair values of the liabilities and any contingent liabilities assumed.

Goodwill on acquisition of subsidiaries and businesses prior to 1 January 2010 represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Intangible assets and land use rights (continued)

(ii) Goodwill (continued)

Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold, except for goodwill arising from acquisitions prior to 1 January 2001. Such goodwill was adjusted against retained profits in the year of acquisition and is not recognised in profit or loss on disposal.

(iii) Computer software and technology know-how

Computer software and technology know-how are initially capitalised at cost which includes the purchase price (net of any discounts or rebates) and other directly attributable cost of preparing the asset for its intended use.

Computer software and technology know-how are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of ten years.

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

(7) Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to the construction or development of properties and assets under construction. This includes those costs on borrowings acquired specifically for the construction or development of properties and assets under construction, as well as those in relation to general borrowings used to finance the construction or development of properties and assets under construction.

The actual borrowing costs incurred during the period up to the issuance of the temporary occupation permit less any investment income on temporary investment of these borrowings, are capitalised in the cost of the property under development. Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction or development expenditures that are financed by general borrowings.

(8) Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

(9) Impairment of non-financial assets

(a) Goodwill

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units ("CGU") expected to benefit from synergies arising from the business combination.

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The recoverable amount of a CGU is the higher of the CGU's fair value less cost to sell and value-in-use.

The total impairment loss of a CGU is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

An impairment loss on goodwill is recognised as an expense and is not reversed in a subsequent period.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Impairment of non-financial assets (continued)

(b) Intangible assets
Property, plant and equipment
Investments in subsidiaries

Intangible assets, property, plant and equipment and investments in subsidiaries are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease. Please refer to the paragraph “Property, plant and equipment” for the treatment of a revaluation decrease.

An impairment loss for an asset other than goodwill is reversed only if, there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense, a reversal of that impairment is also recognised in profit or loss.

(10) Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivables, and available-for-sale. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as “trade and other receivables” (Note 18), “bank deposits pledged” and “cash and cash equivalents” (Note 20) on the balance sheet.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless the investment matures or management intends to dispose of the assets within 12 months after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(10) Financial assets (continued)

(b) Recognition and de-recognition

Regular way purchases and sales of financial assets are recognised on trade date - the date on which the Group commits to purchase or sell the asset.

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in other comprehensive income relating to that asset is reclassified to profit or loss.

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not de-recognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

(c) Initial measurement and subsequent measurement

Financial assets are initially recognised at fair value plus transaction costs. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Interest and dividend income on available-for-sale financial assets are recognised separately in income. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in other comprehensive income and accumulated in the fair value reserve. Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in other comprehensive income and accumulated in the fair value reserve, together with the related currency translation differences.

(d) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) Loans and receivables

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(10) Financial assets (continued)

(d) Impairment (continued)

(ii) Available-for-sale financial assets

In addition to the objective evidence of impairment described in Note 2-(10)(d)(i), a significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

If any evidence of impairment exists, the cumulative loss that was previously recognised in other comprehensive income is reclassified to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised as an expense. The impairment losses recognised as an expense on equity securities are not reversed through profit or loss.

(e) Offsetting financial instruments

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

(11) Financial guarantees

Financial guarantees are initially recognised at their fair values plus transaction costs in the Group's balance sheet.

Financial guarantees are subsequently amortised to profit or loss over the period of the Group's borrowings, unless it is probable that the Group will reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried at the expected amount payable to the bank in the Group's balance sheet.

Intra-group transactions are eliminated on consolidation.

(12) Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date, in which case they are presented as non-current liabilities.

Except for convertible bonds, borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Refer to Note 2-(13) on the accounting policies of convertible bonds.

(13) Convertible bonds

Convertible bonds issued by the Group can be converted to share capital at the option of the holder. This convertible bond is denominated in a currency other than the functional currency and the conversion option will be settled other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Group's shares.

The Group designated the convertible bonds as financial liabilities at fair value through profit or loss. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance expense in the consolidated statement of comprehensive income. Subsequent to initial recognition, the convertible bonds are carried at fair value with changes in fair value recognised in the consolidated statement of comprehensive income.

The convertible bonds are classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(14) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest rate method.

(15) Operating lease

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the period of the lease. Penalty payments on early termination, if any, are recognised in profit or loss when incurred.

(16) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Cost also includes any gains or losses on qualifying cash flow hedges of foreign currency purchases of inventories. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

(17) Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities except for investment properties. Investment property measured at fair value is presumed to be recovered entirely through sale.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred income tax arising from a business combination is adjusted against goodwill on acquisition.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(18) Provisions

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

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

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in profit or loss when the changes arise.

(19) Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) Defined contribution plans - retirement benefits

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Company makes contributions for the employees in Singapore to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme, on a mandatory, contractual or voluntary basis. Payments to defined contribution plans - retirement benefits are charged as an expense as they fall due. The Group has no further payment obligations once the contributions have been paid.

Pursuant to the relevant regulations of the PRC government, the PRC subsidiaries of the Group ("PRC Subsidiaries") have participated in central pension schemes ("the Schemes") operated by local municipal government whereby the PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the Schemes to fund their retirement benefits. The local municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the Schemes is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to the consolidated statement of comprehensive income as incurred.

(b) Termination benefits

Termination benefits are those benefits which are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of FRS37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(20) Currency translation

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(20) Currency translation (continued)

(a) Functional and presentation currency (continued)

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any borrowings forming part of the net investment of the foreign operation are repaid, a proportionate share of the accumulated currency translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

(b) Transactions and balances

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within "finance expenses". All other foreign exchange gains and losses impacting profit or loss are presented in the income statement within "other gains and losses".

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(c) Translation of Group entities' financial statements

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

(i) Assets and liabilities are translated at the closing exchange rates at the reporting date;

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

(iii) All resulting currency translation differences are recognised in other comprehensive income and accumulated in the currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date.

(21) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

(22) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value. Bank deposits pledged are excluded from cash and cash equivalents.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(23) Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid including any directly attributable incremental cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained profits of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve.

(24) Dividends to shareholders

Dividends to the shareholders are recognised when the dividends are approved for payment.

(25) Research and development expenses

Research and development expenses relating to costs incurred on feasibility studies in and testing of new technologies are expensed off when incurred.

(26) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities.

(27) Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices used for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions based on market conditions that are existing at each balance sheet date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analysis, are also used to determine the fair values of the financial instruments.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(i) Allowances for doubtful receivables

Management reviews its receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management has made judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

The carrying amounts of the Group's trade and other receivables are disclosed in Note 18. Management is of the view that the allowance for impairment of trade and other receivables recorded is adequate and no further allowance is required.

(ii) Income tax

The Group operates in various countries. Significant judgement is involved in determining the group-wide provision for income tax. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional tax will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

(iii) Claims and litigations

The Group entered into various contracts with third parties in its ordinary course of business and is exposed to other risk of claims and litigations from the contractual parties. These can arise for various reasons, including change in scope of work, delay and disputes, defective specifications or routine checks etc. The scope, enforceability and validity of any claim or litigation may be highly uncertain. In making its judgement as to whether it is probable that any such claim or litigation will result in a liability and whether any such liability can be measure reliably, management relies on past experience and the opinion of legal and technical expertise. Please refer to Note 27 for details.

(iv) Impairment of non-financial assets

The Group assesses annually whether the non-financial assets including property, plant and equipment, intangible assets and goodwill may be impaired, in accordance with the accounting policy stated in Note 2(9) to the financial statements. The calculation requires the use of estimates and assumptions as disclosed in Note 14(a) to the financial statements.

(v) Useful lives of property, plant and equipment

The estimates for the useful lives and related depreciation charges for property, plant and equipment are based on commercial and production factors which could change significantly as a result of technical innovations and competitor actions in response to severe market conditions. The carrying amount of property, plant and equipment at 31 December 2015 is RMB 378,476,000 (2014: RMB 280,869,000). The estimated useful lives of property, plant and equipment have been assessed as appropriate by management.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(vi) Allowance for slow-moving inventories

Management reviews the inventory aging listing on a quarterly basis. The review involves comparison of the carrying amount of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether the allowance is required to be made in the financial statements for slow-moving items. The carrying amount of inventories at 31 December 2015 is RMB 526,125,000 (2014: RMB 448,160,000). Management is of the view that the allowance for inventories recorded is adequate and no further allowance is required.

(vii) Deferred income tax assets

The Group recognises deferred income tax assets on deductible temporary differences to the extent there are sufficient future taxable profits against which the temporary differences can be utilised. At the balance sheet date, deferred income tax assets are measured at the tax rates that are expected to apply to the period when the asset is realised. When the estimates changed due to the future economic and operating conditions, the Group will re-evaluate and estimate. The Group performs review and adjustment on profit forecast and estimates at each year end.

If no sufficient future taxable profit would be available against which the temporary differences could be utilised as at 31 December 2015, the Group would have to write off deferred income tax asset to the extent of RMB 20,295,000 (2014: RMB 9,663,000) as income tax expenses.

(viii) Convertible bonds

As disclosed in Note 24(a), the fair value of the convertible bonds at the dates of issue and balance sheet dates were determined based on retrospective valuations performed by an independent valuer, using valuation techniques. The Group uses its judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the respective valuation dates. The Group has applied Binomial Option Pricing Model to determine the fair value of convertible bonds.

4. REVENUE

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Sales of finished goods	**2,575,672**	2,122,654
Sales of raw materials	**201,109**	173,194
	2,776,781	2,295,848

5. OTHER INCOME

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Subsidy income	**7,256**	5,618
Rental income	**3**	123
	7,259	5,741

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

6. OTHER (LOSSES) / GAINS - NET

	Group	
	2015	2014
	RMB'000	RMB'000
Fair value losses on financial liabilities at fair value through profit or loss (Note 24(a))	**(19,736)**	–
Foreign exchange gains / (losses) - net	**9,434**	(547)
Gain on disposal of scrapped materials	**1,014**	591
Products' quality compensation from suppliers	**922**	841
Penalty claim	**(944)**	(322)
(Loss)/gain from disposal of property, plant and equipment	**(683)**	183
Insurance compensation for fire accident (Note a)	**–**	2,773
Wavier of trade payables (Note b)	**478**	1,635
Others	**728**	1,310
	(8,787)	6,464

(a) Hebi Tianzhong Connectors Co., Ltd., a subsidiary of the Group suffered a fire accident ignited in a neighbouring third party company in June 2012. The Group provided full provision on the assets damaged in the fire of RMB 4,239,000, including inventory provision of RMB 2,921,000 and fixed assets impairment of RMB 1,318,000. In the prior financial year, the Group received insurance compensation for the fire amounting to RMB 2,773,000.

(b) During the current financial year, Henan Tianhai Electric Co., Ltd., a subsidiary of the Group, obtained waiver of trade payables amounting to RMB 478,000 (2014: RMB 1,635,000) due to defective goods from suppliers and for long outstanding payables which is not expected to be paid in the foreseeable future.

7. FINANCE EXPENSES

	Group	
	2015	2014
	RMB'000	RMB'000
Interest expense:		
- Bank borrowings	**25,289**	35,746
- Discounted bills receivable	**5,394**	12,550
- Convertible bonds	**4,031**	–
Net foreign exchange (gains) / losses on borrowings	**(478)**	1,946
	34,236	50,242

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

8. PROFIT BEFORE INCOME TAX

In addition to the charges and credits as disclosed elsewhere in the notes to the financial statements, these items include the following:

	Group	
	2015	2014
	RMB'000	RMB'000
Charging:		
Cost of inventories recognised as an expense (Note 17)	**1,630,892**	1,260,410
Depreciation of property, plant and equipment (Note 13)	**37,771**	32,135
Rental expense on operating lease	**13,570**	10,785
Amortisation of intangible assets (Note 14 (b))	**2,984**	2,071
Allowance for impairment of trade and other receivables (Note 18)	**5,454**	7,214
Allowance for inventories write down (Note 17)	**37,316**	18,365
Employee compensation expenses (Note 10)	**480,029**	368,372

9. INCOME TAX EXPENSE

The major components of income tax expense for the financial years ended 31 December 2015 and 2014 are as below:

	Group	
	2015	2014
	RMB'000	RMB'000
Current income tax:		
Current income tax on profits for the year	**43,892**	23,727
Under-provision in respect of prior year	**1,715**	2,562
Total current income tax	**45,607**	26,289
Deferred income tax: (Note 16)		
Recognition of deferred income tax assets	**(10,632)**	(1,556)
Total deferred income tax	**(10,632)**	(1,556)
Income tax expense	**34,975**	24,733

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory rate of income tax as follows:

	Group	
	2015	2014
	RMB'000	RMB'000
Profit before income tax	**162,683**	159,253
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**43,311**	28,838
Tax effects of:		
Preferential tax of certain subsidiaries	**(14,428)**	(8,787)
Expense not deductible for tax purposes	**1,707**	1,888
Research and development super-deduction expense	**(6,473)**	(6,451)
Utilisation of previously unrecognised tax losses	**–**	(5,361)
Current year unrecognised tax losses	**9,143**	12,044
Under-provision in prior year	**1,715**	2,562
Income tax expense	**34,975**	24,733

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

9. INCOME TAX EXPENSE (continued)

The Company has no taxable income for the financial year ended 31 December 2015 (2014: Nil).

The PRC subsidiaries

The statutory income tax rate for the PRC subsidiaries is 25% (2014: 25%), lower tax rate is given for specific provinces by local authority. Tax incentives given are as follows:

Three of the PRC subsidiaries are granted the tax status of "High-Tech Enterprise" (高新技术企业) by the PRC Tax authority. The applicable income tax rates are 15% (2014: 15%) for the financial year ended 31 December 2015. The tax benefit for these subsidiaries will expire in subsequent years.

Tianhai Snowcity (Chongqing) Auto Electric Co., Ltd., a subsidiary of the Group, has applied with the in-charge tax authority together with relevant materials for the reduced corporate income tax rate of 15% under preferential tax policies for China's western region (西部大开发). The in-charge tax authority has approved the application and issued the written notice to allow Tianhai Snowcity (Chongqing) Auto Electric Co., Ltd. to adopt 15% for 2015 provisional quarterly corporate income tax filing.

The US subsidiary

The Group's subsidiary in the United States ("US") is subject to a system of granted marginal tax rates, ranging from 15% to 35% (2014: 15% to 35%), applied to all taxable income. The US subsidiary has income tax expenses of RMB 126,000 in financial year ended 31 December 2015 (2014: RMB 406,000).

There are no tax credits relating to components of other comprehensive income.

10. EMPLOYEE COMPENSATION EXPENSES

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Wages and salaries	**390,036**	299,750
Employees expenses relating to defined contribution plans	**56,166**	45,201
Other staff related expenses	**30,974**	21,843
Directors' remuneration included in staff costs	**2,113**	828
Directors' fees	**740**	750
	480,029	368,372

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

11. RELATED PARTY TRANSACTIONS

Related parties in these financial statements refer to companies which are controlled by the Group's key management personnel and their close family members of non-controlling shareholders of the subsidiaries, key shareholders and the key management personnel.

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Purchase of services

	Group	
	2015 RMB'000	2014 RMB'000
Purchase of services - An entity whose director is the key management personnel of the Group	**6,328**	–

(b) Compensation of key management personnel (including directors)

Key management personnel compensation is analysed as follows:

	Group	
	2015 RMB'000	2014 RMB'000
Salaries and other short-term employee benefits	**5,892**	4,080
Defined contribution plans	**344**	308
	6,236	4,388
Comprises amounts paid to:		
- Directors of the Company	**2,113**	1,828
- Other key management personnel	**4,123**	2,560
	6,236	4,388

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The above amount is for all the directors and other key management personnel.

The remuneration of key management personnel is determined by the board of directors having regards to the performance of individuals and market trends.

(c) Pledged shares contributed by shareholders for cross-guarantee

In November 2012, the Group, due to its operational financing needs, entered into a mutual guarantee agreement with Weihua Group Co., Ltd ("Weihua"), a leading crane manufacturing company in China Mainland with total assets of RMB 4.1 billion, to provide guarantee to each other in respect of the bank borrowings of the other party within one year from the effective date of the agreement subject to a maximum amount of RMB 300 million. Such loan is borrowed for working capital purposes.

In 2013, in connection with the mutual guarantee agreement, Zoro Express International Ltd. ("Zoro") and Shine Sound Investment Ltd. ("Shine Sound"), the major shareholders of the Company as at 31 December 2013, agreed to pledge Zoro's equity interests with quantity of 178,735,557 shares and Shine Sound's equity interests with quantity of 132,724,727 shares to Weihua as counter-guarantees for the guarantee provided by Weihua in favour of the Group under the mutual guarantee agreement.

In 2014, the Group had been released from the mutual guarantee agreement with Weihua, and the shareholders' shares are no longer pledged as counter-guarantees under the mutual guarantee agreement.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

12. EARNINGS PER SHARE

(a) Basic

Basic earnings per share for the years ended 31 December 2015 and 2014 are calculated by dividing the profit attributable to the shareholders by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

	Group	
	2015 RMB'000	2014 RMB'000
Basic earnings per share		
Profit after income tax attributable to owners of the Company (in RMB'000)	**121,086**	125,585
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	**681,600**	681,600
Basic earnings per share (in RMB cents)	**17.76**	18.43

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: convertible bonds. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect.

	Group	
	2015 RMB'000	2014 RMB'000
Diluted earnings per share		
Profit after income tax attributable to owners of the Company (in RMB'000)	**121,086**	125,585
Interest expense on convertible bonds (net of income tax) (in RMB'000)	**688**	–
Profit used to determine diluted earnings per share (in RMB'000)	**121,774**	125,585
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	**681,600**	681,600
Assumed conversion of convertible bonds (in thousands)	**666,667**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share (in thousands)	**1,348,267**	681,600
Diluted earnings per share (in RMB cents)	**9.03**	18.43

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RMB'000	Machinery and Equipment RMB'000	Construction in Progress RMB'000	Furniture, fittings and equipment RMB'000	Motor vehicles RMB'000	Renovation RMB'000	Total RMB'000
Cost							
At 1 January 2014	130,963	210,769	3,369	27,800	12,675	2,044	387,620
Additions	252	47,103	8,630	4,213	1,213	201	61,612
Transfer of construction in progress	2,583	95	(2,678)	–	–	–	–
Disposals	–	(4,339)	–	(1,327)	(579)	–	(6,245)
Currency translation difference	22	–	–	53	–	–	75
At 31 December 2014	133,820	253,628	9,321	30,739	13,309	2,245	443,062
Additions	469	75,431	47,310	10,302	5,003	–	138,515
Transfer of construction in progress	26,245	605	(27,473)	116	507	–	–
Disposals	(298)	(10,634)	–	(1,641)	(4,135)	–	(16,708)
Currency translation difference	378	34	–	273	–	–	685
At 31 December 2015	160,614	319,064	29,158	39,789	14,684	2,245	565,554
Accumulated depreciation and impairment losses							
At 1 January 2014	23,823	84,401	–	19,072	7,495	902	135,693
Charge for the year	4,602	22,620	–	2,771	1,780	362	32,135
Disposals	–	(4,416)	–	(720)	(505)	–	(5,641)
Currency translation difference	1	–	–	5	–	–	6
At 31 December 2014	28,426	102,605	–	21,128	8,770	1,264	162,193
Charge for the year	4,579	27,632	–	3,412	1,804	344	37,771
Disposals	(34)	(8,358)	–	(1,403)	(3,250)	–	(13,045)
Currency translation difference	28	7	–	124	–	–	159
At 31 December 2015	32,999	121,886	–	23,261	7,324	1,608	187,078
Net book value							
At 31 December 2014	105,394	151,023	9,321	9,611	4,539	981	280,869
At 31 December 2015	**127,615**	**197,178**	**29,158**	**16,528**	**7,360**	**637**	**378,476**

As at 31 December 2015, buildings of the Group with a total carrying value of RMB 34,005,000 (2014: RMB 35,719,000) were pledged to secure short-term borrowings as disclosed in Note 24.

In 2015, the amounts of depreciation expense charged to cost of sales, selling and distribution expenses, general and administrative expenses were RMB 28,400,000 (2014: RMB 23,179,000), RMB 132,000 (2014: RMB 186,000) and RMB 9,239,000 (2014: RMB 8,770,000), respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Office equipment RMB'000	Total RMB'000
Cost		
At 1 January 2014 and 31 December 2014	51	51
Additions	13	13
At 31 December 2015	64	64
Accumulated depreciation		
At 1 January 2014, 31 December 2014 and 31 December 2015	51	51
Net book value		
At 31 December 2014	–	–
At 31 December 2015	**13**	**13**

14. INTANGIBLE ASSETS AND LAND USE RIGHTS

	Note	Group 2015 RMB'000	Group 2014 RMB'000
Goodwill arising on acquisition	(a)	**9,713**	9,713
Land use rights	(b)	**86,634**	54,848
Other intangible assets	(b)	**9,448**	3,477
		105,795	68,038

(a) Goodwill arising on acquisition

	Group 2015 RMB'000	Group 2014 RMB'000
Balance at beginning and end of financial year	**9,713**	9,713

Goodwill acquired through business combination has been allocated to the Group's cash-generating units ("CGUs"), identified according to the operating segments of (i) Wire harness (China operations) and (ii) Connectors (China operations).

An operating segment-level summary of the goodwill allocation is presented as below:

	Group 2015 RMB'000	Group 2014 RMB'000
Wire harness (China operations)	**9,622**	9,622
Connectors (China operations)	**91**	91
	9,713	9,713

The recoverable amounts of all CGUs have been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

14. INTANGIBLE ASSETS AND LAND USE RIGHTS (continued)

(a) Goodwill arising on acquisition (continued)

The key assumptions used in the value-in-use calculations in 2015 are as follows:

	Connectors China operations	Wire harness China operations
Gross margin	34%	10%
Growth rate	10%	10%
Pre-tax discount rate	8.6%	8.6%

These assumptions have been used for the analysis of each CGU within the operating segment.

Management determined budgeted gross margin based on the past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

These assumptions have been used for the analysis of the CGU. The discount rate used is pre-tax and reflects specific risks relating to the automotive electrical and electronics distribution system division. Based on the sensitivity analysis performed, any reasonable change in the key assumptions would not result in any impairment adjustments.

(b) Land use rights and other intangible assets

Group	Land use rights RMB'000	Computer software RMB'000	Technology know-how RMB'000	Total RMB'000
Cost				
At 1 January 2014	62,519	7,156	4,495	74,170
Additions	–	376	–	376
At 31 December 2014	62,519	7,532	4,495	74,546
Additions	33,767	6,974	–	40,741
At 31 December 2015	96,286	14,506	4,495	115,287
Accumulated amortisation and accumulated impairment losses				
At 1 January 2014	6,255	5,708	2,187	14,150
Amortisation for the year	1,416	651	4	2,071
At 31 December 2014	7,671	6,359	2,191	16,221
Amortisation for the year	1,981	998	5	2,984
At 31 December 2015	9,652	7,357	2,196	19,205
Carrying amount				
At 31 December 2014	54,848	1,173	2,304	58,325
At 31 December 2015	**86,634**	**7,149**	**2,299**	**96,082**

Land use rights of the Group with a total carrying amount of RMB 22,686,000 as at 31 December 2015 (2014: RMB 23,208,000) were pledged to secure borrowings as disclosed in Note 24.

In 2015, amortisation of RMB 2,984,000 (2014: RMB 2,071,000) is included in "general and administrative expenses" in the consolidated statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

15. INVESTMENT IN SUBSIDIARIES

	Company 2015 RMB'000	Company 2014 RMB'000
Unquoted equity shares, at cost	**198,512**	198,512

The Company has the following subsidiaries as at 31 December 2015:

Name	Principal activities	Country of business/ incorporation	Proportion of ordinary shares directly held by parent 2015 %	Proportion of ordinary shares directly held by parent 2014 %	Proportion of ordinary shares held by the Group 2015 %	Proportion of ordinary shares held by the Group 2014 %	Proportion of ordinary shares held by non-controlling interests 2015 %	Proportion of ordinary shares held by non-controlling interests 2014 %
Tianhai Electric (Group) Corporation	Investment holding	BVI	100	100	100	100	–	–
Tianhai Technologies Co., Ltd.	Investment holding, research and development, manufacturing and trading of automobile electronics products	PRC	–	–	100	100	–	–
Hebi Si Kaer Investment Co., Ltd.	Investment holding	PRC	–	–	100	100	–	–
Hebi Sai Er Investment Co., Ltd.	Investment holding	PRC	–	–	100	100	–	–
Henan Tianhai Electric Co., Ltd.	Manufacturing and trading of connectors, wire harnesses and moulds	PRC	–	–	100	100	–	–
Tianhai Snowcity Auto-Electric R&D (Shanghai) Co., Ltd.	Research and development of automobile electronics products, automobile wire harnesses	PRC	–	–	100	100	–	–
Shanghai Zhong'an Electrical & Plastic Co., Ltd.	Manufacturing and trading of automobile plastic parts	PRC	–	–	60	60	40	40
Hebi Haichang Special Equipment Co., Ltd.	Manufacturing and trading of special equipment for producing automobile wire harnesses	PRC	–	–	100	100	–	–
Jiangxi Changhe Tianhai Electric Parts Co., Ltd.	Manufacturing and trading of automobile wire harnesses	PRC	–	–	60	60	40	40

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

15. INVESTMENT IN SUBSIDIARIES (continued)

Name	Principal activities	Country of business/ incorporation	Proportion of ordinary shares directly held by parent		Proportion of ordinary shares held by the Group		Proportion of ordinary shares held by non-controlling interests	
			2015	2014	2015	2014	2015	2014
			%	%	%	%	%	%
Wuhu Tianxin Electric Parts Co., Ltd.	Manufacturing and trading of automobile wire harnesses	PRC	–	–	100	100	–	–
Shenyang Tianhai Electric Parts Co., Ltd.	Manufacturing and trading of automobile wire harnesses	PRC	–	–	100	100	–	–
Hebi Tianzhong Connectors Co., Ltd. (*)	Manufacturing and trading of connectors	PRC	–	–	100	100	–	–
Harbin Shengbang Hafei Auto-Wiring Harness Co., Ltd.	Manufacturing of automobile wire harnesses	PRC	–	–	100	100	–	–
China Auto Electronic (Hebi) Ltd.	Manufacturing and trading of automobile wires	PRC	–	–	100	100	–	–
Hebi Tianhai Huanqiu Electric Co., Ltd.	R&D, manufacturing and trading of automobile electronics products, automobile wire harnesses	PRC	–	–	100	100	–	–
Tianhai Snowcity (Chongqing) Auto Electric Co., Ltd.	Manufacturing and trading of automobile wire harnesses	PRC	–	–	100	100	–	–
Fujian Juan Kuang Wireharness Electric Co., Ltd.	Manufacturing and trading of automobile wire harnesses	PRC	–	–	56	56	44	44
Tianhai Electric North America, Inc.	Manufacturing and trading of automobile wire harnesses	USA	–	–	100	100	–	–
Liaoning Tianhai Electric Co., Ltd.	Manufacturing and trading of automobile wire harnesses	PRC	–	–	100	100	–	–
THB Europe GMBH	Manufacturing and trading of automobile wire harnesses	GER	–	–	100	100	–	–
LiuZhou Tianhai Mengli Electric Co.,Ltd.	Manufacturing and trading of automobile wire harnesses	PRC	–	–	51	51	49	49

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

15. INVESTMENT IN SUBSIDIARIES (continued)

Name	Principal activities	Country of business/ incorporation	Proportion of ordinary shares directly held by parent		Proportion of ordinary shares held by the Group		Proportion of ordinary shares held by non-controlling interests	
			2015	2014	2015	2014	2015	2014
			%	%	%	%	%	%
Henan Kadan Electronic Technology Co, Ltd.	R&D, manufacturing and trading of wireless tire pressure monitoring system products	PRC	–	–	66	66	34	34
Zhengzhou Tianhai Xinke Auto Electronic Co., Ltd.	Research and development of automobile electronics products, automobile wire harnesses	PRC	–	–	75	75	25	25

(*) On 16 March 2014, Henan Tianhai Electric Co., Ltd ("Henan Tianhai") entered into a sale and purchase agreement with a third party to acquire the remaining 20% equity interest in Hebi Tianzhong Connectors Co., Ltd ("Hebi Tianzhong") for a purchase consideration of RMB 1,700,000 which includes a cash premium of RMB 1,321,000. The acquisition was completed on 21 March 2014. Thereafter, Hebi Tianzhong becomes a wholly owned subsidiary of Henan Tianhai.

BVI – The British Virgin Islands
USA – United States of America
GER – Germany

Significant restrictions

Cash and short-term deposits of RMB 191,619,000 (2014: RMB 365,252,000) are held in the People's Republic of China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends.

Material non-controlling interests

The total non-controlling interest for 2015 is RMB 50,430,000 (2014: RMB 46,208,000). The breakdown is as follows:

	2015 RMB'000	2014 RMB'000
Shanghai Zhong'an Electrical & Plastic Co., Ltd.	**23,615**	23,492
Jiangxi Changhe Tianhai Electric Parts Co., Ltd.	**5,867**	6,064
Fujian Juan Kuang Wireharness Electric Co., Ltd.	**17,693**	13,076
Other subsidiaries with immaterial non-controlling interest	**3,255**	3,576
Total	**50,430**	46,208

Summarised financial information of subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. These are presented before inter-company eliminations.

There were no transactions with non-controlling interests for the financial years ended 31 December 2015 and 2014.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

15. INVESTMENT IN SUBSIDIARIES (continued)

Summarised balance sheet

	Shanghai Zhong'an Electrical & Plastic Co., Ltd.		Jiangxi Changhe Tianhai Electric Parts Co., Ltd.		Fujian Juan Kuang Wireharness Electric Co., Ltd.	
	As at 31 December		As at 31 December		As at 31 December	
	2015	2014	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current						
Assets	**75,371**	66,106	**51,772**	40,558	**79,864**	47,776
Liabilities	**(32,046)**	(24,668)	**(42,811)**	(29,484)	**(42,839)**	(22,238)
Total current net assets	**43,325**	41,438	**8,961**	11,074	**37,025**	25,538
Non-current						
Assets	**15,712**	17,292	**5,705**	4,086	**3,187**	4,181
Total non-current net assets	**15,712**	17,292	**5,705**	4,086	**3,187**	4,181
Net assets	**59,037**	58,730	**14,666**	15,160	**40,212**	29,719

Summarised income statement

	Shanghai Zhong'an Electrical & Plastic Co., Ltd.		Jiangxi Changhe Tianhai Electric Parts Co., Ltd.		Fujian Juan Kuang Wireharness Electric Co., Ltd.	
	For period ended 31 December		For period ended 31 December		For period ended 31 December	
	2015	2014	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**113,080**	93,869	**75,724**	71,023	**87,101**	61,419
Profit/(loss) before income tax	**8,877**	13,552	**(149)**	3,105	**14,472**	5,773
Income tax expense	**(2,571)**	(3,754)	**(345)**	(851)	**(3,979)**	(1,657)
Profit/(loss) after income tax and total comprehensive income/(loss)	**6,306**	9,798	**(494)**	2,254	**10,493**	4,116
Total comprehensive income/(loss) allocated to non-controlling interests	**2,523**	3,919	**(198)**	902	**4,617**	1,811
Dividends paid to non-controlling interests	**2,400**	2,400	**–**	–	**–**	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

15. INVESTMENT IN SUBSIDIARIES (continued)

Summarised cash flows

	Shanghai Zhong'an Electrical & Plastic Co., Ltd.		Jiangxi Changhe Tianhai Electric Parts Co., Ltd.		Fujian Juan Kuang Wireharness Electric Co., Ltd.	
	For period ended 31 December		For period ended 31 December		For period ended 31 December	
	2015	2014	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities						
Cash generated from/(used in) operations	**8,600**	12,676	**4,496**	(1,105)	**787**	(4,045)
Interest income received	**11**	15	**4**	9	**216**	356
Income tax paid	**(3,606)**	(4,405)	**(386)**	(859)	**(1,057)**	(1,723)
Net cash provided by/(used in) operating activities	**5,005**	8,286	**4,114**	(1,955)	**(54)**	(5,412)
Net cash provided by/(used in) investing activities	**(1,166)**	(250)	**1**	(14)	**(1,051)**	(896)
Net cash (used in)/provided by financing activities	**(8,842)**	(6,874)	**–**	–	**(32)**	5,371
Net increase/(decrease) in cash and cash equivalents	**(5,003)**	1,162	**4,115**	(1,969)	**(1,137)**	(937)
Cash and cash equivalents at beginning of financial year	**7,974**	6,812	**801**	2,770	**3,813**	4,750
Cash and cash equivalents at end of financial year	**2,971**	7,974	**4,916**	801	**2,676**	3,813

16. DEFERRED INCOME TAX

The analysis of deferred income tax assets is as follows:

	Group	
	2015	2014
	RMB'000	RMB'000
Deferred income tax assets (to be recovered within one year)	**11,591**	6,919
Deferred income tax assets (to be recovered after one year)	**8,704**	2,744
Total deferred income tax assets	**20,295**	9,663

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

16. DEFERRED INCOME TAX (continued)

The movement on the deferred income tax assets of the Group during the year is as follows and there are no deferred income tax liabilities in 2015 and 2014:

	Group			
	Government grants RMB'000	Provisions RMB'000	Others RMB'000	Total RMB'000
Deferred income tax assets				
At 1 January 2014	3,398	3,081	1,628	8,107
Tax (charged)/credited to profit or loss (Note 9)	(332)	(370)	2,258	1,556
At 31 December 2014	3,066	2,711	3,886	9,663
Tax credited/(charged) to profit or loss (Note 9)	6,931	3,865	(164)	10,632
At 31 December 2015	9,997	6,576	3,722	20,295

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise deferred income tax assets of RMB 34,179,000 (2014: RMB 34,104,000) in respect of losses amounting to RMB 110,743,000 (2014: RMB 106,759,000) that can be carried forward against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses in their respective countries of incorporation. The tax losses will expire between 2016 and 2033.

Deferred income tax liabilities of RMB 52,482,000 (2014: RMB 42,194,000) have not been recognised for the withholding tax that would be payable on the earnings of certain subsidiaries when remitted to the ultimate holding company. Such amounts are permanently reinvested. Unremitted earnings totalled RMB 524,821,000 at 31 December 2015 (2014: RMB 421,936,000). The directors are of the view that the likelihood of these earnings being distributed to the ultimate holding company in the foreseeable future is low, therefore no deferred tax liability is recognised on these unremitted earnings.

17. INVENTORIES

	Group	
	2015 RMB'000	2014 RMB'000
Raw materials	**253,836**	193,912
Work-in-progress	**34,444**	36,717
Finished goods	**274,804**	229,002
Inventories total - gross	**563,084**	459,631
Provision	**(36,959)**	(11,471)
Inventories total - net	**526,125**	448,160
Movement in allowance:		
At 1 January	**11,471**	12,993
Additions	**37,316**	18,365
Write-off	**(11,828)**	(19,887)
At 31 December	**36,959**	11,471

The cost of inventories recognised as an expense and included in "cost of sales" amounted to RMB 1,630,892,000 (2014: RMB 1,260,410,000).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Bills receivable	**285,266**	199,812	**–**	–
Trade receivables-third parties	**840,604**	691,803	**–**	–
Less: Allowance for impairment	**(14,387)**	(13,589)	**–**	–
Other receivables-third parties	**30,204**	26,159	**–**	–
Less: Allowance for impairment	**(716)**	(1,030)	**–**	–
Amounts due from subsidiaries (non-trade)	**–**	–	**304,377**	304,377
Advance payments to suppliers	**15,996**	16,054	**146**	146
Deposits	**12,133**	7,177	**–**	–
Prepayments	**6,919**	2,124	**–**	–
Receivables from related parties				
-Trade	**331**	331	**–**	–
-Non-trade	**1,212**	600	**–**	–
	1,177,562	929,441	**304,523**	304,523

Movement of allowance for impairment on trade receivables:

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January	**13,589**	7,072	**–**	–
Allowance during the year	**5,454**	7,214	**–**	–
Write-off of impaired receivables	**(4,656)**	(697)	**–**	–
At 31 December	**14,387**	13,589	**–**	–

Allowance for impairment is provided based on the estimated irrecoverable amounts from sale of goods, determined by reference to past default experience.

Movement of allowance for impairment on other receivables:

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At 1 January	**1,030**	1,850	**–**	–
Reversal of allowance	**(22)**	–	**–**	–
Write-off of impaired receivables	**(292)**	(820)	**–**	–
At 31 December	**716**	1,030	**–**	–

As at 31 December 2015, some of bills receivable is used to secure the bills payable as disclosed in Note 23.

As at 31 December 2015, trade receivables of RMB 163,765,000 (2014: RMB 172,595,000) was pledged to secure short-term borrowings as disclosed in Note 24.

The Group's non-trade receivables due from related parties and the Company's non-trade receivables due from subsidiaries are unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

18. TRADE AND OTHER RECEIVABLES (continued)

The aging analysis of trade receivables is as follows:

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Current	**726,541**	598,830	**–**	–
Up to 3 months overdue	**87,891**	73,505	**–**	–
More than 3 months overdue	**26,172**	19,468	**–**	–
	840,604	691,803	**–**	–

The carrying amounts of the trade and other receivables are dominated in the following currencies:

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
USD	**121,219**	100,520	**–**	–
Euro	**11,473**	5,087	**–**	–
RMB	**707,912**	586,196	**–**	–
	840,604	691,803	**–**	–

19. FINANCIAL ASSETS, AVAILABLE-FOR-SALE

	Group	
	2015	2014
	RMB'000	RMB'000
Unquoted investments, at cost		
At 1 January	**2,623**	2,623
Less allowance for impairment	**(823)**	(823)
At 31 December	**1,800**	1,800

In accordance with paragraph 46(c) of FRS 39 "*Financial Instruments: Recognition and Measurement*", as the fair value of the equity investment cannot be measured reliably because the range of possible fair value estimates is wide and the probabilities of the various estimates within the range cannot be reasonably assessed, the investment is stated at cost. The directors are of the view that under such circumstances, it is also not possible to disclose the range of estimates within which a fair value is highly likely to lie.

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following:

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	**470,389**	366,792	**276,040**	798
Less: Bank deposits pledged	**(88,291)**	(237,547)	**–**	–
Cash and cash equivalents	**382,098**	129,245	**276,040**	798

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

20. CASH AND CASH EQUIVALENTS (continued)

The cash and bank balances comprise the following:

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Cash in hand	**237**	116	**–**	–
Cash at bank	**470,152**	366,676	**276,040**	798
	470,389	366,792	**276,040**	798

Bank deposits pledged represent bank balances held by banks to cover bills payable as disclosed in Note 23 and to secure the borrowings as disclosed in Note 24.

21. SHARE CAPITAL

	Group		Company	
	No. of ordinary shares '000	RMB'000	No. of ordinary shares '000	RMB'000
Authorised, issued and fully paid As at 1 January 2015 and 31 December 2015 (par value: Singapore dollar 0.10 per share)	**681,600**	**490,115**	**681,600**	**623,026**
Authorised, issued and fully paid As at 1 January 2014 and 31 December 2014 (par value: Singapore dollar 0.10 per share)	681,600	490,115	681,600	623,026

22. OTHER RESERVES

Group	Capital reserves RMB'000	Contributed surplus * RMB'000	Share option reserve RMB'000	Translation reserve RMB'000	Total RMB'000
At 1 January 2014	162,780	71,000	1,676	1,917	237,373
Changes in shareholding in non-controlling interests of subsidiaries	–	(1,321)	–	–	(1,321)
Currency translation differences	–	–	–	(1,655)	(1,655)
Transfer to PRC statutory reserves	16,349	–	–	–	16,349
At 31 December 2014	179,129	69,679	1,676	262	250,746
Currency translation differences	–	–	–	(2,203)	(2,203)
Transfer to PRC statutory reserves	11,476	–	–	–	11,476
At 31 December 2015	190,605	69,679	1,676	(1,941)	260,019

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

22. OTHER RESERVES (continued)

Company	Contributed surplus * RMB'000	Share option reserve RMB'000	Total RMB'000
At 1 January 2014, 31 December 2014 and 31 December 2015	70,077	1,676	71,753

Capital reserves

The above capital reserves include PRC statutory reserves and other capital reserves created upon the conversion of a subsidiary to a limited liability company in the previous years.

The PRC statutory reserves are set up as required under the relevant PRC regulations.

With the exception of 4 PRC subsidiaries ("entities"), the Group's other subsidiaries incorporated in the PRC are required on an annual basis to allocate at least 10% of their after-tax profit, after the recovery of accumulated deficit to the statutory common reserve. The amount of allocation is calculated based on a company's after-tax profit shown in its statutory financial statements which is prepared in accordance with PRC accounting standards. Once the total statutory common reserve fund reaches 50% of the registered capital of the respective companies, further appropriation are discretionary. The statutory common reserve fund is not distributable to shareholders except in the event of liquidation. During the year ended 31 December 2015, the Group made total appropriations to the statutory common reserve fund amounting RMB 10,603,000 (2014: RMB 15,356,000).

The PRC entities of the Group incorporated in the PRC are required on an annual basis to make appropriations of retained earnings, calculated in accordance with PRC accounting standards and regulations, to non-distributable statutory reserves, comprising of enterprise statutory reserve, employees' bonus and welfare fund and enterprise expansion fund. The percentages of the appropriation are determined by the boards of directors of the entities. During the year ended 31 December 2015, the entities made appropriations to these statutory reserves amounting to RMB 873,000 (2014: RMB 993,000).

Contributed surplus*

The contributed surplus represents the excess of the combined net assets value of the subsidiaries acquired over the nominal value of the paid-up capital of the Company issued in exchange thereof.

The Bermuda Companies Act provides that a company shall not declare or pay a dividend or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

On 21 March 2014, Henan Tianhai Electric Co., Ltd. completed the sale and purchase transaction to acquire the remaining 20% equity interest in Hebi Tianzhong Connectors Co., Ltd. for a consideration of RMB 1,700,000 which included a cash premium of RMB 1,321,000, which was debited to contributed surplus.

Translation reserve

The translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	**620,849**	477,425	**–**	–
Bills payable	**162,295**	213,607	**–**	–
Other payables	**113,510**	75,771	**–**	–
Amounts due to subsidiaries				
- Non-trade	**–**	–	**45,493**	42,392
Amounts due to related parties				
- Trade	**2,041**	345	**–**	–
Accruals	**16,579**	9,884	**6,514**	2,304
Provision for guarantee obligation (Note 27(a))	**40,000**	40,000	**–**	–
Advance receipts from customers	**7,763**	4,044	**–**	–
Deposits	**999**	795	**–**	–
	964,036	821,871	**52,007**	44,696

Bills payable are secured by certain bank deposits held by the banks as disclosed in Note 20 and bill receivable in Note 18.

The non-trade amounts due to subsidiaries and related parties are unsecured, interest free and repayable on demand.

24. BORROWINGS

	Group		Company	
	2015	2014	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current				
Secured borrowings	**58,937**	20,247	**–**	–
Convertible bonds (Note (a))	**291,740**	–	**291,740**	–
	350,677	20,247	**291,740**	–
Current				
Secured borrowings	**251,632**	245,383	**–**	–
Unsecured borrowings	**164,000**	234,000	**–**	–
	415,632	479,383	**–**	–
Total borrowings	**766,309**	499,630	**291,740**	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

24. BORROWINGS (continued)

As at balance sheet date, the borrowings were repayable as follows:

	Group			
	Borrowings		Convertible bonds	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Within 1 year	**415,632**	479,383	**–**	–
Between 1 and 2 years	**32,557**	13,272	**–**	–
Between 2 and 5 years	**26,380**	6,975	**291,740**	–
	474,569	499,630	**291,740**	–

	Company			
	Borrowings		Convertible bonds	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Between 2 and 5 years	**–**	–	**291,740**	–

The carrying amounts of borrowing are denominated in the following currencies:

	Group		Company	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
USD	**172,736**	146,932	**–**	–
SGD	**291,740**	–	**291,740**	–
RMB	**301,833**	352,698	**–**	–
	766,309	499,630	**291,740**	–

The Group's borrowings bear interest rates ranging from 1.23% to 12.3% (2014: 1.24% to 12.3%) per annum. The secured borrowings are secured by the pledge of the Group's plant, property and equipment as disclosed in Note 13, land use rights as disclosed in Note 14(b), trade and other receivables as disclosed in Note 18 and bank deposits as disclosed in Note 20. The unsecured borrowings are covered by letters of credit of the Group and corporate guarantees provided by a subsidiary of the Group and by third parties as disclosed in Note 11 and 27(c). The Group also has bank letters of credit facilities which are secured by bank deposits as disclosed in Note 20.

The carrying amount of the borrowings above are determined from the cash flow analysis, discounted at market borrowing rates of an equivalent instrument at the balance sheet date which the directors expect to be available to the Group as follows:

	Group		Company	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Borrowings	**11.22%**	10.97%	**–**	–

The fair values of the convertible bonds equal to the carrying amount as of 31 December 2015, which are within level 3 of the fair values hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

24. BORROWINGS (continued)

(a) Convertible bonds

The Company issued convertible bonds with a total par value of SGD 60,000,000 in November 2015 ("Issue Date") at a fixed interest rate of 1% per annum. The bonds will mature in three years from the issue date at the par value and can be converted into the Company's ordinary shares at the holder's option at the rate of SGD 0.09 per share any time on and after one month after the Issue Date. The values of the whole convertible bonds were determined upon issuance of the bonds. During the year ended 31 December 2015, no convertible bonds were converted to ordinary shares.

The Company measures the whole contract at fair value through profit and loss and the convertible bonds were classified as financial liabilities. The convertible bonds recognised in the balance sheet are calculated as follows:

	Group and Company	
	2015	**2014**
	RMB'000	**RMB'000**
At 1 January	**–**	–
Issuance of convertible bonds during the year	**272,004**	–
Fair value losses on financial liabilities at fair value through profit or loss (Note 6)	**19,736**	–
At 31 December	**291,740**	–

The fair values, which were determined by an independent qualified appraiser using Binomial Option Pricing Model, of the convertible bonds as at the Issue Date and 31 December 2015 was approximately RMB 272,004,000 (equivalent of SGD 60,000,000) and RMB 291,740,000 (equivalent of SGD 63,594,578), respectively. The following assumptions were adopted to calculate the fair value of the convertible bonds on the Issue Date and the year end:

	Issued on 9 November 2015	**As of 31 December 2015**
Average share price	SGD 0.062	SGD 0.078
Exercise price	SGD 0.09	SGD 0.09
Expected life of options	36 months	34 months
Expected volatility	110.1%	109%
Expected dividend yield	0%	0%
Risk free rate	1.6%	1.4%

The expected volatility is determined by calculating the historical volatility of the price of listed companies with similar business to the Group. The expected dividend yield is determined by the Directors based on the expected future performance and dividend policy of the Group.

The attributable amount charged to the consolidated income statement during the year ended 31 December 2015 was approximately RMB 19,736,000 (2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

25. DEFERRED INCOME

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Government grants related to assets	**50,279**	20,439

The movements of the above government grants for the years ended 31 December 2015 and 2014 are as follows:

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
At beginning of the year	**20,439**	22,652
Granted during the year	**33,414**	–
Amortised to profit or loss	**(3,574)**	(2,213)
At end of the year	**50,279**	20,439

In 2015, the Group received government grants of RMB 33,414,000 (2014: Nil) relating to new plant construction, acquisition of assets and other expenses. In accordance with the accounting policy describe in Note 2-(3), the government grants relating to purchase and/or construction of property, plant and equipment are recognised as deferred income and be credited to the profit or loss on a straight-line basis over the expected useful lives of the related property, plant and equipment. The government grants relating to expenses are recognised as income over the period necessary to match them with the related costs that they are intended to compensate on a systematic basis.

26. COMMITMENTS

(a) Capital commitments

Capital expenditures contracted for at end of the reporting period but not recognised in the financial statements are analysed as follows:

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Capital commitments in respect of:		
- Payment for additions of property, plant and equipment	**23,992**	31,845

The capital commitment as at 31 December 2015 and 2014 relates to new construction contract for new plant between Hebi Tianhai Huanqiu Electric Co., Ltd. and Henan Hongqiqu Construction Group Co., Ltd.

(b) Operating lease commitments

The Group leases various factories and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

26. COMMITMENTS (continued)

(b) Operating lease commitments (continued)

The future aggregate minimum lease payables under non-cancellable operating lease contracted for at end of the reporting period but not recognised as liabilities, are analysed as follows:

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Within one year	**16,222**	8,323
Within two to five years	**19,193**	11,152
After five years	**653**	1,224
	36,068	20,699

27. CONTINGENT LIABILITIES

The Group had the following contingent liabilities as at 31 December 2015:

(a) During the financial year ended 31 December 2008, a fully owned subsidiary of the Group, Henan Tianhai Electronics Co., Ltd. ("Henan Tianhai"), issued a corporate guarantee for a loan of RMB 40,000,000 granted by a PRC bank, Agricultural & Development Bank of China (ADBC), to Henan Snowcity Science and Technology Limited ("Henan Snowcity"), a former subsidiary of the Group which was disposed in 2008. Henan Snowcity has defaulted on the loan and ADBC filed a law suit against Snowcity and Henan Tianhai. On 10 November 2009, the Intermediate People's Court of Zhenzhou City made a judgment against Henan Tianhai. As such, provision for the guarantee amounted to RMB 40,000,000 (Note 23) was provided for in the Group's consolidated financial statements during the year ended 31 December 2009. Henan Tianhai has filed an appeal against the court judgment and the case was returned to the Intermediate People's Court of Zhengzhou City for re-trial. On 20 February 2012, the Intermediate People's Court of Zhengzhou made a judgment, in favour of ADBC, for RMB 39,600,000 and interest amount of approximately RMB 754,780 calculated till 31 May 2009 based on the terms of the original loan between ADBC and Henan Snowcity. On 7 March 2012, Henan Tianhai submitted its appeal to High People's Court of Henan Province. The case was assigned to the local police criminal investigation by High People's Court of Henan Province in November 2012. As at 31 December 2015, this case was still under criminal investigation.

Based on legal advice obtained, management is of the view that the existing provision of RMB 40,000,000 in the Group's consolidated balance sheet as at 31 December 2015 is sufficient to cover the loss that Henan Tianhai will probably incur as a result of this legal case.

(b) The Group's subsidiary, Tianhai Electric North America, Inc. ("TENA"), and its other affiliated entities which are also the Group's subsidiaries, are involved in a lawsuit whereby the plaintiff seeks claims for amounts in excess of US$11.5 million since 2009. TENA has filed a counterclaim suit against the plaintiff. Based on legal advice obtained, the lawsuit is currently under the court's proceeding and therefore the potential outcome of these proceedings or the potential loss for TENA and its affiliated entities cannot be reasonably estimated as at the date of these consolidated financial statements. The Directors are of the view that the probability of loss arising from the claim is remote. Accordingly, no provision for this litigation had been made as of 31 December 2015.

(c) The Group's subsidiary, Henan Tianhai Electronic Co., Ltd. ("Henan Tianhai"), has provided corporate guarantees in favour of unrelated third parties in return for counter guarantees by the unrelated third parties in favour of the Group's borrowings as disclosed in Note 24. The balance of third parties' short-term borrowings under guarantee by Henan Tianhai was RMB 130,000,000 (2014: RMB 170,000,000) as at 31 December 2015. Management is of the view that no liability will arise from the corporate guarantee provided to the third parties as at 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

28. SEGMENT INFORMATION

(a) Business segments

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors monitor the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

For management purposes, the Group is organised into business units based on their products and services, and has four reportable operating segments, (i) Wire harness (China operations), (ii) Connectors (China operations), (iii) Mould and machinery (China operations), and (iv) Wire harness (America operations).

No operating segments have been aggregated to/from the above reportable operating segments.

Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from the recognition in the consolidated financial statements. Group financing (including finance costs) are managed on a group basis and are not allocated to operating segments.

Segment assets and liabilities cannot be directly attributable to individual business segments and it is not practicable to allocate them to the business segments. Accordingly, it is not meaningful to disclose assets and liabilities by business segments.

(b) Geographical segments

In presenting information on the basis of geographical segments, the group segment revenue is based on the location of the customers regardless of where the goods are produced.

Business segments

	← China operations →			America operation			
	Wire harness RMB'000	Connectors RMB'000	Mould and machinery RMB'000	Wire harness RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2015							
Revenue							
External customers	1,718,766	458,304	97,306	455,299	47,106	–	2,776,781
Inter-segment	505,372	236,600	31,818	124,067	6,129	(903,986)	–
Total revenue	2,224,138	694,904	129,124	579,366	53,235	(903,986)	2,776,781
Segment results							
Segment gross profit	226,529	220,323	49,146	22,539	10,733	(6,145)	523,125
Unallocated expenses, net							(333,965)
Finance expenses, net							(26,477)
Profit before income tax							162,683
Income tax expense							(34,975)
Profit after income tax							127,708

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

28. SEGMENT INFORMATION (continued)

Business segments (continued)

	China operations			America operation			
	Wire harness RMB'000	Connectors RMB'000	Mould and machinery RMB'000	Wire harness RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
Year ended 31 December 2014							
Revenue							
External customers							
Inter-segment	1,349,486	411,370	79,719	425,750	29,523	–	2,295,848
Total revenue	604,412	160,064	22,457	112,842	7,224	(906,999)	–
	1,953,898	571,434	102,176	538,592	36,747	(906,999)	2,295,848
Segment results							
Segment gross profit	195,981	196,911	39,205	26,977	8,564	(9,534)	458,104
Unallocated expenses, net							(259,463)
Finance expenses, net							(39,388)
Profit before income tax							159,253
Income tax expense							(24,733)
Profit after income tax							134,520

Geographical segments

	Group 2015 RMB'000	Group 2014 RMB'000
Revenues by location		
People's Republic of China	**2,197,415**	1,757,256
United States of America	**579,366**	538,592
	2,776,781	2,295,848

29. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(a) To ensure the Group's ability to continue as a going concern,

(b) To provide an adequate return to shareholders,

(c) To support the Group's sustainable growth, and

(d) To provide capital for the purpose of potential mergers and acquisitions.

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

29. CAPITAL MANAGEMENT (continued)

The capital-to-overall financing ratios as at end of the reporting period are as follows:

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Capital		
Total equity	**878,589**	755,484
Overall financing		
Borrowings	**766,309**	499,630
Capital-to-overall financing ratio	**1.15**	1.51

30. FINANCIAL RISK MANAGEMENT

(a) Risk Management Policies For Financial Instruments

General risk management principles

The entity's financial instruments comprise borrowings, some cash and liquid resources, and various items, such as trade and other receivables, trade and other payables, which arise directly from its operations. The main purpose of these financial instruments is to raise finance for the entity's operations. The main risks arising from the entity's financial instruments are credit risk, interest rate risk, liquidity risk, foreign currency risk and price risk. The management reviews and agrees policies for managing each of these risks and they are summarised below:

Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including investment securities, cash and cash equivalents), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

Cash and cash equivalents are placed with reputable financial institutions. Therefore, credit risk arises mainly from the inability of its customers to make payments when due. The amounts presented in the balance sheet are net of allowance for impairment of receivables, estimated by management based on past experience and the current economic environment.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subjected to credit verification procedures. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant.

Concentration of credit risk exists when changes in economic, industry or geographical factors similarly affect group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

Financial guarantees provided to third parties (Note 27(c)) expose the Group to the credit risk associated with the loss that would be recognised upon a default by the parties to which the guarantees were provided. To mitigate these risks, the management limits these contracts period to a certain acceptable level and continually monitors and reviews the credit risks and has established processes including performing credit evaluation of the parties to which it is providing the guarantee.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

30. FINANCIAL RISK MANAGEMENT (continued)

(a) Risk Management Policies For Financial Instruments (continued)

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents, investment securities that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are past due but not impaired

The age analysis of trade receivables that are past due but not impaired is as follows. They are related to a number of independent customers for whom there is no recent history of default.

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Less than 30 days	**18,410**	28,294
31 to 60 days	**4,182**	13,702
61 to 90 days	**2,133**	990
More than 90 days	**10,632**	19,351
	35,357	62,337

As of 31 December 2015, trade receivables of RMB 14,387,000 (2014: RMB 13,589,000) was past due, impaired and fully provided (Note 18).

Liquidity risk

Liquidity risk is the risk that the Group and the Company will not be able to meet its financial obligation as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows.

The following table detail the remaining contractual maturity for non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities, on the earliest date on which the Group and Company can be required to pay.

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within one year				
Non-interest bearing payables	**955,274**	817,032	**–**	–
Borrowings and future interest to be paid	**432,724**	493,138	**–**	–
	1,387,998	1,310,170	**–**	–
Over one year				
Borrowings and future interest to be paid	**351,175**	21,627	**300,492**	–

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

30. FINANCIAL RISK MANAGEMENT (continued)

(a) Risk Management Policies For Financial Instruments (continued)

Financial assets that are past due but not impaired (continued)

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group and the Company's financial instruments will fluctuate because of changes in market interest rate.

The Group's exposure to interest rate relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Group on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by an adverse movement in interest rates.

The Group obtains additional financing through bank borrowings and issuance of convertible bond. The Group's policy is to obtain the most favourable interest rates available considering the related foreign currency exposure if the borrowing and convertible bonds are denominated in foreign currency. The Group has not used any derivatives to hedge its exposure to interest rate risk for the year ended 31 December 2015.

The following table sets out the carrying amounts as at 31 December, by maturity or re-pricing, whichever is earlier, of the financial instruments of the Group that are exposed to interest rate risk:

	Group		Company	
	2015	**2014**	**2015**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within one year				
Fixed rate:				
Cash and cash equivalents	**470,389**	366,792	**–**	–
Borrowings	**400,522**	419,146	**–**	–
Floating rate:				
Borrowings	**15,110**	60,237	**–**	–
Over one year				
Fixed rate:				
Borrowings	**350,677**	20,247	**291,740**	–

Sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

For fixed rate financial assets and liabilities other than convertible bonds, the Group does not account at fair value through profit or loss. Therefore a change in interest rate at end of the reporting period would not affect the Group's consolidated statement of comprehensive income.

For convertible bonds, the Group accounts at fair value through profit or loss. As at 31 December 2015, if interest rates on Singapore dollar denominated convertible bonds had been 100 basis points higher/lower with all other variable held constant, the profit would be increased/(decreased) by RMB 2,917,000 (2014: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

30. FINANCIAL RISK MANAGEMENT (continued)

(a) Risk Management Policies For Financial Instruments (continued)

Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

For the variable rate financial assets and liabilities, a change of 100 basis points in interest rate at end of the reporting period would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or (loss)	
	100 bp Increase RMB'000	**100 bp Decrease RMB'000**
Group		
31 December 2015		
Floating rate instruments	**(151)**	**151**
31 December 2014		
Floating rate instruments	(602)	602

Foreign currency risk

The Group incurs foreign currency risk in sales, purchases, borrowings and capital flows that are denominated in currencies other than Renminbi ("RMB"). The currencies giving rise to this risk are primarily United States dollars, Singapore dollars and Euro.

There is no formal hedging policy with respect to foreign currency exposure. Exposure to foreign currency risk is monitored on an ongoing basis and the Group endeavours to keep the net exposure at an acceptable level.

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency of PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

At end of the reporting period, the carrying amounts of monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies are as follows:

	Assets		Liabilities	
	2015 RMB'000	**2014 RMB'000**	**2015 RMB'000**	**2014 RMB'000**
Group				
US dollar	**131,863**	14,176	**190,543**	149,158
Singapore dollar	**276,040**	798	**291,740**	–
Euro	**20,165**	2,351	**2,456**	271
	428,068	17,325	**484,739**	149,429
Company				
Singapore dollar	**276,040**	798	**291,740**	–

The Company has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. The Group does not currently designate its foreign currency denominated debts as a hedging instrument for the purpose of hedging the translation of its foreign operations.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

30. FINANCIAL RISK MANAGEMENT (continued)

(a) Risk Management Policies For Financial Instruments (continued)

Foreign currency risk (continued)

The following table details the sensitivity to a 2% (2014: 2%) increase and decrease in the relevant foreign currencies against the functional currency of each group entity. 2% (2014: 2%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 2% (2014: 2%) change in foreign currency rates. The sensitivity analysis includes external loans as well as to foreign operations within the Group where they gave rise to an impact on the Group's consolidated statement of comprehensive income.

		Group	
		2015	**2014**
		Profit or (loss)	**Profit or (loss)**
		RMB'000	**RMB'000**
USD/RMB	- strengthened 2% (2014: 2%)	**(1,174)**	(2,700)
	- weakened 2% (2014: 2%)	**1,174**	2,700
SGD/RMB	- strengthened 2% (2014: 2%)	**(314)**	(16)
	- weakened 2% (2014: 2%)	**314**	16
EUR/RMB	- strengthened 2% (2014: 2%)	**354**	42
	- weakened 2% (2014: 2%)	**(354)**	(42)

		Company	
		2015	**2014**
		Profit or (loss)	**Profit or (loss)**
		RMB'000	**RMB'000**
SGD/RMB	- strengthened 2% (2014: 2%)	**(314)**	(16)
	- weakened 2% (2014: 2%)	**314**	16

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group is exposed to equity price risk arising from its investments in unquoted equity instruments, being classified as financial assets, available-for-sale. Available-for-sale equity investments are held for strategic rather than trading purposes. The Group does not actively trade available-for-sale investments. The equity price risk is not considered to be significant to the Group.

Further details of these equity investments as disclosed in Note 19 to the financial statements.

(b) Other Business Risks and Uncertainties

The Group is subject to a number of risks including the rendering of assistance to development of customers' unproven products, the need to maintain adequate financing, strong competitors and dependence on essential personnel. The industry is characterised by technological developments, dependency on copper and changes in customer requirements. Significant technological changes, copper shortage or severe copper price hikes could adversely affect the business plan and operating results of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

30. FINANCIAL RISK MANAGEMENT (continued)

(b) Other Business Risks and Uncertainties (continued)

To illustrate, a 10% (2014: 10%) increase in the price of copper for the financial years ended 31 December 2015 and 2014 would have the effect of decreasing the net profit by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2015 RMB'000	31 December 2014 RMB'000
Copper	**1,138**	994

A 10% decrease in the price of copper for the financial years ended 31 December 2015 and 2014 would have had the equal opposite effect on the amount shown above, on the basis that all other variables remain constant.

Fair value of financial instruments

Where possible, fair values have been estimated using market prices for the financial instruments. Where market prices are not available, values have been estimated using quoted prices for financial instruments with similar characteristics, or otherwise using a suitable valuation technique where it is practicable to do so. The fair value information presented represents the Group's and the Company's best estimate of those values, subject to certain assumptions and limitations.

Methodologies

The methodologies and assumptions used in estimating fair values depend on the terms and risk characteristics of the various instruments and include the following:

<u>Interest-bearing bank loans</u>

The carrying value of interest-bearing bank loans with a maturity of less than one year is assumed to approximate their fair value.

<u>Convertible bonds</u>

The convertible bonds are carried at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. Refer to Note 24 (a) for detailed information regarding the methodology used.

<u>Other financial assets and liabilities</u>

The carrying amounts of financial assets and liabilities with a maturity of less than one year (including trade and other receivables, cash and cash equivalents, bills payable to banks and trade and other payables) are assumed to approximate their fair values because of the short period to maturity. All other financial assets and liabilities are discounted to determine their fair values.

<u>Financial guarantees</u>

As at 31 December 2015, the Group had a provision of RMB 40,000,000 (2014: RMB 40,000,000) for a guarantee provided for a third party's bank borrowing (Note 27(a)) which represented the amount that the Group will probably reimburse the bank under the guarantee arrangement.

Other than the above, there are no terms attached to the guarantee contracts that would have a material effect on the amount, timing and uncertainty of the Company's future cash flows.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

30. FINANCIAL RISK MANAGEMENT (continued)

(b) Other Business Risks and Uncertainties (continued)

Financial instruments by category

	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
31 December 2015			
Assets as per balance sheet:			
Available-for-sale financial assets	–	1,800	1,800
Trade and other receivables excluding prepayments	1,154,647	–	1,154,647
Bank deposits pledged	88,291	–	88,291
Cash and cash equivalents	382,098	–	382,098
Total	1,625,036	1,800	1,626,836

	Liabilities at fair value through the profit or loss RMB'000	Other financial liabilities at amortised cost RMB'000	Total RMB'000
31 December 2015			
Liabilities as per balance sheet:			
Borrowings	291,740	474,569	766,309
Trade and other payables excluding advance receipts and statutory liabilities	–	937,653	937,653
Total	291,740	1,412,222	1,703,962

	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
31 December 2014			
Assets as per balance sheet:			
Available-for-sale financial assets	–	1,800	1,800
Trade and other receivables excluding prepayments	911,263	–	911,263
Bank deposits pledged	237,547	–	237,547
Cash and cash equivalents	129,245	–	129,245
Total	1,278,055	1,800	1,279,855

	Other financial liabilities at amortised cost RMB'000	Total RMB'000
31 December 2014		
Liabilities as per balance sheet:		
Borrowings	499,630	499,630
Trade and other payables excluding advance receipts and statutory liabilities	807,598	807,598
Total	1,307,228	1,307,228

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

31. NEW ACCOUNTING STANDARDS AND INTERPRETATION NOT YET EFFECTIVE

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 January 2016 and which the Group has not early adopted:

- FRS 16 *Property plant and equipment* and FRS 38 *Intangible assets* (effective for annual periods beginning on or after 1 January 2016)

  This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. This has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances. These are where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

  This amendment is not expected to have any significant impact on the financial statements of the Group.

- FRS 111 *Joint Arrangements* (effective for annual periods beginning on or after 1 January 2016)

  This amendment provides new guidance on how to account for the acquisition of an interest in a joint venture operation that constitutes a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business'. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation. However, a previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

  This amendment is not expected to have any significant impact on the financial statements of the Group.

- FRS 110 *Consolidated financial statements* and FRS 28 *Investments in associates and joint ventures* (effective for annual periods beginning on or after 1 January 2016*)

  These amendments address an inconsistency between FRS 110 and FRS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

  This amendment is not expected to have any significant impact on the financial statements of the Group.

  **(In August 2015, the IASB has published an Exposure Draft to propose deferring the effective date of the amendment indefinitely. Earlier application of the amendment continues to be permitted. Deferral has been made for similar amendment to FRS 110 and FRS 28 for annual period beginning on or after a date to be determined).*

- FRS 1 *Presentation of financial statements* (effective for annual periods beginning on or after 1 January 2016)

  The amendment clarifies guidance in FRS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

  This amendment is not expected to have any significant impact on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2015

31. NEW ACCOUNTING STANDARDS AND INTERPRETATION NOT YET EFFECTIVE (continued)

- FRS 115 *Revenue from contracts with customers* (effective for annual periods beginning on or after 1 January 2017*)

  This is the converged standard on revenue recognition. It replaces FRS 11 Construction contracts, FRS 18 Revenue, and related interpretations. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The core principle of FRS 115 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

  - Step 1: Identify the contract(s) with a customer
  - Step 2: Identify the performance obligations in the contract
  - Step 3: Determine the transaction price
  - Step 4: Allocate the transaction price to the performance obligations in the contract
  - Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

  FRS 115 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

  This amendment is not expected to have any significant impact on the financial statements of the Group.

  **(The effective date of FRS 115 Revenue from contracts with customers has been deferred from 1 January 2017 to 1 January 2018).*

- FRS 109 *Financial instruments* (effective for annual periods beginning on or after 1 January 2018)

  The complete version of FRS 109 replaces most of the guidance in FRS 39. FRS 109 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income (OCI) and fair value through Profit or Loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in FRS 39.

  For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. FRS 109 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under FRS 39.

  This amendment is not expected to have any significant impact on the financial statements of the Group.

32. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors on 23 May 2016.

MAJOR PROPERTIES

As at 31 December 2015

Location	Expiry Date of Tenure	Approx Area (SQM)	Use of Property
North to Qihe Road East to Hengshan Road Hebi City, Henan Province, PRC	1 February 2047	37,665	Light steel factory building
East Qibin Avenue Hebi City, Henan Province, PRC	19 August 2048	33,820	Technology development building and workshop
Taishan Road South, Qihe Road, Hebi City, Henan Province, PRC	16 June 2058	35,330	Factory
North Qibin Avenue Hebi City, Henan Province, PRC	16 August 2054	20,000	Factory
Taishan Road West, QiBin Road , Hebi City, Henan Province, PRC	12 September 2058	20,000	Factory
No.15, Huanghai Road, Central Haping Road Economic and Technology Development Zone Harbin, PRC	6 June 2053	16,458	Factory
No.8, Lane 24 Hejing Road, Anting Town, Jiading District, Shanghai, PRC	1 March 2053	13,590	Factory and workshop
No.6, Jinshang Dong Lu, High Tech Development Park, Wajiang District, Wuhu City, Anwei Province, PRC	25 May 2059	51,153	Factory
Xintai Road Gaoxin District, Tieling City, Liaoning Province, PRC	13 August 2060	46,316	Factory
70 E, Silverdome Industrial Park Pontiac MI, 48342, United States of America	Freehold	9,389	Office and Warehouse
North to Songjiang Road West to Taishan Road, Hebi City, Henan,Province, PRC	23 January 2065	133,177	Office/Factory/warehouse
Levels 2 to 6, West to Xintai Road Gaoxin District, Tieling City, Liaoning Province, PRC	1 January 2015 to 30 October 2016	1,864	Staff hostel
24 Concord, Suite A El Paso, Texas 79906 United States of America	1 March 2013 to 28 February 2017	1,189	Warehouse
Dongjiao Maojia Ban Jing De Town, Jiangxi Province, PRC	1 April 2014 to 31 March 2015	10,144	Factory and office
Levels 2 and 3, Workshop, No.52A, Konggang Yu North District, Chongqing, PRC	1 April 2008 to 31 March 2018	14,525	Factory, office and Warehouse
Level 2, No. 1 and 2 Dongqing Street 10 Yinfa High-Tech Development Zone Zhengzhou, PRC	1 January 2016 to 31 December 2017	1,781	Factory and office

MAJOR PROPERTIES

As at 31 December 2015

Location	Expiry Date of Tenure	Approx Area (SQM)	Use of Property
Level 1, 4 & 5, Workshop, No. 52A, Konggang Yu North District, Chongqing, PRC	1 July 2014 to 1 March 2018	4,888	Factory, office and warehouse
Ming Hou Xian, Qing Kou Town Chuanweicai Village, Fuzhou PRC			
Staff canteen	1 February 2016 to 31 January 2022	1,568	Staff canteen
Factory	20 March 2016 to 19 March 2019	3,750	Factory
Office and Factory	1 May 2014 to 31 May 2017	7,326	Office and Factory
Fuzhou Minghou District Qingkou, 海韵国际城20#206单元	25 March 2015 to 24 March 2017	120	Staff hostel
Fuzhou Minghou District Hongshan Village	15 September 2015 to 15 October 2016	750	Staff hostel
Fuzhou Minghou District Opposite Qingkou Honger Village	17 June 2013 to 16 June 2016	420	Staff hostel
Guangxi Liuzhou New Territory Guntang Development Park B			
Block 5 2nd floor	1 May 2015 to 30 April 2016	5,316	Factory
Block 6 1st floor East 1st linked area	10 August 2015 to 9 August 2016	1,774	Factory
Block 6 2nd floor East 1st linked area	10 August 2015 to 9 August 2016	1,774	Factory
Block 6 2nd floor East 2nd linked area	1 May 2015 to 30 April 2016	1,774	Factory
Block 6 3rd floor East 1st, 2nd linked areas	1 July 2015 to 30 June 2016	3,620	Factory
Block 7 2nd floor	1 July 2015 to 30 June 2016	3,546	Factory
Staff hostel	1 October 2013 to 1 October 2023	2,266	Staff hostel
Liuzhou City Jeelung Development Park at Xingye Road	1 November 2015 to 31 October 2016	2,899	Factory

STATISTICS OF SHAREHOLDINGS

As at 29 April 2016

NO. OF SHARES ISSUED	:	681,600,000 ORDINARY SHARES
CLASS OF SHARES	:	ORDINARY SHARES OF US$0.02 EACH
VOTING RIGHTS	:	ONE VOTE PER ORDINARY SHARE
NO. OF TREASURY SHARES	:	NIL

DISTRIBUTION OF SHAREHOLDINGS

Size of shareholdings	No. of shareholders	%	Number of Shares	%
1 - 99	0	0.00	0	0.00
100 - 1,000	27	1.68	26,900	0.00
1,001 - 10,000	630	39.13	4,217,800	0.62
10,001 - 1,000,000	925	57.45	73,140,300	10.73
1,000,001 and above	28	1.74	604,215,000	88.65
Total	1,610	100.00	681,600,000	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 29 APRIL 2016

No.	Name of shareholders	Number of shares	%
1	ZORO EXPRESS INTERNATIONAL LTD	193,114,000	28.33
2	SHINE SOUND INVESTMENTS LTD	143,886,000	21.11
3	CITIBANK NOMINEES SINGAPORE PTE LTD	65,232,700	9.57
4	OCBC SECURITIES PRIVATE LTD	29,785,800	4.37
5	RAFFLES NOMINEES (PTE) LTD	27,016,000	3.96
6	DBS VICKERS SECURITIES (S) PTE LTD	19,578,900	2.87
7	UOB KAY HIAN PTE LTD	19,255,000	2.83
8	GREAT WORLD VENTURES INC.	13,368,000	1.96
9	HSBC (SINGAPORE) NOMINEES PTE LTD	13,014,000	1.91
10	GOLD CONCEPT TECHNOLOGIES LTD	12,725,000	1.87
11	PHILLIP SECURITIES PTE LTD	11,272,900	1.65
12	MAXCOMM GROUP CORPORATION	10,000,000	1.47
13	MAYBANK KIM ENG SECURITIES PTE LTD	8,334,000	1.22
14	CHINA CORE LIMITED	7,503,000	1.10
15	CIBC INVESTMENT INC	5,200,000	0.76
16	SEAH SEOW CHER	3,560,000	0.52
17	HILLSTAR DEVELOPMENT LIMITED	2,889,000	0.42
18	DBS NOMINEES PTE LTD	2,589,000	0.38
19	GRAND GUANG HOLDING LIMITED	2,502,000	0.37
20	KER BOON KEE	2,229,000	0.33
	Total:	593,054,300	87.00

FREE FLOAT

Based on the information provided to the Company as at 29 April 2016, approximately 50.56% of the issued ordinary shares of the Company was held by the public. Accordingly, Rule 723 of the Listing Manual of the Singapore Exchange Trading Limited has been complied with.

STATISTICS OF SHAREHOLDINGS

As at 29 April 2016

SUBSTANTIAL SHAREHOLDERS

1	ZORO EXPRESS INTERNATIONAL LTD	193,114,000	28.33
2	SHINE SOUND INVESTMENTS LTD	143,886,000	21.11
3	CITIBANK NOMINEES SINGAPORE PTE LTD	65,232,700	9.57

Note to the Secretary : The "Substantial Shareholders" are the registered shareholders as shown in the Register of Members and do not include shares in which they are deemed to have interest.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at Siloso 4 Level 1, Shangri-La's Rasa Sentosa Resort, 101 Siloso Road, Sentosa, Singapore 098970 on 10 June 2016 at 9.30 a.m. to transact the following businesses:

ORDINARY BUSINESS:

1. To receive and adopt the Audited Accounts for the financial year ended 31 December 2015 together with the reports of the Directors and the Auditors thereon. **(Resolution 1)**

2. To re-elect the following Directors who retire in accordance with Bye-Law 107A and 107B of the Company's Bye-Laws, and who, being eligible, offer themselves for re-election:

   (a) Mr Yang Yong Jun (under Bye-Law 107A) **(Resolution 2)**
   [Please see Explanatory Note (i)]

   (b) Mr Chua Meng Hing (under Bye-Laws 107B) **(Resolution 3)**
   [Please see Explanatory Note (ii)]

3. To approve the payment of S$185,000 as directors' fees to Independent Directors for the financial year ending 31 December 2016 and to pay the directors' fees in arrears on a quarterly basis over the financial year 2016. **(Resolution 4)**

4. To re-appoint Messrs PricewaterhouseCoopers LLP as the Auditors of the Company for financial year ending 31 December 2016 and to authorise the Directors to fix the remuneration. **(Resolution 5)**

5. Any other business.

SPECIAL BUSINESS:

To consider and, if thought fit, to pass with or without modification, the following resolutions as Ordinary Resolutions:

6. "That pursuant to the listing rules of the Singapore Exchange Securities Trading Limited, authority be and is hereby given to the Directors of the Company to allot and issue shares and convertible securities in the Company (whether by way of rights, bonus or otherwise) at any time and from time to time thereafter to such persons and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit, provided always that the aggregate number of shares and convertible securities to be issued pursuant to this resolution does not exceed 50% of the issued share capital of the Company as at the date of the passing of this resolution, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to shareholders of the Company does not exceed 20% of the issued share capital of the Company as at the date of the passing of this resolution, and for the purpose of this resolution, the issued share capital shall be the Company's issued share capital at the time this resolution is passed (after adjusting for new shares arising from the conversion or exercise of convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this resolution is passed and any subsequent consolidation or subdivision of the Company's shares), and unless revoked or varied by the Company in general meeting, such authority shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is the earlier." **(Resolution 6)**

By Order of the Board

Teo Chee Shi
Company Secretary
23 May 2016

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes

(i) Mr. Yang Yong Jun will, upon his re-election as director of the Company, remain as Non-Executive Director for the Company.

(ii) Mr Chua Meng Hing will upon his re-election as director of the Company, remains as the Chairman of the Audit Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Personal Data Privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents or service providers) for the purpose of the processing, administration and analysis by the Company (or its agents or service providers) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents or service providers), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents or service providers) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

THB

CHINA AUTO ELECTRONICS GROUP LIMITED

CHINA
233 East Part of Qibin Road
Qibin District, Hebi, Henan, PRC 458030
Tel: (86) 39 2331 4522
Fax: (86) 39 2336 2298

SINGAPORE
10 Eunos Road 8, #01-30, Singapore Post
Centre HMS Office MY HMS D 0134 426,
Singapore 408600

www.thb.com.cn