THB

CHINA AUTO ELECTRONICS GROUP LIMITED

ANNUAL REPORT 2014

Corporate Profile

We are one of the leading automotive electrical and electronics distribution system manufacturers in the PRC and the largest PRC domestic manufacturer of automotive wire harnesses and connectors.

We supply to automakers in both PRC and overseas markets, namely US, Europe, Australia and Indonesia. We have 16 production facilities across the PRC with our headquarters based in Hebi City, Henan Province, PRC, and have a subsidiary in Michigan, USA, serving the North American market.

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 engine management system. 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.

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Our Manufacturing Facilities

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

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 qualified as OEM supplier by major automakers, including Fiat Chrysler Automobiles, Dongfeng Motor Corporation, Shanghai Volkswagen Automotive Co., Ltd, FAW-Volkswagen Automobile Co., Ltd, General Motors Corporation, Chery Automobile Co., Ltd,and Changan Automobile Group Ltd. 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 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.

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 supplied 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.

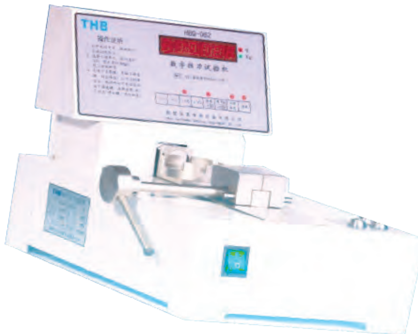
The main components of a connector are the housing and the terminal. The housing is the connector's casing and is usually made of moulded plastic. Its main functions are to hold the terminals and protect them from shorting, dust, dirt, moisture and electrical interference.

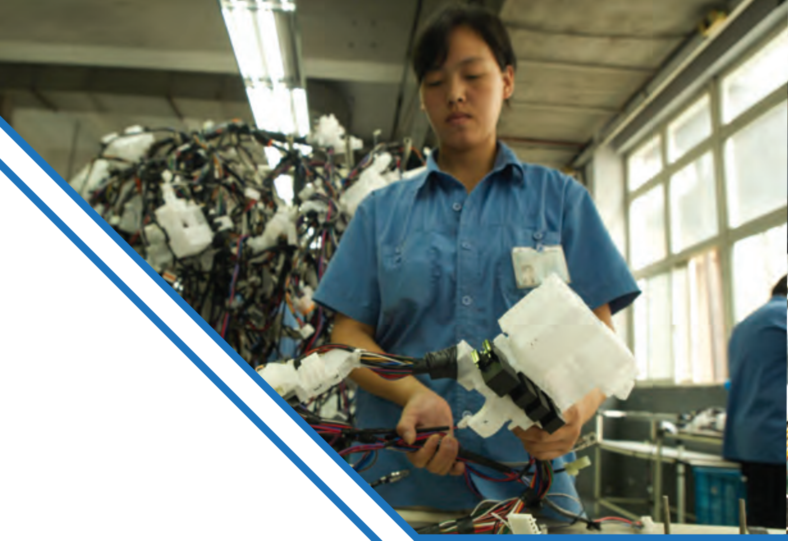
The terminal is the metal component in a connector that conducts electric current and is inserted into the connector housing.

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.





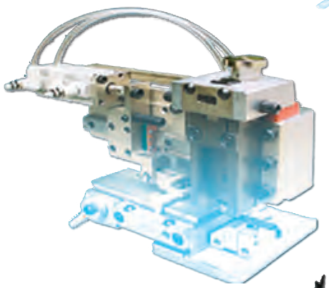
OTHER PRODUCTS

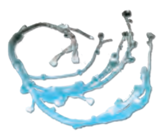
Our other products include crimping machines and moulds. Crimping machines are machines used to create a crimp connection, which is a permanent electrical and mechanical connection between a wire or wires and a conductor.

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.





Chairman's Statement

Zhang Jingtang
Executive Chairman and Director

Dear Shareholders,

The sales of automotive market in 2014 showed a stabilized YOY growth of 6.86% to 23.5 million cars, this was mainly due to the slowdown in economic growth, car ownership restriction, as well as further tightening of measures in automotive industry by the government. These factors will continue to pose a challenge for the Group's growth and development.

In 2014, the Group made adjustments to the product mix and customer base, and began to steer towards high-end market sector. We have accomplished several milestones, which include passing a number of high-end automotive supplier audits; implemented IE management system, improved production efficiencies, promoting the "Customer-centric, Performance-oriented" product development and re-engineering process to achieve commercialization of research and development efforts, managed financing risks and reduced financing costs, and strategic business expansion to achieve growth in overseas markets. With the concerted efforts of all employees in the Group, the 2014 sales grew by 17.3% to RMB2.3 billion, which exceeded the normal growth rate of China's auto industry and achieved new heights in all our economic performance indicators. The Group is now ready to enter a new milestone.

The Group also received several accolades from more than a dozen of customers, which include "General Motors 2014 Global Supplier Quality Performance Excellence Award". Such awards further solidified our relationship with customers and would bode well in enhancing the THB brand and market competitiveness.

Each respective business unit in the Group had performed outstandingly, especially so for International Business segment which achieved a strong sales growth of 45.1% in 2014, due mainly to the projects from Chrysler and General Motors, with accelerated growth anticipated in the future. Wire Harness Business segment for domestic markets also achieved a growth of more than 20%, which was mainly contributed by car manufacturers such as Chang'an, Chery and SGMW. The participation in the "Munich-Shanghai Electronics Show" had also helped the Group to increase market visibility and brand awareness. For the Electronics Business segment, the Company participated in the drafting of National Standards for relevant products, which would provide good foundation for the Group to become a designated OEMs in the future.

Value creation is the mission of the Group, thus it is the goal of our team to continue to create value for shareholders.

In 2015, the economy of China is likely to maintain sustainable growth, the automotive industry is anticipated to maintain about 7% growth rate. In order to achieve the Group's strategic goals in 2015, we are embarking plans which would include automation of manufacturing processes and innovative designs to cultivate an "Innovative THB". The Group will focus in four main areas, namely new energy vehicles, automotive electronics products, international business expansion and product localization. Other development by the Group will also be carried out, such as further integration of Group management system, improvement to the internal control system, intensify corporatization, as well as establishing enhanced manufacturing system, in order to push for further progress.

Some awards received in 2014.

We will continue to work relentlessly towards making THB to become a vibrant, prosperous and innovative brand.

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 who have continued to show unfaltering support and confidence in us. I would like to also thank all our employees, the management team and my fellow directors, especially our Non-Executive Director, Mr Li Delin, who is retiring, for their efforts, commitment and valuable guidance which has been the driving force behind our performance during the year.

Zhang Jingtang
Executive Chairman and Director

Operations Review

OVERALL

For the financial year ended 31 December 2014 ("FY2014"), Group revenue increased by 17.3% to RMB2.3 billion (FY2013: RMB2.0 billion), while net profit after tax improved by 26.2% to RMB134.5 million (FY2013: RMB106.6 million).

REVENUE

Revenue from our China Operations improved by 10.8% to RMB1.8 billion, while Overseas Operations recorded an increase by 45.1% to RMB538.6 million during the year. The increase in Overseas 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 maintained at about 20% (FY2013: 20%), while the gross profit of China and US operations had increased by 16.8% and 37.6% respectively, mainly due to higher sales volume.

Interest income decreased by RMB2.1 million (or 16.3%), which was mainly due to differences in maturity of fixed deposits.

Other income increased by RMB6.2 million to RMB13.1 million, which was mainly due to the compensation received from insurance company for the fire damage suffered by one of our subsidiaries, and subsidy income from government recognized for the financial year.

Other expenses decreased by RMB13.3 million (or 56.7%) to RMB10.2 million, which was mainly due to lower impairment loss on assets and assets being written off.

Research and development expenses increased by RMB16.5 million (or 29.4%) to RMB72.5 million, which was incurred for the development of new projects to seek opportunities to secure future sales with new and existing customers.

General and administrative expenses increased by 30.8% to RMB146.1 million, which was mainly due to increase in staff related expenses of about (RMB18.4 million) and increase in provision for asset impairment of (RMB11.0 million).

Income tax expense increased by RMB5.5 million (or 28.4%), 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 RMB28.9 million to RMB280.9 million, which was mainly due to new purchase of plant and equipment of RMB61.6 million, but offset by depreciation expenses of RMB32.1 million.

The increase in inventories, trade and other receivables was in line with the increase in sales activities. However, the decrease in trade and other payables was mainly due to faster payment to suppliers during the financial year under review. The short-term borrowings had also decreased, which was due to repayment.

CASH FLOWS

The Group generated RMB170.4 million (FY2013: RMB24.4 million) from operating activities, which was mainly due to higher amounts of profits and improved collections from trade receivables during the year. After payments for investing activities of RMB48.0 million (FY2013: RMB16.7 million) and financing activities of RMB95.1 million (FY2013: RMB24.4 million), the cash and cash equivalent as at 31 December 2014 amounted to RMB129.2 million.

OUTLOOK

The PRC economies in 2015 continues to show stable growth, which in turn has positively impacted the overall car sales growth in PRC. This would bode well for the Group's performance. The Group will continue to streamline its operations, and its effort to increase sales and expansion to overseas markets.

Barring any unforeseen circumstances, the Group remains cautiously optimistic of its performance in 2015.

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.

LI DELIN
Non Executive Director

Mr Li Delin is the Non-Executive Director of the Company.

Mr Li started his career in 1978 and went on to hold managerial positions in steel window, furniture and plastic factories. In 1988, he joined the Group as Head of Operations Department which covered sales and procurement. Throughout his career with the Group, he was also involved in domestic sales, business development and investment activities. He has retired from executive role in August 2012 and remains as a Non- Executive Director.

Mr Li graduated from the Party School of Hebi Municipal Party Committee in 1988, and obtained the Professional and Technical Qualification of Economist conferred by the Hebi Municipal Government in 1992. In 2004, he was named as a Pioneer Model Worker by the Henan Provincial Government.

He will be retiring and will not seek re-election as Director at the coming AGM of the Company.

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.

HO KER CHERN
Independent Director

Mr Ho Ker Chern is the Independent Director of the Company.

He has more than 20 years of financial control and audit experience. He began his career with an international accounting firm for five years, and subsequently went on to hold appointments as group accountant, financial controller and Chief Financial Officer in various companies, which included Singapore public listed companies.

Mr Ho graduated with a Bachelor of Commerce Degree in Accountancy from Murdoch University, Australia, in 1992 and is a Fellow of the Institute of Certified Public Accountants of Singapore.

Corporate Information

Board of Directors
Zhang Jingtang
(Executive Chairman)
Wang Laisheng
(Executive Director)
Shen Zhifu
(Non Executive Director)
Sim Hong Boon
(Lead Independent Director)
Zhang Shulin
(Independent Director)
Ho Ker Chern
(Independent Director)

Audit Committee
Ho Ker Chern (Chairman)
Sim Hong Boon
Zhang Shulin

Nominating Committee
Sim Hong Boon (Chairman)
Zhang Shulin
Ho Ker Chern

Remuneration Committee
Zhang Shulin (Chairman)
Sim Hong Boon
Ho Ker Chern

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
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
63 Cantonment Road
Singapore 089758

Bermuda Share Registrar
Appleby Management
(Bermuda) Limited
41a Cedar Avenue
Argyle House 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

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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 2014 ("FY2014"), 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 and a Remuneration 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 FY2014 are summarized in the table below:

		Board Committees		
	Board	Audit	Nominating	Remuneration
Number of meetings held	4	4	1	1
		Number of meetings attended		
Zhang Jingtang	4	–	–	–
Wang Laisheng	4	–	–	–
Li Delin	4	–	–	–
Shen Zhifu	4	–	–	–
Sim Hong Boon	4	4	1	1
Zhang Shulin	3	3	1	1
Ho Ker Chern	4	4	1	1

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.

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 and the Remuneration 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 judgement 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:

Zhang Jingtang	Executive Chairman
Wang Laisheng	Executive Director
Li Delin*	Non Executive Director
Shen Zhifu	Non Executive Director
Sim Hong Boon	Lead Independent Director
Zhang Shulin	Independent Director
Ho Ker Chern	Independent Director

* *Mr Li Delin has decided not to seek re-election at the coming Annual General Meeting of the Company.*

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 judgement 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 judgement 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".

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
Ho Ker Chern	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").

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 and the retiring Directors are eligible to offer themselves for re-election. The Nominating Committee recommended to the Board that Mr Sim Hong Boon and Mr Zhang Shulin be nominated for re-election at the forthcoming AGM.

Bye-Law 107B provides that any new director appointed shall hold office only until the next following AGM and shall then be eligible for re-election at the meeting. There were no new Directors appointed in 2014.

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
Li Delin*	Non-Executive Director	21 September 2007	20 April 2012	None
Shen Zhifu	Non-Executive Director	21 September 2007	23 April 2014	None
Sim Hong Boon	Lead Independent Director	21 September 2007	20 April 2012	None
Zhang Shulin	Independent Director	21 September 2007	20 April 2012	None
Ho Ker Chern	Independent Director	6 May 2010	23 April 2014	None

* *Mr Li Delin has decided not to seek re-election at the coming Annual General Meeting of the Company.*

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.

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
Ho Ker Chern	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 disclosure 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. 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.

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	86%	–	1%	13%
Wang Laisheng	93%	–	1%	6%
Shen Zhifu	98%	–	2%	–
Li Delin	98%	–	2%	–
Sim Hong Boon	–	100%	–	–
Zhang Shulin	–	100%	–	–
Ho Ker Chern	–	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	57%	40%	3%
Cheong How Onn **	86%	8%	6%
Zhou Ping	86%	1%	13%
Qin Hong	86%	1%	13%

** Mr Cheong How Onn has resigned as the Company's Chief Financial Officer cum Company Secretary on 31 December 2014.

No employee who was an immediate family member of a Director was paid more than S$50,000 during FY2014. "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.

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 recognises 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 2014 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:

Ho Ker Chern	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;

– 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 2014 is S$385,000 (2013:S$385,000). No non-audit services are rendered by the auditors for the financial year ended 31 December 2014.

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 2014.

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 judgement, 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 2014 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.

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 publicised 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, Certified Public Accountants, Singapore, 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 2014. 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 2014, the internal auditors had carried out their internal audit review on Hebi Haichang Special Equipment Co., Ltd, and Hebi Tianzhong Connectors Co., Ltd for the following cycles:

Hebi Haichang Special Equipment Co., Ltd

- Revenue to collection
- Production management
- Inventory management

Hebi Tianzhong Connectors Co., Ltd.

- Inventory management
- Procurement to payables
- Production 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.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, 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.

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 no non-audit fees payable to the Auditors for the financial year ended 31 December 2014. There are no material contracts entered into by the Company and its subsidiaries during the financial year ended 31 December 2014 or still subsisting as at 31 December 2014 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 2014 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 Compnay 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.

The directors present their report to the members together with the audited financial statements of the Group and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2014.

1. DIRECTORS

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

Executive Directors
Zhang Jingtang (Executive Chairman)
Wang Laisheng

Non-Executive Directors
Li Delin
Shen Zhifu

Independent Directors
Sim Hong Boon
Zhang Shulin
Ho Ker Chern

2. 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.

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

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

	Shareholdings registered in the name of a director		Shareholdings in which a director is deemed to have an interest	
	At beginning of the year	At end of the year	At beginning of the year	At end of the year
The Company (No. of ordinary shares)				
Wang Laisheng	–	–	193,114,000	193,114,000
Li Delin	–	–	143,886,000	143,886,000

(1) Wang Laisheng is deemed to haved 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 restructure as a limited liability company and was indirectly acquired by the Company pursuant to the reverse takeover which was completed in September 2007.

(2) Li Delin 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 representatives 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.

(3) In prior year, the major shareholders of the Company, Zoro Express International Ltd ("Zoro Express") and Shine Sound Investments Ltd ("Shine Sound"), agree to pledge their shareholdings in the Company of 178,735,557 shares and 132,724,727 shares respectively to Wei Hua with details as disclosed in Notes 11(c) of the Notes to the Financial Statements.

(b) The directors' interest in the ordinary shares of the Company as at 21 January 2015 and at the date of this report were the same as those as at 31 December 2014, except that Li Delin transferred his deemed interests in the shares of the Company to another representative of Shine Sound on 19 January 2015.

4. DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no director has received or become entitled to receive any benefits by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements and in this report.

5. AUDIT COMMITTEE

The members of the audit committee at the date of this report are as follows:

Ho Ker Chern – 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 internal auditor;
- the audit plan of Company's independent auditor and any recommendation 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 2014 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.

6. Independent Auditor

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

On behalf of the Board

Zhang Jingtang
Director

Wang Laisheng
Director

SINGAPORE
8 April 2015

Statement by Directors

In the opinion of the directors,

(a) the balance sheet and statement of changes in equity of the Company and the consolidated financial statements of the Group as set out on pages 30 to 85 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and the results of the business, changes in equity and cash flow of the Group and the changes of equity of the Company for the financial year then ended; and

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

On behalf of the Board

Zhang Jingtang
Director

Wang Laisheng
Director

SINGAPORE
8 April 2015

Independent Auditor's Report

to The Members of China Auto Electironics 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 30 to 85, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2014, 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 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 profit and loss accounts and balance sheets 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 Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2014, and of the results, 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, 8 April 2015

Consolidated Statement of Comprehensive Income

for the financial year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Revenue	4	**2,295,848**	1,957,621
Cost of sales		**(1,837,744)**	(1,569,024)
Gross profit		**458,104**	388,597
Other items of income			
Interest income		**10,854**	12,972
Other income	5	**13,074**	6,881
Other items of expense			
Other expenses	6	**(10,153)**	(23,438)
Selling and distribution expenses		**(45,736)**	(44,097)
Research and development expenses		**(72,544)**	(56,076)
General and administrative expenses		**(146,050)**	(111,676)
Finance costs	7	**(48,296)**	(47,274)
Profit before income tax		**159,253**	125,889
Income tax expense	9	**(24,733)**	(19,267)
Profit after income tax		**134,520**	106,622
Other comprehensive income, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Currency translation difference	22	**(1,655)**	1,245
Total comprehensive income for the year		**132,865**	107,867
Profit attributable to:			
Owners of the Company		**125,585**	101,696
Non-controlling interests		**8,935**	4,926
		134,520	106,622
Total comprehensive income attributable to:			
Owners of the Company		**123,930**	102,941
Non-controlling interests		**8,935**	4,926
		132,865	107,867
Earnings per share (RMB cents)			
Basic	12	**18.43**	14.92
Diluted	12	**18.43**	14.92

Balance Sheets

as at 31 December 2014

	Note	Group 2014 RMB'000	Group 2013 RMB'000	Company 2014 RMB'000	Company 2013 RMB'000
ASSETS					
Non-current Assets					
Property, plant and equipment	13	**280,869**	251,927	**–**	–
Intangible assets	14	**68,038**	69,733	**–**	–
Investment in subsidiaries	15	**–**	–	**198,512**	198,512
Deferred income tax assets	16	**9,663**	8,107	**–**	–
Total non-current assets		**358,570**	329,767	**198,512**	198,512
Current Assets					
Inventories	17	**448,160**	404,196	**–**	–
Trade and other receivables	18	**929,441**	879,061	**304,523**	310,929
Financial assets, available-for-sale	19	**1,800**	1,800	**–**	–
Bank deposits pledged	20	**237,547**	253,810	**–**	–
Cash and cash equivalents	20	**129,245**	102,557	**798**	687
Total current assets		**1,746,193**	1,641,424	**305,321**	311,616
TOTAL ASSETS		**2,104,763**	1,971,191	**503,833**	510,128
LIABILITIES					
Current liabilities					
Trade and other payables	23	**821,871**	712,255	**44,696**	50,689
Borrowings	24	**479,383**	583,010	**–**	–
Provision for income tax		**7,339**	5,831	**–**	–
Total current liabilities		**1,308,593**	1,301,096	**44,696**	50,689
NET CURRENT ASSETS		**437,600**	340,328	**260,625**	260,927
Non-current liabilities					
Borrowings	24	**20,247**	20,724	**–**	–
Deferred income	25	**20,439**	22,652	**–**	–
Total non-current liabilities		**40,686**	43,376	**–**	–
TOTAL LIABILITIES		**1,349,279**	1,344,472	**44,696**	50,689
NET ASSETS		**755,484**	626,719	**459,137**	459,439
EQUITY					
Share capital	21	**490,115**	490,115	**623,026**	623,026
Other reserves	22	**250,746**	237,373	**71,753**	71,753
Accumulated losses		**(31,585)**	(140,821)	**(235,642)**	(235,340)
Equity attributable to owners of the Company		**709,276**	586,667	**459,137**	459,439
Non-controlling interests		**46,208**	40,052	**–**	–
TOTAL EQUITY		**755,484**	626,719	**459,137**	459,439
TOTAL EQUITY AND LIABILITIES		**2,104,763**	1,971,191	**503,833**	510,128

Consolidated Statement of Changes in Equity

for the financial year ended 31 December 2014

	Share Capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Attributable to owners of the Company RMB'000	Non-controlling Interests RMB'000	Total Equity RMB'000
	Note 21	Note 22				
Group						
At 1 January 2014	490,115	237,373	(140,821)	586,667	40,052	626,719
Profit net of income tax	–	–	125,585	125,585	8,935	134,520
Currency translation difference	–	(1,655)	–	(1,655)	–	(1,655)
Total comprehensive income for the year	–	(1,655)	125,585	123,930	8,935	132,865
Changes in shareholdings of non-controlling interest in subsidiaries	–	(1,321)	–	(1,321)	(379)	(1,700)
Dividend payment 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 2013	490,115	228,164	(234,940)	483,339	37,413	520,752
Profit net of income tax	–	–	101,696	101,696	4,926	106,622
Currency translation difference	–	1,245	–	1,245	–	1,245
Total comprehensive income for the year	–	1,245	101,696	102,941	4,926	107,867
Changes in shareholdings of non-controlling interest in subsidiaries	–	387	–	387	1,313	1,700
Dividend payment to non-controlling interests	–	–	–	–	(3,600)	(3,600)
Transfer to PRC statutory reserves	–	7,577	(7,577)	–	–	–
At 31 December 2013	490,115	237,373	(140,821)	586,667	40,052	626,719

Statement of Changes in Equity - Company

for the financial year ended 31 December 2014

	Share capital RMB'000	Other reserves RMB'000	Accumulated losses RMB'000	Total equity RMB'000
	Note 21	Note 22		
Company				
At 1 January 2014	623,026	71,753	(235,340)	459,439
Loss net of 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 2013	623,026	71,753	(227,511)	467,268
Loss net of income tax, representing total comprehensive loss for the year	–	–	(7,829)	(7,829)
At 31 December 2013	623,026	71,753	(235,340)	459,439

Consolidated Statement of Cash Flows

for the financial year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Profit before income tax		**159,253**	125,889
Adjustments for:			
Amortisation of intangible assets	14	**2,071**	2,131
Depreciation of property, plant and equipment	13	**32,135**	28,590
Allowance for slow-moving inventories	17	**18,365**	21,183
Provision of impairment loss on property, plant and equipment	13	**–**	3,726
Provision/(Reversal) of allowance for doubtful trade and other receivables	8	**7,214**	(4,236)
Waiver of trade payables	5	**(698)**	–
(Gain)/Loss on disposal of property, plant and equipment	5,6	**(183)**	709
Interest income		**(10,854)**	(12,972)
Interest expense	7	**48,296**	47,274
Amortisation of government grant	25	**(2,213)**	(1,336)
Foreign currency translation loss/(gain)		**685**	449
Operating profit before working capital changes		**254,071**	211,407
<u>Changes in working capital</u>			
Inventories	17	**(62,329)**	(39,100)
Trade and other receivables	18	**(58,807)**	(176,155)
Trade and other payables		**51,438**	27,781
Cash generated from operations		**184,373**	23,933
Interest received		**10,854**	12,972
Income tax paid		**(24,781)**	(12,546)
Net cash generated from operating activities		**170,446**	24,359
Cash flows from investing activities			
Purchases of property, plant and equipment		**(46,713)**	(25,127)
Net cash outflow from acquisition of additional interest in a subsidiary	15	**(1,700)**	–
Purchases of intangible assets		**(376)**	(561)
Proceeds from disposal of property, plant and equipment		**787**	2,897
Cash received from assets-related government grants	25	**–**	6,100
Cash received from disposal of investment in equity funds		**–**	30
Net cash used in investing activities		**(48,002)**	(16,661)
Cash flows from financing activities			
Proceeds from borrowings	24	**1,005,571**	884,778
Repayment of borrowings	24	**(1,109,675)**	(754,197)
Changes in bills payable		**43,466**	(86,309)
Decrease in pledged bank deposits	20	**16,263**	31,004
Interest paid		**(48,296)**	(47,274)
Dividends paid to non-controlling interest		**(2,400)**	(3,600)
Net cash (used in)/generated from financing activities		**(95,071)**	24,402
Net increase in cash and bank balances		**27,373**	32,100
Exchange loss on cash and cash equivalents		**(685)**	(449)
Cash and cash equivalents at beginning of financial year		**102,557**	70,906
Cash and cash equivalents at end of financial year	20	**129,245**	102,557

These notes 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 215 East Part of Qibin Road, Qibin District, Hebi, Henan, People's Republic of China ("PRC").

The principal activity of the Company is that of investment holding. The principal activities of its subsidiaries are disclosed in Notes 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"). The financial statements have been prepared 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.

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 2014

On 1 January 2014, the Group adopted the new or amended FRS and Interpretations to FRS ("INT FRS") that are mandatory for application for 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.

(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 customers, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(2) Revenue Recognition (continued)

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) 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 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 ability to affect those return through its power over entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated 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 it's net assets, which is attributable to the interests which 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.

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 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 the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

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 identifiable net 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 remeasured 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" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Group accounting (continued)

(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 Company. 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.

(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

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Intangible Assets (continued)

(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 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.

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.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(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.

(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 if, and 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 recognized in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(b) Recognition and derecognition

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 derecognised 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 derecognised 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(10) Financial assets (continued)

(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.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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.

Sales and leaseback transactions with a call option that is set at a significant discount to the expected fair value when it becomes exercisable and other factors indicate that the seller needs the assets to use on an ongoing basis (seller / lessee effectively controls the assets) are treated as secured borrowings instead of finance leases.

(13) 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 measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(14) 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 lessors) 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.

(15) 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.

(16) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(16) Income taxes (continued)

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 the 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.

(17) 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 expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the 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.

(18) 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 employee 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(18) Employee compensation (continued)

(a) Defined contribution plans - Retirement benefits (continued)

Pursuant to the relevant regulations of the People's Republic of China ("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) Share-Based Compensation

For the equity-settled share-based compensation transactions, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in the share option reserve over the vesting period. The total amount to be expensed on a straight-line basis over the vesting period is determined by reference to the fair value of the options granted on the date of the grant excluding the effect of non-market conditions such as profitability and sales growth targets. Non-market vesting conditions are included in the estimation of the number of options that are expected to become exercisable on the vesting date.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(c) 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 earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises cost for a restructuring that is within the scope of FRS 37 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.

(19) 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.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

(19) Currency translation (continued)

(b) Transactions and balances

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 translation 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 translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

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

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.

(20) 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.

(21) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(22) 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 or reissued pursuant to an employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve.

(23) Dividends to shareholders

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

(24) 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.

(25) 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.

(26) 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.

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 doubtful 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 2014 is RMB 280,869,000 (2013: RMB 251,927,000). The estimated useful lives of property, plant and equipment have been assessed as appropriate by management.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

(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 2014 is RMB 448,160,000 (2013: RMB 404,196,000). 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 Company will re-evaluate and estimate. The Company performs review and adjustment on profit forecast and estimates at each year end.

If no sufficient future taxable profit will be available against which the temporary differences can be utilised as at 31 December 2014, the Group will have to write off deferred income tax asset to the extent of RMB 9,663,000 (2013: RMB 8,107,000) as income tax expenses.

4. REVENUE

	Group	
	2014 RMB'000	2013 RMB'000
Sales of finished goods	2,122,654	1,805,168
Sales of raw materials	173,194	152,453
	2,295,848	1,957,621

5. OTHER INCOME

	Group	
	2014 RMB'000	2013 RMB'000
Gain on disposal of property, plant and equipment	183	–
Subsidy income	5,618	4,156
Insurance compensation for fire incident [(a)]	2,773	–
Waiver of trade payables [(b)]	698	–
Product's quality compensation from suppliers	608	307
Gain on disposal of scrapped materials	591	921
Rent	123	–
Others	2,480	1,497
	13,074	6,881

5. OTHER INCOME (continued)

(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 current financial year, the Group received insurance compensation for the fire amounting to RMB 2,773,000.

(b) In 2014, Henan Tianhai Electronic Co. Ltd, a subsidiary of the Group, obtained waiver of trade payables amounting RMB 698,000 due to defective goods from suppliers and for long outstanding payables which is not expected to be paid in the foreseeable future.

6. OTHER EXPENSES

	Group	
	2014	2013
	RMB'000	RMB'000
Loss from disposal of property, plant and equipment	–	709
Foreign exchange loss	**2,493**	4,358
Bank charges	**5,726**	8,972
Penalty claim	**322**	462
Impairment loss on property, plant and equipment [(a)]	–	3,726
Others	**1,612**	5,211
	10,153	23,438

(a) In prior financial year, Hebi Tianhai Huanqiu Electric Co. Ltd, a subsidiary of the Group recorded a full impairment loss over property, plant and equipment of RMB 3,726,000 (Note 13), as management assessed that these property, plant and equipment will not result in inflow of economic benefits to the Group.

7. FINANCE COSTS

	Group	
	2014	2013
	RMB'000	RMB'000
Interest expenses on		
- Bank borrowings	**35,746**	34,634
- Discounted bills receivable	**12,550**	12,640
	48,296	47,274

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	
	2014	2013
	RMB'000	RMB'000
Charging/(crediting):		
Cost of inventories recognised as an expense (Note 17)	**1,260,410**	1,011,175
Depreciation of property, plant and equipment (Note 13)	**32,135**	28,590
Rental expense on operating lease	**10,785**	8,588
Amortisation of intangible assets (Note 14)	**2,071**	2,131
Impairment loss on property, plant and equipment	**–**	3,726
Provision/(reversal) of allowance for doubtful trade and other receivables (Note 18)	**7,214**	(4,236)
Provision of allowance for inventories (Note 17)	**18,365**	21,183

9. INCOME TAX EXPENSE

The major components of income tax expense for the financial years ended 31 December 2014 and 2013 are as below:

	Group	
	2014	2013
	RMB'000	RMB'000
Income tax expense for the year – current year	**26,289**	20,737
Recognition of deferred income tax assets (Note 16)	**(1,556)**	(1,470)
Income tax expense recognised in profit or loss	**24,733**	19,267

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

	Group	
	2014	2013
	RMB'000	RMB'000
Profit before income tax	**159,253**	125,889
Tax calculated at tax rate of 25% (2013: 25%)	**39,813**	31,472
Tax effects of:		
Expense not deductible for tax purposes	**1,888**	2,436
Research and development super-deduction expense	**(6,451)**	(8,109)
Different income tax rate impact	**(11,278)**	(5,866)
Utilisation of previously unrecognised tax losses	**(5,361)**	(6,174)
Current year unrecognised tax losses	**3,560**	5,508
Underprovision in prior year	**2,562**	–
Income tax expense	**24,733**	19,267

9. INCOME TAX EXPENSE (continued)

The Company has no taxable income for the financial year ended 31 December 2014 (2013: Nil).

The PRC subsidiaries

The statutory income tax rate for PRC subsidiaries is 25% (2013: 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 tax rates are 15% (2013: 15%) for the financial year ended 31 December 2014. 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 (Changqing) Auto Electric Co., Ltd to adopt 15% for 2014 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% (2013: 15% to 35%), applied to all taxable income. The US subsidiary has income tax expenses of RMB 0.4 million in financial year ended 31 December 2014 (2013: Nil).

The tax credit relating to each component of other comprehensive income is as follows:

	2014			2013		
	Before Tax RMB'000	Tax Credit RMB'000	After Tax RMB'000	Before Tax RMB'000	Tax Credit RMB'000	After Tax RMB'000
Currency translation differences arising from consolidation of subsidiaries	(1,655)	–	(1,655)	1,245	–	1,245
Other comprehensive income/(loss)	(1,655)	–	(1,655)	1,245	–	1,245

10. STAFF COSTS

	Group 2014 RMB'000	Group 2013 RMB'000
Wages and salaries	299,750	248,862
Employees expenses relating to defined contribution plans	45,201	32,194
Other staff related expenses	21,843	14,735
Directors' remuneration included in staff costs	828	757
Directors' fees	750	750
	368,372	297,298

11. RELATED PARTY TRANSACTIONS

Related parties in these financial statements refer to 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) Purchases of goods

	Group	
	2014	2013
	RMB'000	RMB'000
Purchases from related parties- non- controlling shareholders	–	951

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

Key management personnel compensation is analysed as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Salaries and other short-term employee benefits	3,080	3,488
Defined contribution plans	308	276
	3,338	3,764
Comprises amounts paid to:		
- Directors of the Company	828	757
- Other key management personnel	2,560	3,007
	3,338	3,764

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 (Note 27(c)).

In prior year, 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 respectively, 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 May 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.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	Group 2014 RMB'000	Group 2013 RMB'000
Basic earnings per share		
Profit after income tax attributable to owners of the Company (in RMB'000)	**125,585**	101,696
Weighted average number of ordinary shares for the purpose of basic earnings per share (in RMB'000)	**681,600**	681,600
Basic earnings per share (in RMB cents)	**18.43**	14.92

Diluted earnings per share is the same as basic earnings per share as the Company does not have potential dilutive shares.

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 2013	130,214	230,571	2,459	30,830	12,068	3,696	409,838
Additions	935	14,441	3,475	2,430	2,271	668	24,220
Transfer of construction in progress	–	2,565	(2,565)	–	–	–	–
Disposals	–	(36,848)	–	(5,279)	(1,664)	(2,320)	(46,111)
Foreign exchange adjustment	(186)	40	–	(181)	–	–	(327)
At 31 December 2013	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)
Foreign exchange adjustment	22	–	–	53	–	–	75
At 31 December 2014	133,820	253,628	9,321	30,739	13,309	2,245	443,062
Accumulated depreciation and Impairment loss							
At 1 January 2013	20,158	97,573	–	18,924	7,085	2,212	145,952
Charge for the year	4,457	19,417	–	2,802	1,708	206	28,590
Impairment loss (Note 6(a))	–	3,726	–	–	–	–	3,726
Disposals	(792)	(36,315)	–	(2,584)	(1,298)	(1,516)	(42,505)
Foreign exchange adjustment	–	–	–	(70)	–	–	(70)
At 31 December 2013	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)
Foreign exchange adjustment	1	–	–	5	–	–	6
At 31 December 2014	28,426	102,605	–	21,128	8,770	1,264	162,193
Net book value							
At 31 December 2013	107,140	126,368	3,369	8,728	5,180	1,142	251,927
At 31 December 2014	105,394	151,023	9,321	9,611	4,539	981	280,869

13. PROPERTY, PLANT AND EQUIPMENT (continued)

As 31 December 2014, buildings of the Group with a total carrying value of RMB 32,866,000 (2013: RMB 60,133,000) were pledged to secure borrowings as disclosed in Note 24.

As at 31 December 2013, management had assessed that certain equipment will no longer be put into use in future, and accordingly, an impairment loss of RMB 3,726,000 (Note 6(a)) had been recorded in 2013.

In 2014, the amounts of depreciation expense charged to cost of sales, selling and distribution expenses, general and administrative expenses were RMB 23,179,000 (2013: RMB 20,259,000), RMB 186,000 (2013: RMB 71,000) and RMB 8,770,000 (2013: RMB 8,260,000) respectively.

	Company	
	Office equipment RMB'000	Total RMB'000
Cost		
At 1 January 2013 and 1 January 2014	51	51
Additions	–	–
At 31 December 2013 and 31 December 2014	51	51
Accumulated Depreciation		
At 1 January 2013	42	42
Charge for the year	9	9
At 31 December 2013	51	51
Charge for the year	–	–
At 31 December 2014	51	51
Net Book Value		
At 31 December 2013	–	–
At 31 December 2014	–	–

14. INTANGIBLE ASSETS

		Group	
	Note	2014 RMB'000	2013 RMB'000
Goodwill arising on acquisition	(a)	9,713	9,713
Land use rights	(b)	54,848	56,264
Other intangible assets	(b)	3,477	3,756
		68,038	69,733

14. INTANGIBLE ASSETS (continued)

(a) Goodwill arising on acquisition

	Group	
	2014	2013
	RMB'000	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), (ii) Connectors (China operations), (iii) Model and machinery (China operations) and (iv) Wire harness (America operations).

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

	Group	
	2014	2013
	RMB'000	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.

The key assumptions used in the value-in-use calculations in 2014 are as follows:

	Connectors China operations	Wire harness China operations
Gross margin	35%	10%
Growth rate	10%	10%
Pre-tax discount rate	7.2%	7.2%

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.

In Connectors (China operations), the recoverable amount is calculated based on value in use and exceeded carrying value by RMB 228,353,000 (2013: RMB 108,981,337) for the asset groups, including property, plant and equipment, goodwill and other intangible assets. A reduction in gross margin to 22% (2013: 24%), a fall in growth rate to nil (2013: nil), or an increase in discount rate to 57% (2013: 49%) would remove the remaining headroom.

14. INTANGIBLE ASSETS (continued)

(a) Goodwill arising on acquisition (continued)

In Wire harness (China operations), the recoverable amount is calculated based on value in use and exceeded carrying value by RMB 16,356,000 (2013: RMB 66,595,000) for the asset groups including property, plant and equipment, goodwill and other intangible assets. A reduction in gross margin to 9.8% (2013: 2.7%), a fall in growth rate to 5% (2013: nil), or an increase in discount rate to 8.8% (2013: 25%) would remove the remaining headroom.

(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
At 1 January 2013	62,537	6,595	2,795	71,927
Additions	–	566	1,700	2,266
Disposals	(18)	–	–	(18)
Foreign exchange adjustment	–	(5)	–	(5)
At 31 December 2013	62,519	7,156	4,495	74,170
Additions	–	376	–	376
At 31 December 2014	62,519	7,532	4,495	74,546
Accumulated amortisation and Accumulated impairment				
At 1 January 2013	4,829	5,025	2,183	12,037
Amortisation for the year	1,444	683	4	2,131
Transfer out	(18)	–	–	(18)
At 31 December 2013	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
Carrying amount				
At 31 December 2013	56,264	1,448	2,308	60,020
At 31 December 2014	54,848	1,173	2,304	58,325

Land use rights of the Group with a total carrying amount of RMB 23,208,000 as at 31 December 2014 (2013: RMB 29,267,000) were pledged to secure borrowings as disclosed in Note 24.

In 2014, amortisation of RMB 2,071,000 (2013: RMB 2,131,000) is included in "general and administrative expenses" in the consolidated statement of comprehensive income.

15. INVESTMENT IN SUBSIDIARIES

	Company 2014 RMB'000	Company 2013 RMB'000
Unquoted equity shares, at cost	**198,512**	198,512

15. INVESTMENT IN SUBSIDIARIES (continued)

The Company has the following subsidiaries as at 31 December 2014:

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	
			2014	2013	**2014**	2013	**2014**	2013
			%	%	**%**	%	**%**	%
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
Wuhu Tianxin Electric Parts Co., Ltd. (#)	Manufacturing and trading of automobile wire harnesses	PRC	**–**	–	**100**	100	**–**	–

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	
			2014	2013	**2014**	2013	**2014**	2013
			%	%	**%**	%	**%**	%
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**	80	**–**	20
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 Snowcity (Chongqing) Auto Electric Co., Ltd.	Manufacturing and trading of automobile wire harnesses	PRC	**–**	–	**100**	100	**–**	–
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	**–**	–

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	
			2014	2013	**2014**	2013	**2014**	2013
			%	%	**%**	%	**%**	%
THB Europe GMBH	Manufacturing and trading of automobile wire harnesses	GER	**–**	–	**100**	100	**–**	–
	Manufacturing and trading of automobile wire harnesses	PRC	**–**	–	**51**	51	**49**	49
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. Henan Kadan Electronic Technology Co, Ltd.	Research and development of automobile electronics products, automobile wire harnesses	PRC	**–**	–	**75**	75	**25**	25

(#) The subsidiaries listed above are audited by PricewaterhouseCoopers LLP, Singapore, for the purpose of preparing the consolidated financial statements.

(*) On 16 March 2014, Henan Tianhai Electric., 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.

Significant restrictions

Cash and short-term deposits of RMB 366,792,000 (2013: RMB 356,367,000) 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.

	2014	2013
	RMB'000	RMB'000
Shanghai Zhong'an Electrical & Plastic Co., Ltd.	**23,492**	21,972
Jiangxi Changhe Tianhai Electric Parts Co., Ltd.	**6,064**	5,162
Fujian Juan Kuang Wireharness Electric Co., Ltd.	**13,076**	11,265
Other subsidiaries with immaterial non-controlling interest	**3,576**	1,653
Total	**46,208**	40,052

15. INVESTMENT IN SUBSIDIARIES (continued)

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 2014 and 2013.

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	
	2014	2013	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current						
Assets	**66,106**	56,931	**40,558**	40,038	**47,776**	52,587
Liabilities	**(24,668)**	(23,522)	**(29,484)**	(31,750)	**(22,238)**	(30,958)
Total current net assets	**41,438**	33,409	**11,074**	8,288	**25,538**	21,629
Non-current						
Assets	**17,292**	21,521	**4,086**	4,618	**4,181**	3,974
Liabilities	**–**	–	**–**	–	**–**	–
Total non-current net assets	**17,292**	21,521	**4,086**	4,618	**4,181**	3,974
Net assets	**58,730**	54,930	**15,160**	12,906	**29,719**	25,603

15. INVESTMENT IN SUBSIDIARIES (continued)

Summarised income statement

	Shanghai Zhong'an Electrical & Plastic Co., Ltd. For period ended 31 December		Jiangxi Changhe Tianhai Electric Parts Co., Ltd. For period ended 31 December		Fujian Juan Kuang Wireharness Electric Co., Ltd. For period ended 31 December	
	2014	2013	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**93,869**	82,634	**71,023**	59,088	**61,419**	59,600
Profit/(loss) before income tax	**13,552**	11,912	**3,105**	(307)	**5,773**	5,280
Income tax expense	**(3,754)**	(3,430)	**(851)**	(155)	**(1,657)**	(1,189)
Profit/(loss) after income tax	**9,798**	8,482	**2,254**	(462)	**4,116**	4,091
Other comprehensive income	**–**	–	**–**	–	**–**	–
Total comprehensive income	**9,798**	8,482	**2,254**	(462)	**4,116**	4,091
Total comprehensive income allocated to non-controlling interests	**3,919**	3,393	**902**	(185)	**1,811**	1,800
Dividends paid to non-controlling interests	**2,400**	2,400	**–**	1,200	**–**	–

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	
	2014	2013	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash flows from operating activities						
Cash generated from/(used in) operations	**12,676**	8,632	**(1,105)**	10,492	**(4,045)**	11,028
Interest income received	**15**	10	**9**	9	**356**	357
Income tax paid	**(4,405)**	(2,353)	**(859)**	(73)	**(1,723)**	(963)
Net cash generated from/(used in) operating activities	**8,286**	6,289	**(1,955)**	10,428	**(5,412)**	10,422
Net cash used in investing activities	**(250)**	(1,735)	**(14)**	–	**(896)**	(1,272)
Net cash (used in)/ generated from financing activities	**(6,874)**	(215)	**–**	(9,241)	**5,371**	(10,291)
Net increase/ (decrease) in cash and cash quivalents	**1,162**	4,339	**(1,969)**	1,187	**(937)**	(1,141)
Cash and cash equivalents at beginning of financial year	**6,812**	2,473	**2,770**	1,583	**4,750**	5,891
Cash and cash equivalents at end of financial year	**7,974**	6,812	**801**	2,770	**3,813**	4,750

16. DEFERRED INCOME TAX

The analysis of deferred income tax assets is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Deferred income tax assets (to be recovered within one year)	**6,919**	4,808
Deferred income tax assets (to be recovered after one year)	**2,744**	3,299
Total deferred income tax assets	**9,663**	8,107

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 2014 and 2013:

	Group			
	Government grants	Provisions	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred income tax assets				
At 1 January 2013	2,683	1,486	2,468	6,637
Tax credited/debited to profit and loss (Note 9)	715	1,595	(840)	1,470
At 31 December 2013	3,398	3,081	1,628	8,107
Tax credited/debited to profit and loss (Note 9)	(332)	(370)	2,258	1,556
At 31 December 2014	3,066	2,711	3,886	9,663

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 32,595,000 (2013: RMB 30,192,000) in respect of losses amounting to RMB 130,378,000 (2013: RMB 120,767,000) that can be carried forward against future taxable income.

Deferred income tax liabilities of RMB 42,194,000 (2013: RMB 30,684,000) 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 421,936,000 at 31 December 2014 (2013: RMB 306,836,000). 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	
	2014	2013
	RMB'000	RMB'000
Raw materials	**193,912**	186,375
Work-in-progress	**36,717**	31,109
Finished goods	**229,002**	199,705
Inventories total - gross	**459,631**	417,189
Provision	**(11,471)**	(12,993)
Inventories total - net	**448,160**	404,196
Movement in allowance:		
At 1 January	**12,993**	12,425
Additions	**18,365**	21,988
Reversal	**–**	(805)
Write-off	**(19,887)**	(20,615)
At 31 December	**11,471**	12,993

The cost of inventories recognised as an expense and included in "cost of sales" amounted to RMB 1,260,410,000 (2013: RMB 1,011,175,000).

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bills receivable	**199,812**	171,129	**–**	–
Trade receivables-third parties	**691,803**	656,821	**–**	–
Less: Allowance for impairment	**(13,589)**	(7,072)	**–**	–
Other receivables-third parties	**26,159**	26,392	**–**	65
Less: Allowance for impairment	**(1,030)**	(1,850)	**–**	–
Amounts due from subsidiaries (non - trade)	**–**	–	**304,377**	310,718
Advance payments to suppliers	**16,054**	25,346	**146**	146
Deposits	**7,177**	5,638	**–**	–
Prepayments	**2,124**	1,579	**–**	–
Receivables from related parties				
- Trade	**331**	478	**–**	–
- Non – trade	**600**	600	**–**	–
	929,441	879,061	**304,523**	310,929

18. TRADE AND OTHER RECEIVABLES (continued)

Movement of allowance for impairment on trade receivables:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**7,072**	12,651	**–**	–
Allowance during the year	**7,659**	1,060	**–**	–
Reversal of allowance for doubtful receivables	**(445)**	(5,330)	**–**	–
Write-off of doubtful receivables	**(697)**	(1,309)	**–**	–
At 31 December	**13,589**	7,072	**–**	–

Movement of allowance for impairment on other receivables:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**1,850**	1,816	**–**	2
Allowance during the year	**–**	34	**–**	–
Write-off of doubtful receivables	**(820)**	–	**–**	(2)
At 31 December	**1,030**	1,850	**–**	–

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

As at 31 December 2014, some of the bills receivable are used to secure the bills payable as disclosed in Notes 23.

As at 31 December 2014, trade receivables of RMB 172,595,000 (2013: RMB 307,108,000) was pledged to secure 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.

The aging analysis of trade receivables is as follows:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current	**598,830**	541,026	**–**	–
Up to 3 months	**73,505**	103,552	**–**	–
More than 3 months	**19,468**	12,243	**–**	–
	691,803	656,821	**–**	–

18. TRADE AND OTHER RECEIVABLES (continued)

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
US dollar	**100,520**	94,941	**–**	–
Euro	**5,087**	5,817	**–**	–
RMB	**586,196**	556,063	**–**	–
	691,803	656,821	**–**	–

19. FINANCIAL ASSETS, AVAILABLE-FOR-SALE

	Group	
	2014	2013
	RMB'000	RMB'000
Comprised:		
Quoted investments, at fair value	**–**	–
Unquoted investments, at cost	**1,800**	1,800
	1,800	1,800
<u>Quoted investments, at fair value</u>		
At 1 January	**–**	30
Disposal during the financial year	**–**	(30)
At 31 December	**–**	–
<u>Unquoted investments, at cost</u>		
At 1 January	**2,623**	2,623
Less: Allowance for impairment	**(823)**	(823)
At 31 December	**1,800**	1,800

The quoted investments represent investments in an equity fund which was measured at the quoted closing market prices on the last trading day of the financial year.

The unquoted investments stated at cost less allowance for impairment have no market prices and the fair value cannot be reliably measured using the valuation techniques. The directors are of the view that the fair values of these unquoted investments and any changes in the fair values will have no significant impact to the Group's consolidated financial statements.

20. CASH AND CASH EQUIVALENTS

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**366,792**	356,367	**798**	687
Less: Bank deposits pledged	**(237,547)**	(253,810)	**–**	–
Cash and cash equivalents	**129,245**	102,557	**798**	687

The cash and bank balances comprise the following:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash in hand	**116**	162	**–**	–
Cash at bank	**366,676**	356,205	**798**	687
	366,792	356,367	**798**	687

Bank deposits pledged represent bank balances held by banks to cover bills payable as disclosed in Note 23 and to secure the bank facilities 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 2014 and 31 December 2014 (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 2013 and 31 December 2013 (par value: Singapore dollar 0.10 per share)	681,600	490,115	681,600	623,026

22. OTHER RESERVES

Group	Capital reserves	Contributed surplus*	Share option reserve	Translation reserve	Total
At 1 January 2013	155,203	70,613	1,676	672	228,164
Changes in shareholding in non-controlling interests of subsidiaries	–	387	–	–	387
Currency translation differences	–	–	–	1,245	1,245
Transfer to PRC statutory reserves	7,577	–	–	–	7,577
At 31 December 2013	**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**

Company	Contributed surplus* RMB'000	Share option reserve RMB'000	Total RMB'000
At 1 January 2013 and 31 December 2013	70,077	1,676	71,753
At 1 January 2014 and 31 December 2014	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 the subsidiary to a limited liability company in the previous years.

22. OTHER RESERVES (continued)

Capital reserves (continued)

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

With the exception of 4 PRC joint ventures (“JV”), the Group’s 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 showed in its statutory financial statement 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 2014, the Group made total appropriations to their statutory common reserve fund amounting RMB 15,356,000 (2013: RMB 7,114,000).

The PRC joint ventures 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 joint ventures. During the year ended 31 December 2014, the joint ventures made appropriations to these statutory reserves amounting RMB 993,000 (2013: RMB 463,000).

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, that 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.

23. TRADE AND OTHER PAYABLES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**477,770**	426,593	**–**	–
Bills payable	**213,607**	170,141	**–**	–
Other payables	**75,771**	60,067	**–**	–
Amounts due to subsidiaries (non-trade)	**–**	–	**42,392**	47,283
Amounts due to related parties: - Trade	**–**	600	**–**	–
Dividends payable to non-controlling interests	**–**	180	**–**	–
Accruals	**9,884**	10,072	**2,304**	3,406
Provision for guarantee obligation (Note 27(a))	**40,000**	40,000	**–**	–
Advance receipts from customers	**4,044**	3,182	**–**	–
Deposits	**795**	1,420	**–**	–
	821,871	712,255	**44,696**	50,689

Bills payable are secured by certain bank deposits held by the banks as disclosed in Note 20, bill receivable in Note 18 and the counter guarantees mentioned in Note 27(c).

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

24. BORROWINGS

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
Secured borrowings	**20,247**	20,724	**–**	–
Current				
Secured borrowings	**245,383**	414,010	**–**	–
Unsecured borrowings	**234,000**	169,000	**–**	–
	479,383	583,010	**–**	–
Total borrowings	**499,630**	603,734	**–**	–

The Group's borrowings bear interest rate ranging from 1.24% to 12.3% (2013: 1.28% to 10.8%) per annum. The secured borrowings are secured by the pledge of the Group's property, plant 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 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 (Note 20).

24. BORROWINGS (continued)

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**479,383**	583,010	**–**	–
Between 1 and 2 years	**13,272**	15,275	**–**	–
Between 2 and 5 years	**6,975**	5,449	**–**	–
	499,630	603,734	**–**	–

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
US dollar	**146,932**	173,720	**–**	–
RMB	**352,698**	430,014	**–**	–
	499,630	603,734	**–**	–

25. DEFERRED INCOME

	Group	
	2014	2013
	RMB'000	RMB'000
Government grants related to assets	**20,439**	22,652

There are no additional government grants that give rise to deferred income in the current financial year; the reduction of RMB 2,213,000 (2013: RMB 1,336,000) relates to amortisation for the year. In accordance with the accounting policy described in Note 2(3), the government grants relating to purchase and/or construction of plant, property 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.

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	
	2014	2013
	RMB'000	RMB'000
Capital commitments in respect of:		
Payment for additions of property, plant and equipment	**31,845**	27

26. COMMITMENTS (continued)

(a) Capital commitments (continued)

The capital commitment as at 31 December 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.

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

	Group	
	2014	2013
	RMB'000	RMB'000
Within one year	**8,323**	5,209
Within two to five years	**11,152**	10,315
After five years	**1,224**	1,577
	20,699	17,101

27. CONTINGENT LIABILITIES

(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 judgement 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 judgement 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 judgement, in favour of ADBC, for RMB 40,600,000 and interest amount of approximately RMB 5,200,000 for the period from 31 May 2009 to 13 October 2010, which is calculated 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 December 2014, this case is 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 2014 is sufficient to cover the loss that Henan Tianhai will probably incur as a result of this legal case. Therefore, no additional provision was made in the Group's consolidated financial statements as at and for the year ended 31 December 2014 for the contingent liability associated with the aforementioned interests of approximately RMB 5,200,000.

27. CONTINGENT LIABILITIES (continued)

(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 at 31 December 2014.

(c) The Group's subsidiary, Henan Tianhai Electronics 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 170,000,000 (2013: RMB 86,900,000) as at 31 December 2014. Management is of the view that no liability will arise from the corporate guarantee provided to the third parties as at 31 December 2014.

28. SEGMENT INFORMATION

(a) Business segments

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), (iv) Wire harness (America operations).

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

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.

28. SEGMENT INFORMATION (continued)

(b) Geographical 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	1,349,486	411,370	79,719	425,750	29,523	–	2,295,848
Inter-segment	604,412	160,064	22,457	112,842	7,224	(906,999)	–
Total revenue	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							(261,409)
Interest income							10,854
Finance costs							(48,296)
Profit before income tax							159,253
Income tax expense							(24,733)
Profit after income tax							134,520

	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 2013							
REVENUE							
External customers	1,238,615	343,149	63,189	281,425	31,243	–	1,957,621
Inter-segment	469,743	178,798	11,477	89,701	11,863	(761,582)	–
Total revenue	1,708,358	521,947	74,666	371,126	43,106	(761,582)	1,957,621
Segment results							
Segment gross profit	153,384	181,088	29,947	19,606	6,261	(1,689)	388,597
Unallocated expenses, Net							(228,406)
Interest income							12,972
Finance costs							(47,274)
Profit before income							125,889
Income tax expense							(19,267)
Profit after income tax							106,622

28. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

Geographical segments	Group 2014 RMB'000	Group 2013 RMB'000
Revenues by location		
China	**1,757,256**	1,586,494
Overseas	**538,592**	371,127
	2,295,848	1,957,621

29. CAPITAL MANAGEMENT

(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.

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

	Group 2014 RMB'000	Group 2013 RMB'000
Capital		
Total equity	**755,484**	626,719
Overall financing		
Borrowings	**499,630**	603,734
Capital-to-overall financing ratio	**1.51**	1.04

30. FINANCIAL RISK MANAGEMENT

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.

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.

30. FINANCIAL RISK MANAGEMENT (continued)

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

	Group	
	2014	2013
	RMB'000	RMB'000
Less than 30 days	**28,294**	80,369
31 to 60 days	**13,702**	17,254
61 to 90 days	**990**	5,929
More than 90 days	**19,351**	12,112
	62,337	115,664

As of 31 December 2014, trade receivables of RMB 13,589,000 (2013: RMB 7,072,000) 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	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year				
Non-interest bearing payables	**817,032**	707,653	**–**	–
Borrowings and future interest to be paid	**493,138**	608,613	**–**	–
Over one year				
Borrowings and future interest to be paid	**21,627**	22,513	**–**	–

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.

30. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

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. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

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	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Within one year				
Fixed rate:				
Cash and cash equivalents	**366,792**	356,205	**–**	–
Borrowings	**419,146**	303,883	**–**	–
Floating rate:				
Borrowings	**60,237**	279,127	**–**	–
After one year				
Fixed rate:				
Borrowings	**20,247**	20,724	**–**	–

Sensitivity analysis

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for fixed rate financial assets and liabilities 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.

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.

30. FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis (continued)

Cash flow sensitivity analysis for variable rate instruments (continued)

	Profit or (loss)	
	100 bp Increase	100 bp Decrease
	RMB'000	RMB'000
Group		
31 December 2014		
Floating rate instruments	(602)	602
31 December 2013		
Floating rate instruments	(2,791)	2,791

Foreign currency risk

The Group incurs foreign currency risk in sales, purchases 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	
	2014	2013	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000
Group				
US dollar	**14,176**	22,417	**149,518**	173,720
Singapore dollar	**798**	687	**–**	–
Euro	**2,351**	1,912	**271**	–
Company				
Singapore dollar	**798**	687	**–**	–

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.

30. FINANCIAL RISK MANAGEMENT (continued)

Foreign currency risk (continued)

The following table details the sensitivity to a 2% (2013: 2%) increase and decrease in the relevant foreign currencies against the functional currency of each group entity. 2% (2013: 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% 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	
		2014	2013
		Profit/(loss)	Profit/(loss)
		RMB'000	RMB'000
USD/RMB	- strengthened 2% (2013: 2%)	(2,700)	(3,026)
	- weakened 2% (2013: 2%)	2,700	3,026
SGD/RMB	- strengthened 2% (2013: 2%)	16	14
	- weakened 2% (2013: 2%)	(16)	(14)
EUR/RMB	- strengthened 2% (2013: 2%)	42	38
	- weakened 2% (2013: 2%)	(42)	(38)

		Company	
		2014	2013
		Profit/(loss)	Profit/(loss)
		RMB'000	RMB'000
SGD/RMB	- strengthened 2% (2013: 2%)	16	14
	- weakened 2% (2013: 2%)	(16)	(14)

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 quoted 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.

30. FINANCIAL RISK MANAGEMENT (continued)

Price risk (continued)

Other business risk 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.

To illustrate, a 10% increase (2013: 10%) in the price of copper for the financial years ended 31 December 2014 and 2013 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.

	2014 RMB'000	2013 RMB'000
Copper	**994**	1,141

A 10% decrease in the price of copper for the financial years ended 31 December 2014 and 2013 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:

Interest-bearing bank loans

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

Other financial assets and liabilities

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.

Financial guarantees

As at 31 December 2014, the Group had recognised a provision of RMB 40,000,000 (2013: 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.

30. FINANCIAL RISK MANAGEMENT (continued)

Financial instruments by category

	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 pre-payments	911,264	–	911,264
Bank deposits pledged	237,547	–	237,547
Cash and cash equivalents	129,245	–	129,245
Total	1,278,056	1,800	1,279,856
31 December 2013			
Assets as per balance sheet			
Available-for-sale financial assets	–	1,800	1,800
Trade and other receivables excluding pre-payments	852,136	–	852,136
Bank deposits pledged	253,810	–	253,810
Cash and cash equivalents	102,557	–	102,557
Total	1,208,503	1,800	1,210,303

	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	807,943	807,943
Total	1,307,573	1,307,573
31 December 2013		
Liabilities as per balance sheet		
Borrowings	603,734	603,734
Trade and other payables excluding advance receipts and statutory liabilities	698,221	698,221
Total	1,301,955	1,301,955

31. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS 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 2015 or later periods and which the Group has not early adopted:

- FRS 102 *Share-based payment* (effective for annual periods beginning on or after 1 July 2014)

  The amendment clarifies the definition of vesting condition and separately defines 'performance condition' and 'service condition'. The Group will apply this amendment from 1 January 2015, but this is not expected to have any significant impact on the financial statements of the Group.

- FRS 103 Business Combinations (effective for annual periods beginning on or after 1 July 2014)

  The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in FRS 32, Financial instruments: Presentation. The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

  The standard is also amended to clarify that FRS 103 does not apply to the accounting for the formation of any joint arrangement under FRS 111. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

  The Group will apply this amendment for business combinations taking place on/after 1 January 2015.

- FRS 40 *Investment Property* (effective for annual periods beginning on or after 1 July 2014)

  The standard is amended to clarify that FRS 40 and FRS 103 are not mutually exclusive. The guidance in FRS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in FRS 103 to determine whether the acquisition of an investment property is a business combination.

  The Group will apply this amendment for acquisition of investment property taking place on/after 1 January 2015.

- FRS 108 *Operating Segments* (effective for annual periods beginning on or after 1 July 2014)

  The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics.

  The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.

  This amendment will not result in any changes to the Group's accounting policies but will require more disclosures in the financial statements.

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

- FRS 16 *Property, Plant and Equipment* (effective for annual periods beginning on or after 1 July 2014)

  The standard is amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to the revalued amount. The split between gross carrying amount and accumulated depreciation is treated in one of the following ways:

  either the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses; or

  the accumulated depreciation is eliminated against the gross carrying amount of the asset.

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

- FRS 24 *Related Party Disclosures* (effective for annual periods beginning on or after 1 July 2014)

  The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

  The reporting entity is not required to disclose the compensation paid by the management entity to the management entity's employees or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided.

  This amendment will not result in any changes to the Group's accounting policies but will require more disclosures in the financial statements.

- FRS 113 *Fair Value Measurement* (effective for annual periods beginning on or after 1 July 2014)

  The amendment clarifies that the portfolio exception in FRS 113, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of FRS 39.

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

32. AUTHORISATION OF FINANCIAL STATEMENT FOR ISSUE

The financial statements for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 8 April 2015.

Major Properties

as at 31 December 2014

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
Min Hou Xian, Qingkou Town Chuanweicai Village, Fuzhou PRC	1 November 2011 to 31 October 2017	7,926	Factory and office
Levels 2 to 6, West to Xintai Road Gaoxin District, Tieling City, Liaoning Province, PRC	1 November 2014 to 31 October 2015	1,864	Staff hostel
Blk E1, Unit 6,Level 8, No. 1, Dongyi Lane, Da dong Road, Dadong District, Shenyang City, Liaoning Province, PRC	15 December 2014 to 14 June 2015	76	Staff hostel
24 Concord, Suite A El Paso, Texas 79906 United States of America	1 March 2013 to 28 Febrary 2017	1,189	Warehouse
Guangxi Liuzhou New Territory Guntang Development Park B District Block 5	1 May 2014 to 30 April 2015	5,316	Factory

Major Properties

as at 31 December 2014

Location	Expiry Date of Tenure	Approx Area (SQM)	Use of Property
Fuzhou, Minghou District, Qingkou, 海韵新城 20号206	25 March 2014 to 24 March 2015	100	Staff hostel
Fuzhou, Minghou District, Hongshan Village	1 October 2014 to 1 September 2015	230	Staff hostel
Fuzhou, Minghou District, Opposite Qingkou Honger Village committee	17 May 2013 to 16 June 2016	540	Staff hostel
Jiangxi, Shengjing De Town, Dongjiao Maojia Ban	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 2013 to 31 December 2015	3,562	Factory and office
Level 1, 4 & 5, Workshop, No. 52A, Konggang Yu North District, Chongqing, PRC	1 July 2014 to 31 March 2018	4888	Factory, office and warehouse

Statistics of Shareholdings

as at 10 March 2015

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	25	1.40	25,000	0.00
1,001 - 10,000	681	38.09	4,599,000	0.68
10,001 - 1,000,000	1,050	58.72	80,644,000	11.83
1,000,001 and above	32	1.79	596,332,000	87.49
Total	1,788	100.00	681,600,000	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 10 MARCH 2015

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	48,957,000	7.18
4	OCBC SECURITIES PRIVATE LTD	30,824,000	4.52
5	RAFFLES NOMINEES (PTE) LTD	30,598,000	4.49
6	DBS VICKERS SECURITIES (S) PTE LTD	19,723,000	2.89
7	UOB KAY HIAN PTE LTD	17,526,000	2.57
8	GREAT WORLD VENTURES INC	13,368,000	1.96
9	PHILLIP SECURITIES PTE LTD	13,295,000	1.95
10	HSBC (SINGAPORE) NOMINEES PTE LTD	13,014,000	1.91
11	GOLD CONCEPT TECHNOLOGIES LTD	12,725,000	1.87
12	MAXCOMM GROUP CORPORATION	10,000,000	1.47
13	MAYBANK KIM ENG SECURITIES PTE LTD	9,718,000	1.43
14	CHINA CORE LIMITED	7,803,000	1.15
15	CIBC INVESTMENT INC	5,200,000	0.76
16	SEAH SEOW CHER	3,960,000	0.58
17	HILLSTAR DEVELOPMENT LIMITED	2,889,000	0.42
18	GRAND GUANG HOLDING LIMITED	2,502,000	0.37
19	DBS NOMINEES PTE LTD	1,918,000	0.28
20	LIU FENG	1,828,000	0.27
	Total:	582,848,000	85.51

FREE FLOAT

Based on the information provided to the Company as at 10 March 2015, 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.

SUBSTANTIAL SHAREHOLDERS

As recorded in the Register of Substantial Shareholders as at 10 March 2015

	Direct Interest		Deemed Interest	
	Number of Shares	%	Number of Shares	%
ZORO EXPRESS INTERNATIONAL LTD	193,114,000	28.33	–	–
SHINE SOUND INVESTMENTS LTD	143,886,000	21.11	–	–
OCBC SECURITIES PTE LTD	38,045,000	5.58	–	–
WANG LAISHENG (1)	–	–	193,114,000	28.33
LI DELIN (2)	–	–	143,886,000	21.11

Note:

(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.

(2) Li Delin 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 (100%) over the shares in Shine Sound. He has transferred his deemed interests in the shares of the Company to another representative of Shine Sound on 19 January 2015.

(3) In prior year, the major shareholders of the Company, Zoro Express International Ltd (“Zoro Express”) and Shine Sound Investments Ltd (“Shine Sound”), pledged their shareholdings in the Company of 178,735,557 shares and 132,724,727 shares respectively to Wei Hua for the purpose of obtaining their guarantee on loans from financial institutions for the Group.

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 24 April 2015 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 2014 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 104 of the Company's Bye-Laws, and who, being eligible, offer themselves for re-election:

   (a) Mr Sim Hong Boon (retiring under Bye-Law 104) **(Resolution 2)**
   (b) Mr Zhang Shulin (retiring under Bye-Laws 104) **(Resolution 3)**

   Mr. Sim Hong Boon and Mr. Zhang Shulin will, upon their re-election as directors of the Company, remain as members 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.

3. To elect Mr. Yang Yong Jun as Director of the Company pursuant to Bye-law 107 of the Bye-law of the Company (see Explanatory Note 1). **(Resolution 4)**

4. To approve the payment of S$175,000 as directors' fees to Independent Directors for the financial year ending 31 December 2015 and to pay the directors' fees in arrears on a quarterly basis over the financial year 2015. **(Resolution 5)**

5. To re-appoint Messrs PricewaterhouseCoopers LLP as the Auditors of the Company for financial year ending 31 December 2015 and to authorise the Directors to fix the remuneration. **(Resolution 6)**

6. Any other business.

SPECIAL BUSINESS:

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

7. "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 7)**

Explanatory Notes

Explanatory Note 1

The proposed election of Mr Yang Yong Jun as new Director is made pursuant to Bye-law 107 of the Company which requires that the proposed election be referred to Shareholders in general meeting. The Nominating Committee of the Company had reviewed the curriculum vitae of Mr Yang Yong Jun and has delivered its recommendation through the Board to appoint Mr Yang Yong Jun as member of the Board at the forthcoming AGM 2015.

By Order of the Board

Teo Chee Shi
Company Secretary

8 April 2015

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