



京西重工國際有限公司
BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

Stock Code : 2339

2015 ANNUAL REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Han Qing (*Chairman*)

Jiang Yunan (*Managing Director*)

Li Shaofeng (*Executive Director*)

Craig Allen Diem (*Executive Director*)

Bogdan Józef Such (*Executive Director*)

Zhang Yaochun (*Non-executive Director*)

Tam King Ching, Kenny

(*Independent Non-executive Director*)

Leung Kai Cheung

(*Independent Non-executive Director*)

Yip Kin Man, Raymond

(*Independent Non-executive Director*)

EXECUTIVE COMMITTEE

Jiang Yunan (*Chairman*)

Li Shaofeng

Craig Allen Diem

Bogdan Józef Such

AUDIT COMMITTEE

Tam King Ching, Kenny (*Chairman*)

Leung Kai Cheung

Yip Kin Man, Raymond

NOMINATION COMMITTEE

Han Qing (*Chairman*)

Zhang Yaochun

Tam King Ching, Kenny

Leung Kai Cheung

Yip Kin Man, Raymond

REMUNERATION COMMITTEE

Leung Kai Cheung (*Chairman*)

Jiang Yunan

Tam King Ching, Kenny

Yip Kin Man, Raymond

COMPANY SECRETARY

Cheng Man Ching

AUDITOR

Ernst & Young

COMPLIANCE ADVISER

Investec Capital Asia Limited

SHARE REGISTRAR

Tricor Investor Services Limited

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WEBSITE

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DIRECTORS' BIOGRAPHIES

Mr. Han Qing, aged 49, professor level of senior engineer, holds a bachelor's degree in engineering from University of Science and Technology Beijing and a master's degree in business administration from the Central State University in the State of California. Mr. Han was appointed a Non-executive Director and the Chairman of the Company in December 2014 and is the chairman of the Nomination Committee of the Company. Mr. Han joined Shougang Corporation in 1988 and thereafter held various positions in Shougang Corporation. He is the assistant general manager of Shougang Corporation. Mr. Han was the general manager of Beijing Shougang Co., Ltd. ("Beijing Shougang"), a company listed on the Shenzhen Stock Exchange, and is currently a director of Beijing Shougang and the chairman of BeijingWest Industries Co., Ltd. ("BWI"). Shougang Corporation is the holding company of BWI and Beijing Shougang. Each of Shougang Corporation and BWI is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"). Mr. Han has extensive experience in management and operation.

An engagement letter was entered into with Mr. Han for a term commencing on 23 December 2014 and ending on 31 December 2016. Under the engagement letter, Mr. Han is entitled to a director's fee as may be determined by the board of directors of the Company (the "Board") from time to time. Such director's fee will be determined with reference to Mr. Han's experience and duties as well as the then prevailing market conditions. In order to strengthen the working capital of the Company, Mr. Han has not received any director's fee since the date of his appointment as a Director of the Company.

Mr. Jiang Yunan, aged 54, engineer and senior economist. He holds a master's degree in business administration from Tsinghua University and a master's degree in applied accounting and finance from Hong Kong Baptist University. Mr. Jiang was appointed an Executive Director and the Managing Director of the Company in July 2014 and is the chairman of the Executive Committee and a member of the Remuneration Committee of the Company. He joined Shougang Corporation in 1992 and thereafter held various senior positions in the groups of Shougang Corporation and Shougang Concord International Enterprises Company Limited ("Shougang International"), a Hong Kong listed company and an associate of Shougang Corporation. Mr. Jiang was appointed a director and the president of BWI, a subsidiary of Shougang Corporation, in June 2014. Each of Shougang Corporation and BWI is a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Jiang has extensive experiences in management.

A service contract was entered into between Mr. Jiang and the Company for a term commencing on 29 July 2014 and ending on 31 December 2016. Under the service contract, Mr. Jiang is entitled to a salary and discretionary bonus as may be determined by the Board from time to time. Such salary and discretionary bonus will be determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Jiang's individual performance. In order to strengthen the working capital of the Company, Mr. Jiang has not received any salary since the date of his appointment as a Director of the Company.

DIRECTORS' BIOGRAPHIES

Mr. Li Shaofeng, aged 49, holds a bachelor degree in Automation from University of Science and Technology Beijing. Mr. Li was appointed an Executive Director of the Company in January 2014 and is a member of the Executive Committee of the Company. He joined Shougang Corporation, a substantial shareholder of the Company within the meaning of Part XV of the SFO, in 1989. Mr. Li is the managing director of Shougang International, the chairman of each of Shougang Fushan Resources Group Limited, Shougang Concord Grand (Group) Limited ("Shougang Grand"), Global Digital Creations Holdings Limited and Shougang Concord Century Holdings Limited ("Shougang Century"). He is also a non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange. Mr. Li was a director of Shougang Concord Technology Holdings Limited (now known as HNA International Investment Holdings Limited) ("HNA International") from May 2010 to December 2014 and a director of China Dynamics (Holdings) Limited ("China Dynamics") from October 2007 to November 2015, both HNA International and China Dynamics are Hong Kong listed companies. Mr. Li has extensive experience in management of, and investments in, listed companies, sino-foreign joint ventures and steel industry.

A service contract was entered into between Mr. Li and the Company for a term commencing on 27 January 2014 and ending on 31 December 2016. Under the service contract, Mr. Li is entitled to a salary and discretionary bonus as may be determined by the Board from time to time. Such salary and discretionary bonus will be determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Li's individual performance. In order to strengthen the working capital of the Company, Mr. Li has not received any salary since the date of his appointment as a Director of the Company.

Mr. Craig Allen Diem, aged 54, graduated with a bachelor's degree in science in mechanical engineering from the University of Toledo, United States and a master's degree in science in manufacturing management from the GMI Engineering and Management Institute, Flint, Michigan, United States. He completed the Asian and Pacific operations business leadership program organised by the American Graduate School of International Management in 1997 and the managerial issues in the global enterprise program sponsored by the American Graduate School of International Management (Thunderbird) in 2002. Mr. Diem was appointed a Non-executive Director of the Company in January 2014 and was re-designated as an Executive Director of the Company from 25 November 2014. He is a member of the Executive Committee of the Company. Since 1983, Mr. Diem has worked in the automotive components business with General Motors, Delphi and BWI respectively. He was transferred from General Motors to Delphi Automotive Systems Limited ("Delphi Automotive Systems") in 1999 and was appointed the general manager for Delphi Shanghai Steering and Chassis Systems Co., Ltd. in the same year. In 2001, Mr. Diem became the product team leader of the brake corner team in Delphi Automotive Systems and was appointed as product line manager in 2006. In 2009, he was appointed by BWI North America Inc., a wholly owned subsidiary of BWI, to the position of managing director, brake systems. Mr. Diem was later appointed as the global director of strategic planning of BWI in 2010 and was further promoted to the director of programme management and strategic development of BWI in 2012. BWI is a substantial shareholder of the Company within the meaning of Part XV of the SFO.

DIRECTORS' BIOGRAPHIES

An engagement letter was entered into with Mr. Diem for a term commencing on 27 January 2014 and ending on 31 December 2016. Under the engagement letter, Mr. Diem was entitled to a director's fee as may be determined by the Board from time to time. Such director's fee would be determined with reference to Mr. Diem's experience and duties as well as the then prevailing market conditions. In order to strengthen the working capital of the Company, Mr. Diem had not received any director's fee during the period when he served as a Non-executive Director of the Company. The engagement letter was terminated upon the re-designation of Mr. Diem from a Non-executive Director to an Executive Director of the Company.

A service contract was entered into between Mr. Diem and the Company for a term commencing on 25 November 2014 (the date of his re-designation as an Executive Director of the Company) and ending on 31 December 2016. Under the service contract, Mr. Diem is entitled to salary and/or discretionary bonus as may be determined by the Board from time to time. Such salary and the discretionary bonus will be determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Diem's individual performance. In order to strengthen the working capital of the Company, Mr. Diem has not received any salary from the Company since the date of his re-designation as an Executive Director of the Company.

Mr. Bogdan Józef Such, aged 60, graduated from the University of Science in Rzeszów, Poland with a master degree in engineering of science in mechanical engineering. Mr. Such was appointed an Executive Director of the Company in November 2014 and is a member of the Executive Committee of the Company. He is also a member of the management board of BWI Poland Technologies sp. z o.o., a wholly-owned subsidiary of the Company, and the plant manager of BWI Poland Technologies Spółka Z Ograniczoną Odpowiedzialnością Oddział W Krośnie (the "Krosno plant"). Prior to joining the group of BWI (the "BWI group"), Mr. Such held various positions at WSK "PZL-Rzeszów" S.A., a company primarily engaged in the manufacturing of aerospace engines and components and Fabryka Amortyzatorów S.A. (currently known as FA Krosno Sp. z o.o.), a company primarily engaged in the manufacturing of gas springs, ball joints and tie rods, respectively. He served as the manufacturing systems general manager of Delphi Chassis Systems Poland S.A. in 1998 and later served as manufacturing engineering general supervisor of Delphi Chassis Systems Krosno S.A. in 2001. In 2002, Mr. Such became the operations manager of Delphi Krosno S.A. He was awarded the 2007 Lean Leadership Recognition Award by Delphi Automotive Holdings Group in August 2007. Mr. Such joined the BWI group since 2009. BWI is a substantial shareholder of the Company within the meaning of Part XV of the SFO.

A service contract was entered into between Mr. Such and the Company for a term commencing on 25 November 2014 and ending on 31 December 2016. Under the service contract, Mr. Such is entitled to salary and/or discretionary bonus as may be determined by the Board from time to time. In order to strengthen the working capital of the Company, Mr. Such has not received any salary from the Company since the date of his appointment as a Director of the Company.

Another service contract was entered into between Mr. Such and the Krosno plant commencing on 1 July 1992. For the financial year 2015, Mr. Such's annual salary is PLN529,509. Such salary was determined with reference to the then prevailing market conditions, the performance of the Company as well as Mr. Such's individual performance.

DIRECTORS' BIOGRAPHIES

Mr. Zhang Yaochun, aged 58, holds a bachelor degree in law by correspondence from the Party School of the Central Committee of the Communist Party of China. Mr. Zhang was appointed a Non-executive Director of the Company in January 2014 and is a member of the Nomination Committee of the Company. He is the deputy chairman of BWI, a substantial shareholder of the Company within the meaning of Part XV of the SFO, and the chairman of its labor union. Mr. Zhang has been involved in the cement business of the Fangshan district of Beijing since 1979, and he was the chairman and the general manager of Beijing City Fangshan District General Company.

An engagement letter was entered into with Mr. Zhang for a term commencing on 27 January 2014 and ending on 31 December 2016. Under the engagement letter, Mr. Zhang is entitled to a director's fee as may be determined by the Board from time to time. Such director's fee will be determined with reference to Mr. Zhang's experience and duties as well as the then prevailing market conditions. In order to strengthen the working capital of the Company, Mr. Zhang has not received any director's fee since the date of his appointment as a Director of the Company.

Mr. Tam King Ching, Kenny, aged 66, holds a bachelor's degree in commerce from Concordia University, Canada. Mr. Tam was appointed an Independent Non-executive Director of the Company in January 2014 and is the chairman of the Audit Committee as well as a member of each of the Nomination Committee and the Remuneration Committee of the Company. He is a practising Certified Public Accountant in Hong Kong. Mr. Tam is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Chartered Professional Accountants of Ontario, Canada (formerly named as the Institute of Chartered Accountants of Ontario, Canada). He is serving as a member of each of the Small and Medium Practitioners Committee (formerly named as the Small and Medium Practitioners Leadership Panel) and the Insolvency SD Vetting Committee in the Hong Kong Institute of Certified Public Accountants. Mr. Tam is a Past President of The Society of Chinese Accountants and Auditors. He also serves as an independent non-executive director of certain listed companies on the main board of The Stock Exchange of Hong Kong Limited, namely, Shougang Grand, CCT Fortis Holdings Limited, CCT Land Holdings Limited, Kingmaker Footwear Holdings Limited, Starlite Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited (formerly known as Van Shung Chong Holdings Limited) and West China Cement Limited.

An engagement letter was entered into with Mr. Tam for a term commencing on 27 January 2014 and ending on 31 December 2016. Under the engagement letter, Mr. Tam is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2015 and 2016, the director's fee of Mr. Tam is HK\$240,000 for a full year. Such director's fee was determined with reference to Mr. Tam's experience and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Mr. Leung Kai Cheung, aged 70, graduated from The Chinese University of Hong Kong with a bachelor degree in business. Mr. Leung was appointed an Independent Non-executive Director of the Company in January 2014 and is the chairman of the Remuneration Committee as well as a member of each of the Audit Committee and the Nomination Committee of the Company. He is also an independent non-executive director of each of Shougang International and HNA International. Mr. Leung had been a senior executive of Citibank, N.A., the general manager of Barclays Bank PLC in charge of Kowloon and New Territories districts and was the chairman of Star International Enterprises Limited. He has extensive financial knowledge and business management experience and is familiar with the business environment of both Hong Kong and Mainland China and the operation of listed companies.

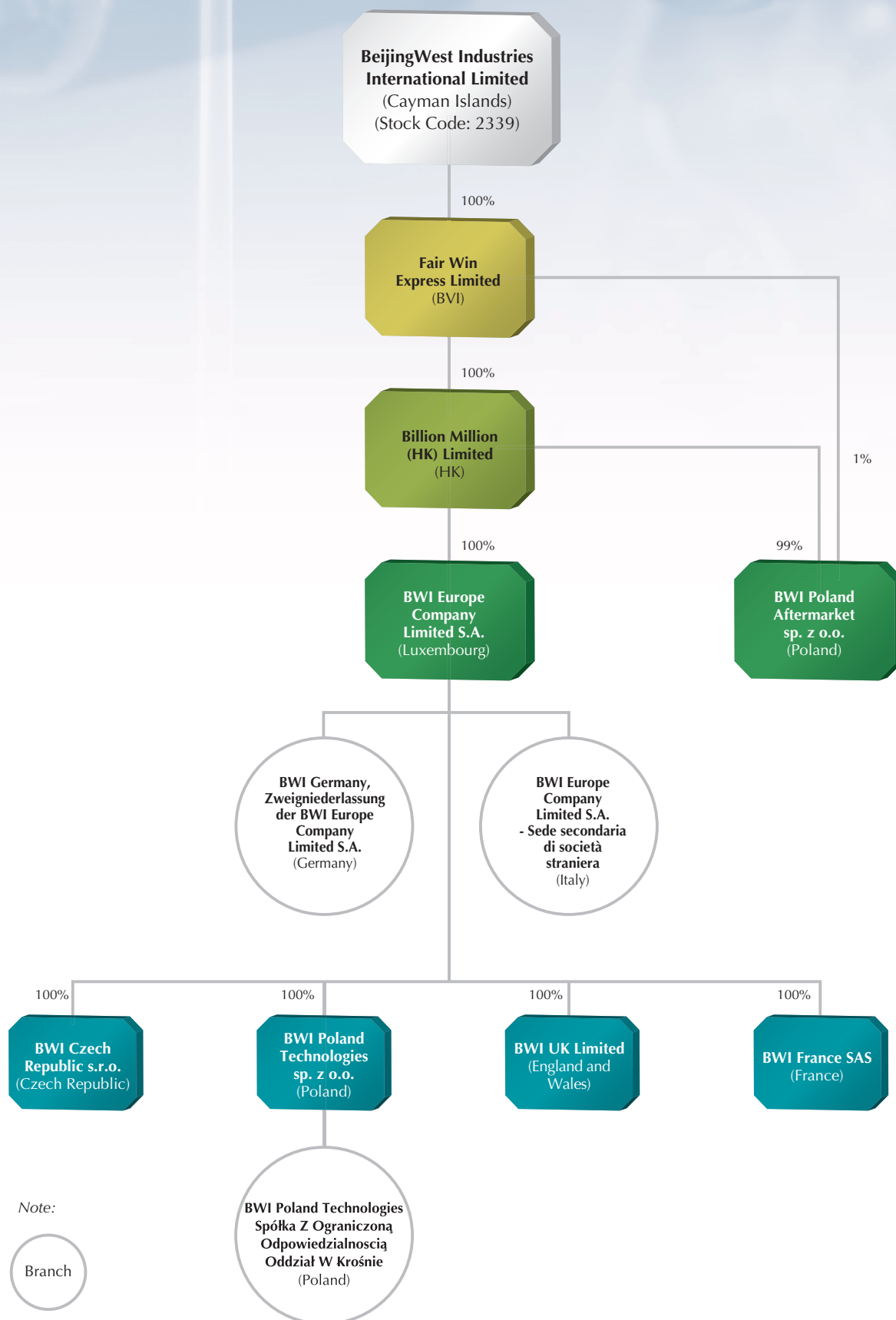
An engagement letter was entered into with Mr. Leung for a term commencing on 27 January 2014 and ending on 31 December 2016. Under the engagement letter, Mr. Leung is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2015 and 2016, the director's fee of Mr. Leung is HK\$240,000 for a full year. Such director's fee was determined with reference to Mr. Leung's experience and duties as well as the then prevailing market conditions.

Mr. Yip Kin Man, Raymond, aged 69, holds a bachelor's degree in arts with honours from the University of Hong Kong. Mr. Yip was appointed an Independent Non-executive Director of the Company in January 2014 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee of the Company. He is also an independent non-executive director of each of Shougang Grand and Shougang Century. Mr. Yip is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC. He has extensive experience in legal profession.

An engagement letter was entered into with Mr. Yip for a term commencing on 27 January 2014 and ending on 31 December 2016. Under the engagement letter, Mr. Yip is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2015 and 2016, the director's fee of Mr. Yip is HK\$240,000 for a full year. Such director's fee was determined with reference to Mr. Yip's experience and duties as well as the then prevailing market conditions.

GROUP STRUCTURE

As at 31 December 2015



CHAIRMAN'S STATEMENT



On behalf of the board of directors of BeijingWest Industries International Limited (the “Company”), I am pleased to present the annual report and the financial statements of the Company and its subsidiaries (the “Group”) for the twelve months ended 31 December 2015.

SUSTAINING HEALTHY PERFORMANCES AND BALANCE SHEET STRENGTH

Turnover has been benefited from the increase in new passenger car registrations in the European region. However, a generally solid overall sales performance was partially offset by the significant movements in foreign exchange rates during the year. Before the effects of currency changes, underlying sales, which is mainly dominated in Euro (“EUR”) has a substantial growth when compared to the prior year. The increase in turnover has been partly offset after taking into effect the depreciation on the average exchange rate between EUR and the presentation currency in Hong Kong Dollar (“HK\$”).

Although total turnover for the twelve months ended 31 December 2015 was depressed by foreign currency movements, the effect did not have any adverse impact on the cash flow of the Group as the effect on foreign currency movements have no cash flow impact. The Group maintained a healthy cash position with net cash from operating activities for the twelve months ended 31 December 2015 amounted to HK\$117.05 million.

Net assets of the Group have been increased when compared to prior year due to the disinvestment of the PRC auto part businesses which were in a net liabilities position. The Group will focus on operating and developing the controlled and passive suspension products business in Europe and will continue to seek potential investment opportunities in the automobile industry.

The Group’s overall financial condition remains robust. As at 31 December 2015, cash and bank balances amounted to HK\$664.10 million and the gearing ratio (measured as total borrowings over total assets) as at 31 December 2015 maintained at a low level at 3.48%.

OUTLOOK

During the year, the economic recovery in the European Union (“EU”) has been supported by a combination of positive factors including low oil prices, accommodative monetary policy and a relatively weak external value of the EUR. However, the growth outlook of the EU is likely to remain moderate over the forecast horizon.

CHAIRMAN'S STATEMENT

Although any prospective setback in the global economy growth is a concern to all industrial manufacturers, we are not aware of any observable softening in demand for the Group's products in Europe at the present time. On the contrary, new orders received each year maintains at its increasing trend due to our differentiated technology and manufacturing capabilities. The new sales orders received usually take two to three years of research and development process before the final products commenced production and consequently the impact on new sales orders received in current financial year will not be materialized in near term. In the current financial year, the weak EUR compared to HK\$ appears likely to constrain sales growth on the translation side only.

On the cost side, wage inflation and raw materials costs in Europe increased moderately and are in line with the increase in turnover. However, our new manufacturing facilities in the Czech Republic, which is expected to commence full production in 2017, will also mean an additional cost burden before they are operating at optimal volume levels. As a consequence, we anticipate a modest erosion in gross and operating margins in the near term and the Group will continue its efficiency improvement measures in order to offset the effect.

To ensure sustainable future development, the Group will continue to expand its business in Europe, emphasis on technical enhancement of existing products, research and development of new products and establish new production base in the future. The Group will also strengthen its research and development capabilities of new and market-oriented products, as well as its core competitive strengths.

In addition to these organic growth initiatives, the Group will continue to evaluate potential acquisitions that can strengthen its revenue base and improve its profitability. Management intends to remain prudent in its assessment of acquisition opportunities and will only pursue situations where the prospects for long-term value adding are clear and the valuation of the business is not excessive.

Overall, I remain satisfied with the performance of the business and confident that we remain on track to build and sustain value for shareholders over time.

On behalf of the Board, I would like to extend my heartfelt gratitude to our shareholders for their support and trust. My sincere appreciation also goes to our directors, advisors and all of our staff members for their efforts in contributing to the Group. With the support from our controlling shareholders, customers, business partners and employees, the Group will experience improvement in operations and profitability and much better returns can be delivered to shareholders in the years to come.

Han Qing
Chairman

23 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL AND FINANCIAL REVIEW

During the year, the Group involved in the manufacture and sale of automotive parts and components and trading of automotive parts and components.

The Group's automotive controlled and passive suspension products are mainly utilized on premium passenger vehicles, which are mainly from reputable premium passenger vehicle manufacturers located in Europe. The Group developed and maintained strong relationships with its key customers and therefore developed an understanding of the manufacturing process for premium passenger vehicles and the technical requirements of automotive controlled and passive suspension products for premium passenger vehicles.

The Group purchases its raw materials mainly from Europe. It sources raw materials and components from suppliers that are selected based on certain factors, including, among others, the history of relationship with the Group, quality, price, delivery time, and after-sales services with respect to the raw materials and components. The Group maintains stable relationships with its major suppliers and does not rely on any single suppliers for any given type of raw materials and component.

Turnover

The turnover of different business sectors for the twelve months ended 31 December 2015 and 2014 are summarized below:

	For the twelve months ended 31 December 2015 (HK\$ million)	For the twelve months ended 31 December 2014 (HK\$ million)	Change (%)
Manufacture and sale of automotive controlled and passive suspension products	2,863.40	3,117.13	-8.14
Provision of technical services	93.45	130.53	-28.41
Manufacture and sale of automotive parts and components in PRC	–	106.95	-100.00
Total	2,956.85	3,354.61	-11.86

For the twelve months ended 31 December 2015, the revenue from the manufacture and sale of automotive parts and components in PRC was nil (twelve months ended 31 December 2014: HK\$106.95 million). This decrease in revenue was because the PRC operations have ceased operations and the liquidation procedures of the respective operations have commenced since February 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has been focusing on the manufacture and sale of automotive controlled and passive suspension products and provision of technical services in Europe. In 2015, new passenger car registrations in European Union ("EU") has been increased by 9.3%, reaching approximately 13.71 million units and surpassing 2014 full year volumes (Source: European Automobile Manufacturers Association). Benefited from the increase in demand in the European market, sales orders and production quantity has been increased when compare to the corresponding period in 2014, however, when turnover,



which is mainly dominated in Euro ("EUR"), are translated to the presentation currency in Hong Kong dollar ("HK\$"), the increase in turnover has been offset as EUR was depreciated against HK\$ when compared to the corresponding period in 2014. For the twelve months ended 31 December 2015, the Group recorded revenue of HK\$2,863.40 million in manufacture and sale of controlled and passive suspension products (twelve months ended 31 December 2014: HK\$3,117.13 million), as well as HK\$93.45 million in provision of technical services (twelve months ended 31 December 2014: HK\$130.53 million).

Gross profit and gross profit margin

The gross profit and gross profit margin of different business sectors for the twelve months ended 31 December 2015 and twelve months ended 31 December 2014 are summarized below:

	For the twelve months ended 31 December 2015		For the twelve months ended 31 December 2014		Change	
	Gross profit (HK\$ million)	Gross profit margin (%)	Gross profit (HK\$ million)	Gross profit margin (%)	Gross profit (HK\$ million)	Gross profit margin (%)
Manufacture and sale of automotive controlled and passive suspension products	674.76	22.82	779.70	24.01	-104.94	-1.19
Manufacture and sale of automotive parts and components in PRC	–	–	-8.99	-8.41	8.99	-100.00
Total	674.76	22.82	770.71	22.97	-95.95	-0.15

The gross profit and gross profit margin from the manufacture and sale of automotive parts and components in PRC for the twelve months ended 31 December 2015 were nil mainly because the PRC operations has ceased operations and liquidation process are in progress.

MANAGEMENT DISCUSSION AND ANALYSIS

Controlled suspensions, passive suspensions and technical services are the product/service categories of the revenue of the Group. Research and development expenses are the costs relating to the provision of technical services and such expenses have been categorized under administrative expenses but not under cost of sales. The cost of sales mainly comprised of the costs of the controlled and passive suspension products. During the twelve months ended 31 December 2015, the overall gross profit and gross profit margin were HK\$674.76 million and 22.82% respectively (twelve months ended 31 December 2014: HK\$779.70 million and 24.01% respectively). Gross profit decreases mainly because of the translation effect from EUR, Polish Zloty ("PLN") and Great Britain Pound Sterling ("GBP") to HK\$, while the gross profit margin decreases slightly primarily due to slight increase in cost of sales of passive suspension products.

Other income

Other income of the Group for the twelve months ended 31 December 2015 decreased by 84.16% to HK\$6.71 million (twelve months ended 31 December 2014: HK\$42.36 million), the decrease in other income was mainly because of the decrease in compensation for contract reduction from a passenger vehicle manufacturer.

Distribution and selling expenses

Distribution and selling expenses of the Group for the twelve months ended 31 December 2015 decreased by 36.18% to HK\$24.99 million (twelve months ended 31 December 2014: HK\$39.16 million), distribution and selling expenses mainly consist of delivery expenses, salary and welfare for sales personnel and warranty expenses. Decrease in distribution and selling expenses were due to the cease of the PRC operations and the decrease in warranty expenses.

Administrative expenses

Administrative expenses of the Group for the twelve months ended 31 December 2015 decreased by 30.76% to HK\$185.15 million (twelve months ended 31 December 2014: HK\$267.41 million). The decrease in administrative expenses was due to decrease in non-recurring expenses, mainly impairment of fixed assets, which was attributed from the disinvested PRC operations, as well as expenses related to acquisition of subsidiaries.

Finance costs

Finance costs of the Group for the twelve months ended 31 December 2015 decreased by 50.74% to HK\$3.33 million (twelve months ended 31 December 2014: HK\$6.76 million). Finance costs in current period mainly represented interest on bank loans, while finance costs in prior period mainly represented interest due to the restructuring scheme.

Gain attributable to equity holders of the Company

For the twelve months ended 31 December 2015, the Group recorded an attributable gain of approximately HK\$134.07 million (for the twelve months ended 31 December 2014: HK\$344.46 million). The decrease was mainly attributed to the decrease in gain on restructuring.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group was operating under a net cash inflow position for the twelve months ended 31 December 2015, in which net cash from operating activities amounted to HK\$117.05 million (twelve months ended 31 December 2014: net cash used in operating activities HK\$19.51 million). As at 31 December 2015, the Group maintained cash and bank balances of HK\$664.10 million (as at 31 December 2014: HK\$357.51 million).

As at 31 December 2015, the Group had bank borrowings of HK\$57.20 million (as at 31 December 2014: HK\$54.91 million), which were all dominated in EUR and United States Dollar ("US\$"). The bank borrowings as at 31 December 2015 borne interest at a rate of 1 Month LIBOR plus 2.20% per annum (as at 31 December 2014: 1 Month LIBOR plus 2.20% per annum). The Group's gearing ratio (measured as total borrowings over total assets) as at 31 December 2015 was 3.48% (as at 31 December 2014: 3.49%).

The Company will closely monitor the financial and liquidity position of the Group, as well as the situation of the financial market from time to time in arriving as an appropriate financing strategy for the Group.

ENVIRONMENTAL, HEALTH AND SAFETY

The Group is dedicated to protecting the health of people, natural resources and the global environment, and has adopted the hazardous material control program and chemical material assessment procedures. The Group has obtained all necessary permits under applicable environmental protection laws in operation for its production facilities in Poland and the United Kingdom.

The Group also emphasizes the health and safety of its employees and it is committed to providing a safe and healthy working environment for the benefit of its staff. It has adopted human resources policies which provide the health and safety initiatives that include: (i) identifying and communicating health and safety initiatives; (ii) monitoring trends in statistics for occupational injuries or illness; (iii) complying with health and safety regulations and; (iv) promoting incident reduction through investigation, assessments, corrective actions and proactive intervention. The Group has also complied with applicable social, health and work safety laws and regulations in all material aspects.

REVIEW AND PROSPECTS

During the year, the business of the Group focuses on the design, manufacture and sale of automotive controlled and passive suspension products, as well as provision of related technical services in Europe following the commencement of disinvestment of the PRC operations through voluntary liquidation of relevant subsidiary in February 2015. Since then, the Group has been focused on operating and developing the controlled and passive suspension products business in Europe. This enables the Group to centralize its resources on its major business.

MANAGEMENT DISCUSSION AND ANALYSIS

As the Group relies on passenger vehicle manufacturers as customers or potential customers of its products, its financial performance largely depends on the continued growth of the automobile industry in Europe. The automobile industry has been increasingly characterized by the launching of new car models on a more frequent basis, continuous technological advancement, evolving industry standards and changing customer needs and preferences, all of which indicate a trend of shorter product life cycle. Overall market demand for cars may also be affected by factors such as global and regional economic market conditions and fuel price. These factors, which are beyond the Group's control, may affect the annual production of automobiles by passenger vehicle manufacturers, which may in turn affect the sales and profitability of the Group's products.

Although any prospective setback in the global economy growth is a concern to all industrial manufacturers, we are not aware of any observable softening in demand for the Group's products in Europe at the present time. In 2015, the EU passenger car market showed another strong year, new passenger car registrations in EU has been increased by 9.3%, reaching approximately 13.71 million units and surpassing 2014 full year volumes. Demand for new passenger cars was sustained in all major markets, driven by ongoing scrappage schemes and economic recovery in Southern Europe. All major markets posted growth, contributing to the overall upturn of the EU market over the year 2015. Spain and Italy both benefited from strong growth and posted double-digit percentage gains, followed by the UK, France and Germany (Source: European Automobile Manufacturers Association).

As described in the section "Chairman's Statement", sales of the Group has been benefited from the increase in new passenger car registrations in the European region, which enables the Group to sustain a healthy cash position and maintain the gearing ratio at a low level. Even though the Group has been investing more on research and development when compared to prior year, which may adversely affect the profitability in short term, this ensures the Group to be able to cope with the change in technology and enhance its competitiveness in the market.

Based on this trend, the premium vehicle market in Europe is expected to continue growing in the coming years despite the uncertainty in the European economy. We believe that the technical expertise which the Group possesses, the long-term relationship developed with different premium vehicle manufacturers, as well as the understanding on the requirements of the premium vehicle manufacturers will enable us to capture market opportunities and develop controlled and passive suspension products that meet the technical requirements of the premium vehicle manufacturers. This provides a strong platform for the Group's long-term development.

The Company will also evaluate the operations and business structure of the Group with a view of improving long-term profitability and shareholders' value, which may include acquisition or streamlining of operations as appropriate. The Group will continue to evaluate potential acquisitions opportunities to strengthen its revenue base and improve its profitability, the Group will also enhance and streamline its existing business in order to ensure sustainable future development.



MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 31 December 2015 and 2014, there were no assets being pledged.

FOREIGN EXCHANGE EXPOSURE

The Group's transactions are mainly denominated in the local currencies of the places of operation, which include PLN and GBP. Some transactions would also be denominated in EUR and US\$. During the twelve months ended 31 December 2015, the Group did not have any material foreign exchange exposure.

CAPITAL AND OTHER COMMITMENTS

Save as disclosed in note 30 in the notes to financial statements, the Group and the company has no other commitments as at 31 December 2015 and 2014.

CONTINGENT LIABILITIES

As at 31 December 2015, the Group and the Company did not have any significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2015, the Group had approximately 745 full-time employees, all of them were working in the Company and Company's subsidiaries in Europe (as at 31 December 2014: 1,150 full-time employees, in which 730 full-time employees were working in the Company and the Company's subsidiaries in Europe, and the remaining were working in the Company's subsidiaries in the PRC). During the twelve months ended 31 December 2015, the total employees' cost was HK\$443.67 million (twelve months ended 31 December 2014: HK\$352.34 million). Remuneration packages of the employees are determined by reference to the qualifications and experience of the employee concerned and are reviewed annually by management with reference to market conditions and individual performance. The Group offers comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group has defined benefit pension plans covering substantially all of its qualified employees in Poland, France and Germany. The Group has also adopted a mandatory provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”) during the financial year ended 31 December 2015, except for the following deviations:

- Under the code provision A.2.7 of the CG Code, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present.

During the year, the Non-executive Directors and the Independent Non-executive Directors may communicate with the Chairman directly at any time to voice their opinion and share their views on the Company’s affairs despite that the Chairman has not held a meeting with the Non-executive Directors and the Independent Non-executive Directors without the Executive Directors present on the grounds of his absence from Hong Kong. The Company considers that there are sufficient channels for discussion of the Company’s affairs between the Chairman and the Non-executive Directors (including the Independent Non-executive Directors) in the absence of management.

- Under the first part of code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

The Chairman of the Board, who is also the chairman of the Nomination Committee of the Company, did not attend the annual general meeting of the Company held on 22 May 2015 (the “2015 AGM”) as he had another business engagement. The Managing Director of the Company, who took the chair of the 2015 AGM, and other members of the Board together with the chairmen of the Audit and Remuneration Committees and all other members of each of the Audit, Remuneration and Nomination Committees attended the 2015 AGM. The Company considers that the members of the Board and the Audit, Remuneration and Nomination Committees who attended the 2015 AGM were already of sufficient caliber and number for answering questions at the 2015 AGM.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Composition

The Board currently comprises a total of nine Directors, being four Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. The list of Directors is set out in the section headed “Report of the Directors” of this annual report. In addition, an updated list of the Directors and their roles and functions is published on the websites of the Stock Exchange and the Company respectively.

The Board is characterised by significant diversity and has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors’ biographical information is set out in the section headed “Directors’ Biographies” of this annual report.

The Directors give sufficient time and attention to the affairs of the Group. All Directors are required to disclose to the Company at the time of their appointment and annually the number and the nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved.

Save for those as disclosed in the section headed “Directors’ Biographies” as set out on page 3 to page 7 of this annual report, the Board members have no other financial, business, family or other material/relevant relationships with each other.

The Board includes a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) so that there is a sufficient independent element on the Board, which can effectively exercise independent judgement.

The Non-executive Directors are of sufficient number and calibre for their views to carry weight. The functions of Non-executive Directors include:

- bringing an independent judgement at Board meetings;
- taking the lead where potential conflicts of interests arise;
- serving on Board committees if invited; and
- scrutinising the Company’s performance and monitoring performance reporting.

The Non-executive Directors (including Independent Non-executive Directors) have made a positive contribution to the development of the Company’s strategy and policies through independent, constructive and informed comments. They give the Board and the committees on which they serve the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Composition of the Board is disclosed, and the Independent Non-executive Directors are identified, in all corporate communications to shareholders.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

Board diversity

The Company adopted a board diversity policy (the “Board Diversity Policy”) on 27 January 2014 which sets out its approach to achieve diversity on the Board with a view to achieving a sustainable and balanced development of the Company.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into account factors based on its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board Diversity Policy is posted on the website of the Company.

Role and function of the Board and the management

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

Board meetings

The Board meets regularly and holds at least four Board meetings a year. Additional meetings will be arranged, if and when required. The Directors can attend meetings in person or through electronic means of communication in accordance with the articles of association of the Company (the “Articles”).

The Company Secretary assists the Chairman in drawing up the agenda of each Board meeting. Draft agenda of each regular Board meeting will be sent to all Directors for review before the agenda is issued and all Directors may request for inclusion of other matters in the agenda. The Chairman will take into account the matters proposed by the Directors and where appropriate, approve the inclusion of such matters in the agenda of the Board meeting. Generally, at least 14-day notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting. Where queries are raised by Directors, prompt and full responses will be given if possible.

There has been procedure in place to enable Directors to seek independent professional advice in appropriate circumstances at the Company’s expenses. The Board shall resolve to, upon reasonable request, provide separate independent professional advice to Directors to assist them perform their duties to the Company.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

Board meetings (continued)

The Company Secretary is responsible for taking minutes of Board meetings and Board committee meetings, draft and final versions of which would be sent to Directors for comments and records respectively, within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and Board committees meetings are kept by the Company Secretary and are open for inspection by any Director/committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, the matter will be dealt with by a physical Board meeting, rather than a written resolution. Independent Non-executive Directors who, and whose close associates, have no material interest in the transaction should be present at that Board meeting.

Except for those circumstances permitted by the Articles and all applicable laws, rules and regulations, a Director shall not vote on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates (or associates where the transaction or arrangement is a connected transaction under Chapter 14A of the Listing Rules) has a material interest nor shall he be counted in the quorum present at the meeting.

Attendance records

During the financial year ended 31 December 2015, the Directors have made active contribution to the affairs of the Group and four physical Board meetings were held to consider, amongst other things, various projects contemplated by the Group and to review and approve the interim results and final results of the Group.

Details of the Directors' attendances in 2015 are as follows:

	Number of meeting(s) attended/eligible to attend
<i>Executive Directors</i>	
Jiang Yunan	4/4
Li Shaofeng	4/4
Craig Allen Diem	4/4
Bogdan Józef Such	2/4
<i>Non-executive Directors</i>	
Han Qing (Chairman)	0/4
Zhang Yaochun	4/4
<i>Independent Non-executive Directors</i>	
Tam King Ching, Kenny	4/4
Leung Kai Cheung	4/4
Yip Kin Man, Raymond	4/4

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

Access to information

The Board is supplied with sufficient explanation and information by the management to enable the Board to make an informed assessment of financial and other information put before it for approval. The management provides all Board members with monthly updates which give a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

Appointment and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will give adequate consideration to the Board Diversity Policy and review the profiles of the candidates and make recommendations to the Board on the appointment, re-appointment and nomination of Directors.

According to the Articles, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the first general meeting of the Company after his/her appointment or, in the case of an addition to the existing Board, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director is subject to retirement by rotation at least once every three years.

All Directors (including all Non-executive Directors) have entered into service contracts or letters of engagement with the Company for a term of not more than three years.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to Rule 3.10A of the Listing Rules, the number of Independent Non-executive Directors of the Company represents one-third of the Board.

The Company has received from each of its Independent Non-executive Directors a confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Any re-election of an independent non-executive director who has served the board for more than nine years, his/her further appointment should be subject to a separate resolution to be approved by shareholders.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

Insurance for directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

Directors' training and professional development

Every newly appointed Director will be given an introduction of regulatory requirements. Directors are continually updated on the latest development of the Listing Rules, legal and other regulatory requirements to ensure compliance and upkeep of good corporate governance practice. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company Secretary facilitates induction and professional development of Directors and the Company is responsible for arranging and funding suitable training for the Directors.

All Directors have provided to the Company their records of training received during the financial year ended 31 December 2015, a summary of which is as follows:

Directors	Continuous professional development	
	Type ^(Note I)	Subject ^(Note II)
Han Qing	B	4
Jiang Yunan	B	4
Li Shaofeng	B	4
Craig Allen Diem	B	4
Bogdan Józef Such	B	4
Zhang Yaochun	B	4
Tam King Ching, Kenny	A	1, 2
	B	4
Leung Kai Cheung	B	4
Yip Kin Man, Raymond	A	1, 3
	B	4

Note I:

A: Attending seminars, conferences, forums, in-house briefings or in-house training

B: Reading newspapers, journals and updates

Note II:

1: Laws, rules and regulations

2: Finance, accounting or taxation

3: Management

4: Businesses relating to the Company

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and exercised by different individuals to reinforce their independence and accountability. Mr. Han Qing is the Chairman and Mr. Jiang Yunan serves as the Managing Director of the Company. The Chairman provides leadership for the Board and ensures that the Board works effectively and performs its responsibilities. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

In performing the role of Chairman, Mr. Han Qing's responsibilities include, amongst other things:

- taking primary responsibility for ensuring that good corporate governance practices and procedures are established;
- ensuring that all Directors are properly briefed on issues arising at Board meetings, and ensuring that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;
- encouraging all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interest of the Company;
- encouraging Directors with different views to voice their concerns, allowing sufficient time for discussion of issues and ensuring that Board decisions fairly reflect Board consensus;
- ensuring that appropriate steps are taken to provide effective communications with shareholders and that their views are communicated to the Board as a whole; and
- promoting a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors.

BOARD COMMITTEES

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Executive Committee

An Executive Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties.

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group and has been assigned with the responsibilities to perform the corporate governance duties as follows:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Group's employees and Directors;
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and
- to conform to any requirement, direction, regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The Executive Committee comprises all Executive Directors of the Company.

During the year, eight physical meetings of the Executive Committee were held. The major work in relation to the corporate governance of the Group performed by the Executive Committee during the year included the following:

- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company for the year ended 31 December 2014.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Audit Committee

An Audit Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Audit Committee include, amongst other things:

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements;
- reviewing the Company's financial reporting system, risk management and internal control systems; and
- reviewing the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary. It is given access to and assistance from the employees and reasonable resources to perform its duties properly.

The chairman of the Audit Committee is an Independent Non-executive Director and the Audit Committee comprises all Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company.

During the year, two physical meetings of the Audit Committee were held and the attendances of the members of the Audit Committee are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Tam King Ching, Kenny (<i>chairman of the committee</i>)	2/2
Leung Kai Cheung	2/2
Yip Kin Man, Raymond	2/2

The major work performed by the Audit Committee during the year included, amongst other things, the following:

- reviewing the final results of the Group for the year ended 31 December 2014; and
- reviewing the interim results of the Group for the six months ended 30 June 2015.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Nomination Committee

A Nomination Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors;
- assessing the independence of Independent Non-executive Directors; and
- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that have been set for implementing the Board Diversity Policy, and reviewing the progress on achieving the objectives.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will give adequate consideration to the Board Diversity Policy and take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The chairman of the Nomination Committee is the Chairman of the Board and the Independent Non-executive Directors of the Company constitute the majority of the Nomination Committee.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Nomination Committee (continued)

During the year, two physical meetings of the Nomination Committee were held and the attendances of the members of the Nomination Committee are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Han Qing (<i>chairman of the committee</i>)	0/2
Zhang Yaochun	2/2
Tam King Ching, Kenny	2/2
Leung Kai Cheung	2/2
Yip Kin Man, Raymond	2/2
Jiang Yunan – as alternate of Mr. Han Qing	2/2

The major work performed by the Nomination Committee during the year included, amongst other things, the following:

- assessing the independence of the Independent Non-executive Directors;
- considering and making recommendations to the Board on the re-election of Directors at the annual general meeting; and
- reviewing the structure and composition of the Board with due regard for the benefits of diversity on the Board.

Remuneration Committee

A Remuneration Committee of the Board was established in January 2014 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving the management's remuneration proposals with reference to the Company's goals and objectives;
- determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management and making recommendations to the Board on the remuneration of Non-executive Directors;
- reviewing and approving compensation payable to Executive Directors and senior management and compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

The Remuneration Committee may consult the Chairman of the Board and/or the Managing Director of the Company about their remuneration proposals for other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

The chairman of the Remuneration Committee is an Independent Non-executive Director and the Independent Non-executive Directors of the Company constitute the majority of the Remuneration Committee.

During the year, one physical meeting of the Remuneration Committee was held and the attendances of the members of the Remuneration Committee are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Leung Kai Cheung (<i>chairman of the committee</i>)	1/1
Jiang Yunan	1/1
Tam King Ching, Kenny	1/1
Yip Kin Man, Raymond	1/1

The major work performed by the Remuneration Committee during the year included, amongst other things, the following:

- considering, reviewing and determining the remuneration of the Executive Directors of the Company for the year 2016;
- considering the bonuses of the Executive Directors of the Company for the year 2015; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the year 2016.

Details of remuneration paid to Directors and senior management for the year are set out in note 10 to financial statements.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is also responsible for advising the Board through the Chairman and/or the Managing Director of the Company on corporate governance and the implementation of the CG Code. The Company Secretary is an employee of the Company and has day-to-day knowledge of the Group's affairs.

The Company Secretary reports to the Chairman and the Managing Director. All Directors also have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations, are followed. The selection, appointment and dismissal of the Company Secretary is subject to the Board approval.

The Company Secretary has confirmed that she has taken no less than 15 hours of relevant professional training during the year.

INTERNAL CONTROL

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of operations of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee helps the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

The internal control system of the Group is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or lessen such risks.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL (continued)

The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function. The Executive Committee holds periodical meetings with the senior management of each principal business unit to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place.

The internal control system of the Group is documented and if any revision is required, such information will be submitted to the Audit Committee for evaluation.

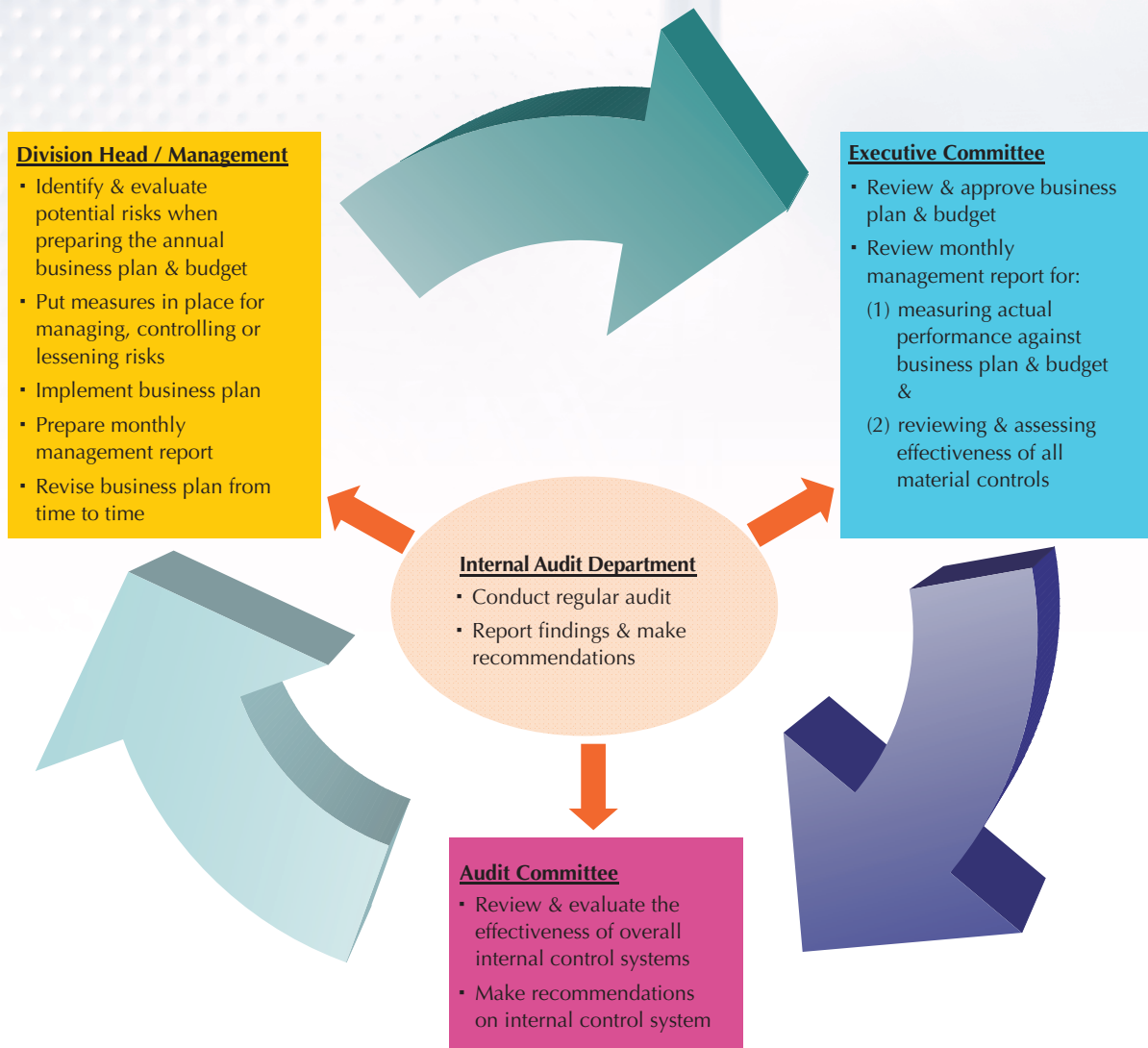
The Audit Committee assists the Board to fulfill its oversight role over the Group's internal control function by reviewing and evaluating the effectiveness of the overall internal control systems.

The Company set up an Internal Audit Department in year 2015 which assists the Board and the Audit Committee to discharge its duties in internal control aspect. The Internal Audit Department, which is independent to the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls as well as risk management, are in place and functioning effectively. The Internal Audit Department reports to the Board and the Audit Committee with its findings and makes recommendations to improve the internal control systems of the Group.

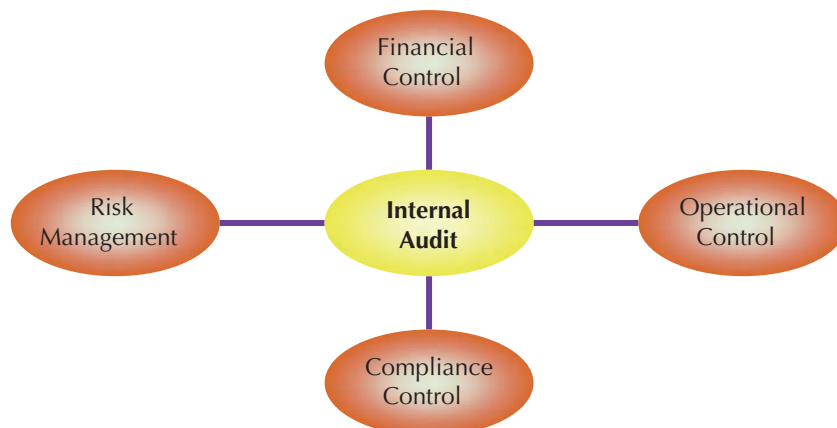
CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL (continued)

Internal control system



Internal audit functions



CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL (continued)

The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has been, through the Executive Committee and the Audit Committee, continuously reviewing the effectiveness of the Group's internal control systems.

During the year, the Board adopted an inside information disclosure policy (the "Inside Information Disclosure Policy") on 21 December 2015 which sets out the procedures for the handling and dissemination of inside information with a view to preventing uneven, inadvertent or selective dissemination of inside information and ensuring shareholders and the public are provided with full, accurate and timely information about the activities and the financial condition of the Group. The Inside Information Disclosure Policy is posted on the website of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2015.

Employees who are likely to possess inside information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

During the year, the remuneration paid/payable to the Company's auditor, Ernst & Young, is set out as follows:

Services rendered	HK\$'000
Audit services	2,060
Non-statutory audit services:	
Interim review	1,240
Tax services	—
Others	—
	<u>3,300</u>

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the annual and interim reports and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Ernst & Young, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 52 to 54 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

On 27 January 2014, the Board adopted a Shareholders' Communication Policy reflecting the current practices of the Company for communication with its shareholders. Such policy aims at ensuring the shareholders of the Company are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders to engage actively with the Company.

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.bwi-intl.com.hk.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

During the year, three general meetings were held. One of the general meetings was the 2015 AGM and the other were the extraordinary general meetings held on 5 February 2015 (the "EGM I") and 19 June 2015 (the "EGM II") respectively for approving the followings:

- (1) refreshment of mandate to issue and allot shares of the Company;
- (2) re-election of Mr. Han Qing as Non-executive Director of the Company;
- (3) re-election of Mr. Jiang Yunan as Executive Director of the Company; and
- (4) reduction of share premium account of the Company.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS (continued)

The auditor of the Company, Ernst & Young, attended the 2015 AGM. Details of the Directors' attendances at the general meetings of the Company held during the year are as follows:

Directors	Attendance at the 2015 AGM	Attendance at the EGM I	Attendance at the EGM II
<i>Executive Directors</i>			
Jiang Yunan	✓	✓	✓
Li Shaofeng	✓	✓	✓
Craig Allen Diem	✓	✓	✓
Bogdan Józef Such	✓	✓	✓
<i>Non-executive Directors</i>			
Han Qing	X	X	X
Zhang Yaochun	✓	✓	✓
<i>Independent Non-executive Directors</i>			
Tam King Ching, Kenny	✓	✓	✓
Leung Kai Cheung	✓	✓	✓
Yip Kin Man, Raymond	✓	✓	✓

During the year, all notices of general meetings despatched by the Company to its shareholders for meetings held were sent for annual general meeting at least 21 clear days and at least 20 clear business days before the meeting and for extraordinary general meeting (at which the passing of a special resolution was considered) at least 21 clear days and at least 10 clear business days before the meeting, and for all other extraordinary general meeting(s) at least 14 clear days and at least 10 clear business days before the meeting(s). Separate resolutions were proposed at general meetings on each substantially separate issue, including the election of individual Directors, and all resolutions put to the vote of a general meeting were taken by way of a poll. All the general meetings, the chairman of the meetings explained the procedures for conducting a poll and answered questions from shareholders on voting by poll, if any. The results of the poll were published on the websites of the Stock Exchange and the Company respectively.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convene an extraordinary general meeting and put forward proposals at shareholders' meetings

There are no provisions under the Companies Laws, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands allowing shareholders to propose new resolutions at the general meeting.

However, pursuant to the Articles, any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist himself may do so in the same manner, and all reasonable expenses incurred by the requisitionist as a result of the failure of the Board shall be reimbursed to the requisitionist by the Company.

Shareholders' enquiries

Specific enquiries or suggestions by shareholders can be sent in writing to the Board or the Company Secretary at our principal office in Hong Kong or by email to our Company. In addition, shareholders can contact Tricor Investor Services Limited, the share registrar of the Company, if they have any enquiries about their shareholdings and entitlement to dividend. Relevant contact details are set out on page 2 of this annual report.

CONSTITUTIONAL DOCUMENTS

There is no change in the Company's constitutional documents during the year.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 1 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2015 and the state of affairs of the Group at that date are set out in the financial statements on pages 55 to 138 of this annual report.

The Board of Directors of the Company does not recommend the payment of any final dividend in respect of the year (2014: Nil).

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2015 is set out in the sections headed “Chairman’s Statement” and “Management Discussion and Analysis” on pages 9 to 10 and pages 11 to 16 of this annual report respectively.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 December 2015 are set out in note 22 to financial statements.

SHARES ISSUED

During the year, the Company has issued shares as follows:

On 11 May 2015, 100,000,000 new ordinary shares of the Company were allotted and issued to China Review Property Group Limited (the “Subscriber”) at a subscription price of HK\$0.38 per share pursuant to the subscription agreement entered into between the Company and the Subscriber on 23 April 2015 (the “Subscription”). The total consideration for the Subscription was HK\$38,000,000. Further details of the Subscription were set out in the Company’s announcements dated 24 April 2015 and 11 May 2015.

On 11 May 2015, 300,000,000 new ordinary shares of the Company were allotted and issued to independent third parties at a placing price of HK\$0.38 per share pursuant to the placing agreement entered into between the Company and Oriental Patron Securities Limited as placing agent, on 24 April 2015 (the “Placing I”). The total consideration for the Placing I was HK\$114,000,000 while the net proceeds from the Placing I was approximately HK\$111,141,000. Further details of the Placing I were set out in the Company’s announcements dated 24 April 2015 and 11 May 2015.

REPORT OF THE DIRECTORS

SHARES ISSUED (continued)

On 22 June 2015, 800,000,000 new ordinary shares of the Company were allotted and issued to independent third parties at a placing price of HK\$0.50 per share pursuant to the placing agreement entered into between the Company and UOB Kay Hian (Hong Kong) Limited as placing agent, on 4 June 2015 (the "Placing II"). The total consideration for the Placing II was HK\$400,000,000 while the net proceeds from the Placing II was approximately HK\$389,969,000. Further details of the Placing II were set out in the Company's announcements dated 4 June 2015 and 22 June 2015.

The Directors of the Company were of the view that the carrying out of the Subscription, the Placing I and the Placing II present opportunities for the Company to raise funds from the equity market while broadening the shareholder and capital base of the Company. The proceeds raised from the Subscription, the Placing I and the Placing II were used as general working capital of the Group and/or for repayment of debts.

Details of movements in the Company's share capital due to the shares issued by the Company during the year are set out in note 26 to the financial statements.

DONATION

No charitable donation was made by the Group during the year (2014: Nil).

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Han Qing
Jiang Yunan
Li Shaofeng
Craig Allen Diem
Bogdan Józef Such
Zhang Yaochun
Tam King Ching, Kenny *
Leung Kai Cheung *
Yip Kin Man, Raymond *

* *Independent Non-executive Directors*

In accordance with clause 84 of the Company's articles of association, Messrs. Tam King Ching, Kenny, Leung Kai Cheung and Yip Kin Man, Raymond will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the articles of association of the Company, every Director or other officer of the Company shall be entitled to be indemnified out of the assets and profit of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officer's liability coverage for the directors and officers of the Company.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(a) Long positions in the shares and underlying shares of the Company

None of the Directors of the Company who held office at 31 December 2015 had any interests in the shares or underlying shares of the Company as at 31 December 2015 as required to be recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(b) Long positions in the shares and underlying shares of Shougang Concord Grand (Group) Limited ("Shougang Grand"), an associated corporation of the Company

The Directors of the Company who held office at 31 December 2015 had the following interests in the shares and/or underlying shares of Shougang Grand, an associated corporation (within the meaning of Part XV of the SFO) of the Company, as at 31 December 2015 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

Name of Director	Capacity in which interests were held	Number of shares/underlying shares in Shougang Grand			Interests as to % of the issued share capital of Shougang Grand as at 31.12.2015
		Interests in shares	Derivative interests*	Total interests	
Li Shaofeng	Beneficial owner	–	11,000,000	11,000,000	0.41%
Tam King Ching, Kenny	Beneficial owner	–	2,286,000	2,286,000	0.08%
Yip Kin Man, Raymond	Beneficial owner	–	2,286,000	2,286,000	0.08%

* The interests are unlisted physically settled options.

Save as disclosed above, as at 31 December 2015, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company a party to any arrangement to enable the Company's Directors or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts that is significant in relation to the Group's business to which the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company was a party and in which a Director of the Company or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following Directors have declared interests in the following businesses (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of businesses of the entity which are considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Han Qing	北京京西重工有限公司 (BeijingWest Industries Co., Ltd*) ("BWI") #	Sale of auto parts, machinery and equipment	Director
Jiang Yunan	BWI #	Sale of auto parts, machinery and equipment	Director
Zhang Yaochun	BWI #	Sale of auto parts, machinery and equipment	Director

* For identification purpose only

Such businesses may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.

The Board of the Company is independent from the board of the above-mentioned entities and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of that entity.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2015, according to the register kept by the Company under Section 336 of the SFO, the following companies had interests in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares/underlying shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares/underlying shares	Interests as to % of the issued share capital of the Company as at 31.12.2015	Note
Success Arrive Limited ("SAL")	Beneficial owner	1,462,478,156	25.36%	1
BWI Company Limited ("BWI HK")	Beneficial owner, interest of a controlled corporation	3,018,425,728	52.35%	1
BWI	Interests of controlled corporations	3,018,425,728	52.35%	1
北京房山國有資產經營有限責任公司 (Beijing Fangshan State-owned Assets Management Co. Ltd.*) ("Beijing Fangshan")	Interests of controlled corporations	3,018,425,728	52.35%	1
首鋼總公司 (Shougang Corporation*)	Interests of controlled corporations	3,018,425,728	52.35%	1
Value Partners Group Limited ("Value Partners")	Interest of a controlled corporation	467,660,000	8.11%	2

Notes:

* For identification purpose only

1. SAL was a wholly owned subsidiary of BWI HK which in turn was wholly owned by BWI. BWI was held as to 55.45% by Shougang Corporation and as to 44.55% by Beijing Fangshan. The interests held by SAL, BWI HK, BWI, Shougang Corporation and Beijing Fangshan were the same block of shares of the Company.
2. Value Partners indicated in its disclosure form dated 4 September 2015 (being the latest disclosure form filed up to 31 December 2015) that as at 1 September 2015, 467,660,000 shares of the Company were held by Value Partners Limited. Value Partners Limited was a wholly-owned subsidiary of Value Partners Hong Kong Limited which in turn was wholly owned by Value Partners.

Save as disclosed above, as at 31 December 2015, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

REPORT OF THE DIRECTORS

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transactions" below, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder (as defined under the Listing Rules) or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder or any of its subsidiaries.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this annual report.

SHARE OPTION SCHEME

On 6 June 2014, the shareholders of the Company adopted a share option scheme (the "Scheme").

The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries and/or any of the entities in which any member of the Group holds any equity interest (the "Invested Entities"). The Scheme shall be valid and effective from 18 June 2014, being the date on which the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the Scheme, and ending on 6 June 2024, being the tenth anniversary of the date on which the Scheme was adopted by the shareholders of the Company (both dates inclusive).

Under the Scheme, the Board may, at its discretion, offer full-time or part-time employees, executives, officers or directors (including executive and non-executive directors) of the Company or any of its subsidiaries or any of the Invested Entities, and any advisors, consultants, agents, suppliers, customers and distributors, who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries and/or any of the Invested Entities, share options to subscribe for shares of the Company.

No share option has been granted under the Scheme. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the Scheme is 251,892,320, representing approximately 4.37% of the shares of the Company in issue as at the date of this annual report. The total number of shares of the Company issued and which may fall to be issued upon the exercise of share options to be granted under the Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the number of shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, which would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant (a) representing in aggregate over 0.1% of the shares of the Company in issue on the date of the grant; and (b) having an aggregate value of in excess of HK\$5,000,000 (based on the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of each grant), such further grant of options shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting on a poll at which the grantee, his/her associates and all core connected persons of the Company shall abstain from voting in favour of the resolution concerning the grant of such options, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular. Any grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is required to be approved by the Independent Non-executive Directors (excluding the Independent Non-executive Director who is the grantee of the options).

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (continued)

The period during which a share option may be exercised will be determined by the Board at its absolute discretion, save that no share option may be exercised more than ten years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of offer of any share options.

The exercise price in relation to each share option will be determined by the Board at its absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK\$1.00 as a consideration for his acceptance of the grant of share options in accordance with the Scheme. The offer of share options must be accepted within 30 days from the date of the offer.

Share options to be granted under the Scheme do not confer rights on the holders to dividends or to vote at general meetings.

No share option has been granted under the Scheme since its adoption. Accordingly, as at 31 December 2015, there was no share option outstanding under the Scheme.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, the Company repurchased a total of 40,592,000 ordinary shares of the Company on the Stock Exchange at an aggregate consideration of HK\$11,634,460 (expenses excluded). The share repurchases were made with a view to enhance shareholders' interests. Details of the share repurchases are as follows:

Month of share repurchase	Total number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration (expenses excluded) HK\$
August 2015	23,492,000	0.295	0.270	6,734,680
September 2015	16,700,000	0.300	0.265	4,787,780
December 2015	400,000	0.280	0.280	112,000
	<u>40,592,000</u>			<u>11,634,460</u>

All of the above repurchased shares were cancelled during the year.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

DISTRIBUTABLE RESERVES

At the end of the reporting period, the Company did not have any reserves available for distribution as calculated in accordance with the relevant provisions of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 59.31% of the total revenue from sales of goods and rendering of services for the year and revenue from sales of goods and rendering of services to the largest customer included therein amounted to approximately 41.03%. Purchases from the Group's five largest suppliers accounted for approximately 29.67% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 14.57%. The controlling shareholder of the Company was BWI, which together with its subsidiaries, was the largest customer and supplier of the Group. Save as disclosed above, none of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions were recorded during the year and up to the date of this annual report:

(a) Friction Material and Stamped Parts Purchase Agreement

The Friction Material and Stamped Parts Purchase Agreement (the “FMSP Agreement”) was entered into among the Provisional Liquidators (as defined in the circular of the Company dated 20 November 2013), the Company and 京西重工(上海)有限公司 (BWI (Shanghai) Co., Ltd.) (“BWI Shanghai”) on 13 November 2013 for the initial term commencing from 13 November 2013 and ending on 31 March 2016.

Pursuant to the FMSP Agreement, brake shoes, friction materials, braking systems, ball joints, shock absorbers, moulds and stamped parts would be supplied by the Company through its then subsidiary 北泰汽車底盤系統(安徽)有限公司 (Norstar Automotive Chassis System (Anhui) Inc.) (“Norstar Chassis”) to BWI Shanghai.

Each transaction under the FMSP Agreement shall be entered into at arm’s length or on terms no less favourable to the Company and Norstar Chassis than terms that may be made available to or from independent third parties.

The annual cap amounts under the initial term of the FMSP Agreement are as follows:

From 13 November 2013 to 31 March 2014	From 1 April 2014 to 31 March 2015	From 1 April 2015 to 31 March 2016
---	---------------------------------------	---------------------------------------

RMB7,500,000

RMB30,000,000

RMB30,000,000

The transactions under the FMSP Agreement are a continuation of the already established purchasing and supplying business between BWI Shanghai and the Company. To some extent, the transactions will help strengthen the Group’s ability to carry out a stable and sustainable business operation in the interests of the shareholders of the Company as a whole.

As BWI has become a substantial shareholder of the Company since 23 January 2014, BWI Shanghai, being a subsidiary of BWI, is a connected person of the Company under the Listing Rules. Accordingly, the transactions under the FMSP Agreement would constitute continuing connected transactions for the Company. Details of the FMSP Agreement were disclosed in the announcement of the Company dated 13 November 2013 and in the circular of the Company dated 20 November 2013. The FMSP Agreement was approved, confirmed and ratified by the independent shareholders of the Company on 13 December 2013.

Norstar Chassis was an indirect wholly-owned subsidiary of Fullitech International Limited (“Fullitech”, previously a subsidiary of the Company). The Group lost control over Fullitech upon Fullitech’s appointment of liquidators for voluntary winding up on 12 February 2015. Any transaction contemplated under the FMSP Agreement on or after 12 February 2015 would no longer constitute continuing connected transactions for the Company.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (continued)

(b) Parts and Components Supply Agreement

The Parts and Components Supply Agreement (the “Supply Agreement”) was entered into between the Company and BWI on 25 November 2014 for a term commencing from 23 December 2014 (the date on which the Company took over BWI Europe Company Limited S.A. (“BWI Europe”) and its subsidiaries (collectively, “BWI Europe Group”), hereinafter the “Completion Date”) and ending on 31 December 2016.

Pursuant to the Supply Agreement, BWI Europe Group would supply auto parts and components, including automobile controlled and passive suspension products, and prototypes to BWI and/or its associates (the “Sales”).

The basis of determining the prices for the transactions under the Supply Agreement is in accordance with the cost plus approach at margins within the range or no less favourable to the margins of the other products of BWI Europe Group supplied to independent third party customers for the prior financial year, and the pricing policies for continuing connected transactions of the Group.

The cap amounts of the Sales under the Supply Agreement for each of the three financial years ending 31 December 2016 are as follows:

For the financial year ended 31 December 2014	For the financial year ended 31 December 2015	For the financial year ending 31 December 2016
RMB68,000,000	RMB80,000,000	RMB96,000,000

The transactions under the Supply Agreement are a continuation of the already established purchasing and supplying business between BWI and/or its associates and BWI Europe Group. The transactions will provide a stable stream of revenue for BWI Europe Group.

BWI Europe Group has become subsidiaries of the Company since the Completion Date. As BWI is a controlling shareholder of the Company, the transactions under the Supply Agreement would constitute continuing connected transactions for the Company. Details of the Supply Agreement were disclosed in the announcement of the Company dated 25 November 2014 and in the circular of the Company dated 27 November 2014. The Supply Agreement was approved and confirmed by the independent shareholders of the Company on 19 December 2014.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (continued)

(c) Mutual Technical Services Agreement

The Mutual Technical Services Agreement (the “Services Agreement”) was entered into between the Company and BWI on 25 November 2014 for a term commencing from 23 December 2014, the Completion Date, and ending on 31 December 2016.

Pursuant to the Services Agreement, BWI and/or its associates would provide technical services to BWI Europe Group (the “BWI Services”) and BWI Europe Group would provide technical services to BWI and/or its associates (the “Company Services”). Such technical services comprise engineering services and manufacturing services.

The basis of determining the technical fees for the transactions contemplated under the Services Agreement shall be: (1) cost plus 5% for engineering services; and (2) cost plus 1.5% for manufacturing services.

The cap amounts of the BWI Services and the Company Services under the Services Agreement for each of the three financial years ending 31 December 2016 are as follows:

	For the financial year ended 31 December 2014	For the financial year ended 31 December 2015	For the financial year ending 31 December 2016
Cap amounts for the BWI Services	RMB170,000,000	RMB195,000,000	RMB220,000,000
Cap amounts for the Company Services	RMB78,000,000	RMB90,000,000	RMB104,000,000

The transactions under the Services Agreement are a continuation of the already established mutual provision of technical services business between BWI and/or its associates and BWI Europe Group.

BWI Europe Group has become subsidiaries of the Company since the Completion Date. As BWI is a controlling shareholder of the Company, the transactions under the Services Agreement would constitute continuing connected transactions for the Company. Details of the Services Agreement were disclosed in the announcement of the Company dated 25 November 2014 and in the circular of the Company dated 27 November 2014. The Services Agreement was approved and confirmed by the independent shareholders of the Company on 19 December 2014.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (continued)

(d) Technology License Agreement

The Technology License Agreement (the “License Agreement”) was entered into between BWI Poland Technologies sp. z o.o. (“BWI Poland”), a wholly owned subsidiary of the Company, and BWI North America Inc. (as joint licensors) and BWI (as licensee) on 25 November 2014 for a term commencing from 23 December 2014, the Completion Date, and ending on 31 December 2016.

Pursuant to the License Agreement, BWI Poland and BWI North America Inc. would grant a non-exclusive and transferrable license to BWI to use certain technical information in relation to the manufacture, test, validate, sell and provide application engineering support for 4 wheel suspension system (the “Know-how”) for the production of suspension systems for light weight commercial vehicles and 4 wheel passenger vehicles in the People’s Republic of China.

The license fee for the License Agreement would be determined on the basis of:

- (a) if the revenue from the licensed product for the entire year is less than US\$10,000,000, the license fee will be charged on 8% of the product revenue;
- (b) if the revenue from the licensed product for the entire year exceeds US\$10,000,000 but less than US\$50,000,000, the license fee will be charged on the basis of 8% of the product revenue for the first US\$10,000,000, and any part of the product revenue in excess of US\$10,000,000 will be charged at 5% of the product revenue;
- (c) if the revenue from the licensed product for the entire year exceeds US\$50,000,000, the license fee will be charged on the basis of 8% of the product revenue for the first US\$10,000,000, the part of the product revenue between US\$10,000,001 and US\$50,000,000 will be charged at 5% of the product revenue, and any part of the product revenue in excess of US\$50,000,000 will be charged at 3.5% of the product revenue.

The license fee for the License Agreement would be paid by BWI to BWI Poland and BWI North America Inc. in the proportion of 85% and 15% respectively, which was determined based on the actual expense ratio of BWI Poland and BWI North America Inc. for providing the services under the technology license.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (continued)

(d) Technology License Agreement (continued)

The cap amounts for the licensing of the Know-how under the License Agreement for each of the three financial years ending 31 December 2016 are as follows:

For the financial year ended 31 December 2014	For the financial year ended 31 December 2015	For the financial year ending 31 December 2016
RMB9,800,000	RMB10,500,000	RMB11,200,000

The transactions under the License Agreement are a continuation of the already established licensing arrangement among BWI Poland, BWI North America Inc. and BWI.

As BWI is a controlling shareholder of the Company, the transactions under the License Agreement would constitute continuing connected transactions for the Company. Details of the License Agreement were disclosed in the announcement of the Company dated 25 November 2014 and in the circular of the Company dated 27 November 2014. The License Agreement was approved and confirmed by the independent shareholders of the Company on 19 December 2014.

The continuing connected transactions as set out in (a) to (d) above which took place during the year have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better; and
- (3) according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.56 of the Listing Rules in respect of the continuing connected transactions as set out in (a) to (d) above which took place during the year.

As far as the transactions took place during the year as set out in note 33(a) to the financial statements under the heading of "Related Party Disclosures" are concerned, save for the provision of company secretarial services by Shougang Concord International Enterprises Company Limited which was connected transaction but was exempt from any disclosure and shareholders' approval requirements under the Listing Rules, the remaining transactions were continuing connected transactions which had been approved by the independent shareholders of the Company.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (continued)

As regards the transactions took place during the year as set out in note 33(b) to the financial statements under the heading of “Related Party Disclosures”, the provision of loan to the Group by a holding company was connected transaction which was exempt from any disclosure and shareholders’ approval requirements under the Listing Rules. The remaining transactions were incidental to the continuing connected transactions which had been approved by the independent shareholders of the Company.

As far as the transactions took place during the year as set out in note 33(c) to the financial statements under the heading of “Related Party Disclosures” are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Company was connected transaction which was exempt from any disclosure and shareholders’ approval requirements under the Listing Rules. The remaining transactions did not constitute connected transactions under the Listing Rules.

NON-COMPETITION UNDERTAKING WITH CONTROLLING SHAREHOLDERS

On 5 August 2014, Billion Million (HK) Limited (the “Purchaser”), a wholly-owned subsidiary of the Company, the Company, BWI HK and BWI entered into an agreement (the “Agreement”) pursuant to which BWI HK conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire issued share capital of BWI Europe (the “Acquisition”). BWI Europe Group is principally engaged in the design, research and development and manufacturing of suspension products for premium passenger vehicle manufacturers and the provision of engineering services for suspension products. Details of the Acquisition were disclosed in the announcement of the Company dated 5 August 2014 and in the circular of the Company dated 27 November 2014. The Agreement was approved, confirmed and ratified by the independent shareholders of the Company on 19 December 2014. The Acquisition was completed on 23 December 2014.

As a condition precedent to the Acquisition, a deed of non-competition was entered into between the Company and Shougang Corporation, Beijing Fangshan, BWI, BWI HK and SAL (collectively, the “Controlling Shareholders”), on 11 December 2014 (the “Deed”), which became effective on the completion date of the Acquisition. Pursuant to the Deed, each of the Controlling Shareholders will not, and will procure any of their respective associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with the businesses of the Group; and if any future business opportunities that may arise from their existing customers and insofar that they are unable to supply the necessary products to such customers, they will consent to the Group in supplying such products. Details of the Deed are set out in the circular of the Company dated 27 November 2014.

The Company has received annual written declaration from the Controlling Shareholders on their compliance with the undertakings under the Deed. Based on the declaration, the Independent Non-executive Directors of the Company considered that the Controlling Shareholders had complied with the terms set out in the Deed during the year ended 31 December 2015.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 17 to 35 of this annual report.

AUDITOR

SHINEWING (HK) CPA Limited, the auditor of the Company for the year ended 31 March 2011, resigned on 19 August 2013. Thereafter, ZHONGHUI ANDA CPA Limited ("ANDA") was appointed as auditor of the Company on 28 August 2013. ANDA resigned on 30 January 2015 and Ernst & Young ("EY") has been appointed as auditor of the Company with effect from 30 January 2015 to fill the vacancy following the resignation of ANDA.

The accompanying consolidated financial statements have been audited by EY, who will retire at the forthcoming annual general meeting. A resolution will be submitted to the forthcoming annual general meeting to re-appoint EY as auditor of the Company.

By Order of the Board

Jiang Yunan

Managing Director

Hong Kong, 23 March 2016

INDEPENDENT AUDITORS' REPORT



Ernst & Young
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TO THE SHAREHOLDERS OF BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED

(Formerly known as Norstar Founders Group Limited)

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of BeijingWest Industries International Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 55 to 138, which comprise the consolidated statements of financial position as at 31 December 2015, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITORS' REPORT

BASIS FOR QUALIFIED OPINION

The following matters were identified by us in our audit of the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2014.

1. Corporate undertaking and guarantees

The Group had given corporate undertakings and guarantees with a principal amount of HK\$1,381,000,000 together with related interest thereon to a scheme of arrangement with creditors as at 31 December 2013. These corporate undertakings and guarantees were disclosed as contingent liabilities and were not recognised in the Group's consolidated financial statements for the nine months ended 31 December 2013. The aforesaid undertakings and guarantees were released by the scheme of arrangement with creditors as part of the Group's restructuring which was completed in 2014, and the Group recognised a gain of HK\$273 million in 2014 from such restructuring as a whole. Such corporate undertakings and guarantees should have been accounted for at fair value in the Group's consolidated financial statements for the nine months ended 31 December 2013. As the Group has not determined the fair value of the undertakings and guarantees, we are unable to quantify the amount of the adjustments that were required to be made to the Group's consolidated financial statements for the nine months ended 31 December 2013. Any adjustments for the unrecognised undertakings and guarantees as at 31 December 2013 would have an impact on the restructuring gain of HK\$273 million recognised in the year ended 31 December 2014.

2. Amount due from a then associate/Amount due to a then associate

(i) Amount due from a then associate

We are unable to obtain direct audit confirmation in respect of an amount due from a then associate of approximately HK\$12,145,000 (equivalent to RMB9,625,000) as at 31 December 2013, and are unable to obtain sufficient evidence to satisfy ourselves as to the completeness and existence of the aforesaid balance. We are unable to perform other satisfactory audit procedures to satisfy ourselves that such amount due from the then associate was fairly stated at 31 December 2013. The Group recognised an impairment loss of HK\$12,145,000 (equivalent to RMB9,625,000) in the year ended 31 December 2014 due to the liquidation of the then associate. Any adjustments for the amount due from the then associate as at 31 December 2013 would have an impact on the impairment loss recorded for the year ended 31 December 2014.

(ii) Amount due to a then associate

We are unable to obtain direct audit confirmation in respect of an amount due to a then associate of approximately HK\$8,754,000 (equivalent to RMB6,938,000) as at 31 December 2013, and are unable to obtain sufficient evidence to satisfy ourselves as to the completeness and existence of the aforesaid balance. We are unable to perform other satisfactory audit procedures to satisfy ourselves that such amount due to the then associate was fairly stated at 31 December 2013. The Group has written back the aforesaid amount and recognised a gain in other income and gains of HK\$8,754,000 (equivalent to RMB6,938,000) in 2014, as the then associate had completed its liquidation procedures in 2014 and the directors of the Company considered that the probability of being claimed for such liabilities is remote. Any adjustments for such amount due to the then associate as at 31 December 2013 would have an impact on the abovementioned gain recognised in the year ended 31 December 2014.

INDEPENDENT AUDITORS' REPORT

BASIS FOR QUALIFIED OPINION (continued)

3. Obligations under finance leases

We are unable to obtain direct audit confirmation in respect of obligations under finance leases of approximately HK\$32,142,000 as at 31 December 2013, and we have not been able to obtain sufficient evidence to ascertain the completeness and existence of the aforesaid balances as at 31 December 2013. We are unable to perform other satisfactory audit procedures to satisfy ourselves as to whether the aforesaid balances were fairly stated as at 31 December 2013. Pursuant to the scheme of arrangement with creditors and the completion of the Group's restructuring in 2014, such financial lease obligations had effectively been borne by the scheme of arrangement with creditors. Thereby the Group's finance lease obligations were discharged and the Group recognised a restructuring gain of HK\$273 million in 2014 from such restructuring as a whole. Accordingly, these obligations under finance leases were derecognised by the Group during the year ended 31 December 2014. Any adjustments that may be required to be made to these obligations under finance leases as at 31 December 2013 would have an impact on the restructuring gain of HK\$273 million recognised in the year ended 31 December 2014.

Our audit opinion on the Group's consolidated financial statements for the year ended 31 December 2014 was modified in respect of the above matters. Our opinion on the Group's consolidated financial statements for the year ended 31 December 2015 is also modified because of the possible effects of the above matter on the comparability of the figures for the current year and the comparative information.

QUALIFIED OPINION

In our opinion, except for the possible effects on the comparative information of the matters described in the "Basis for qualified opinion" paragraphs, the financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

23 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
REVENUE	6	2,956,848	3,354,614
Cost of sales		(2,282,088)	(2,583,901)
Gross profit		674,760	770,713
Other income and gains, net	6	6,714	42,361
Gain on restructuring		–	272,913
Gain on deconsolidation of subsidiaries, net	8	64,286	–
Selling and distribution expenses		(24,986)	(39,161)
Administrative expenses		(185,147)	(267,408)
Research and development expenses		(347,944)	(357,110)
Restructuring costs incurred		–	(3,870)
Other operating expenses, net		(18,437)	(23,118)
Finance costs	9	(3,325)	(6,764)
PROFIT BEFORE TAX	7	165,921	388,556
Income tax expense	11	(31,854)	(44,094)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		134,067	344,462
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted (HK cents per share)	12	2.54	15.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
PROFIT FOR THE YEAR	134,067	344,462
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(59,566)	(90,943)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>		
Re-measurement loss on defined benefit plans	(930)	(10,779)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX	(60,496)	(101,722)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	73,571	242,740

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
NON-CURRENT ASSETS:			
Property, plant and equipment	13	272,258	331,572
Prepaid land lease payments	14	10,859	12,285
Goodwill	15	6,157	6,541
Deferred tax assets	25	29,484	30,909
Contract performance deposits		9,263	–
Total non-current assets		328,021	381,307
CURRENT ASSETS:			
Inventories	16	154,872	194,465
Trade and bills receivables	17	370,782	485,469
Prepayments, deposits and other receivables	18	123,576	156,610
Cash and cash equivalents	19	664,103	357,513
Total current assets		1,313,333	1,194,057
CURRENT LIABILITIES:			
Trade payables	20	368,870	439,201
Other payables and accruals	21	300,753	692,679
Income tax payables		8,166	37,051
Bank borrowings	22	57,201	54,914
Defined benefit obligations	23	829	1,097
Provision	24	33,112	40,717
Total current liabilities		768,931	1,265,659
NET CURRENT ASSETS/(LIABILITIES)		544,402	(71,602)
TOTAL ASSETS LESS CURRENT LIABILITIES		872,423	309,705

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
NON-CURRENT LIABILITIES:			
Defined benefit obligations	23	72,813	72,964
Deferred tax liabilities	25	9,325	8,819
Loan from a holding company	33(b)	424	567
Total non-current liabilities		82,562	82,350
NET ASSETS		789,861	227,355
EQUITY:			
Equity attributable to owners of the Company			
Issued capital	26	57,655	46,061
Reserves	27	732,206	181,294
Total equity		789,861	227,355

Jiang Yunan
Director

Li Shaofeng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

		Issued capital	Share premium account	Merger reserve	Defined Benefit plan reserve	Exchange fluctuation reserve	Capital reserve	Retained profit/ (accumulated losses)	Total
	Notes	HK\$'000 (note 26)	HK\$'000 (note 27(ii))	HK\$'000 (note 27(iv))	HK\$'000	HK\$'000	HK\$'000 (note 27(iii))	HK\$'000	HK\$'000
At 1 January 2015		46,061	2,509,127	(744,508)	(10,779)	(41,947)	44,132	(1,574,731)	227,355
Profit for the year		-	-	-	-	-	-	134,067	134,067
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations		-	-	-	-	(59,566)	-	-	(59,566)
Re-measurement loss on defined benefit plans		-	-	-	(930)	-	-	-	(930)
Total comprehensive income/(loss) for the year		-	-	-	(930)	(59,566)	-	134,067	73,571
Issuance of the Subscription Shares	26(e)	1,000	37,000	-	-	-	-	-	38,000
Share placements	26(c)	11,000	503,000	-	-	-	-	-	514,000
Reduction of share premium account to set off the accumulated losses	26(h)	-	(1,982,912)	-	-	-	-	1,982,912	-
Transaction costs attributable to issue of shares	26(g)	-	(12,890)	-	-	-	-	-	(12,890)
Repurchase of shares	26(f)	(406)	(11,300)	-	-	-	-	-	(11,706)
Deconsolidation of subsidiaries		-	-	-	-	(38,469)	-	-	(38,469)
At 31 December 2015		57,665	1,042,025*	(744,508)*	(11,709)*	(139,982)*	44,132*	542,248*	789,861

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Notes	Issued capital HK\$'000 (note 26)	Share premium account HK\$'000 (note 27(ii))	Merger reserve HK\$'000 (note 27(iv))	Defined benefit plan reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000 (note 27(iii))	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2014		2,519	1,655,209	(282,268)	-	48,996	-	(1,919,193)	(494,737)
Profit for the year		-	-	-	-	-	-	344,462	344,462
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations		-	-	-	-	(90,943)	-	-	(90,943)
Re-measurement loss on defined benefit plans		-	-	-	(10,779)	-	-	-	(10,779)
Total comprehensive income/(loss) for the year		-	-	-	(10,779)	(90,943)	-	344,462	242,740
Issuance of the Subscription Shares	26(a)	15,555	166,132	-	-	-	-	-	181,687
Shareholders contribution	27(iii)	-	-	-	-	-	44,132	-	44,132
Issuance of the Class B Shares	26(a)	5,855	62,536	-	-	-	-	-	68,391
Exercise of the Warrants	26(b)	1,260	13,451	-	-	-	-	-	14,711
Share placement	26(c)	3,000	93,517	-	-	-	-	-	96,517
Acquisition of subsidiaries	26(d)	17,872	518,282	(462,240)	-	-	-	-	73,914
At 31 December 2014		46,061	2,509,127*	(744,508)*	(10,779)*	(41,947)*	44,132*	(1,574,731)*	227,355

* These reserve accounts comprise the consolidated reserves of HK\$732,206,000 (year ended 31 December 2014: HK\$181,294,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		165,921	388,556
Adjustments for:			
Bank interest income	6	(620)	(14)
Gain on disposal of items of property, plant and equipment, net	7	(1,085)	(9,446)
Gain on deconsolidation of subsidiaries, net	8	(64,286)	–
Depreciation	7	37,670	51,444
Amortisation of prepaid land lease payments	7	199	706
Impairment of items of property, plant and equipment	7	–	32,175
(Reversal of impairment)/impairment of trade and bill receivables	7	(18)	614
Impairment of other receivables	7	–	12,359
Provision against obsolete inventories	7	808	6,927
Finance costs	9	3,325	6,764
		141,914	490,085
Decrease in inventories		39,745	18,577
Decrease in trade and bills receivables		67,892	70,066
(Increase)/decrease in prepayments, deposits and other receivables		(24,731)	18,396
Decrease/(increase) in amounts due from fellow subsidiaries		34,621	(3,238)
(Increase)/decrease in amounts due from holding companies		(8,682)	11,700
Decrease in trade payables		(26,117)	(6,404)
Decrease in other payables and accruals		(12,198)	(99,750)
(Decrease)/increase in amounts due to fellow subsidiaries		(42,417)	41,007
(Decrease)/increase in defined benefit obligations		(1,814)	2,888
Increase/(decrease) in amounts due to holding companies		701	(319,249)
Decrease in warranty provision		(7,605)	(1,113)
Decrease in amounts due to schemes of arrangement		–	(200,000)
Cash generated from operations		161,309	22,965
Income tax paid		(44,261)	(42,479)
Net cash flows from/(used in) operating activities		117,048	(19,514)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	(60,047)	(86,802)
Proceeds from disposals of property, plant and equipment		5,174	20,370
Acquisition of subsidiaries	28	(250,000)	254,916
Interest received		620	14
Deconsolidation of subsidiaries	8	(4,687)	–
Net cash flows (used in)/from investing activities		(308,940)	188,498
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans		2,923	54,914
Repayment of loans		–	(22,710)
Proceeds from the issue of warrants	26(b)	–	14,711
Proceeds from the issue of shares	26(a)	38,000	250,078
Proceeds from the share placement	26(c)	501,110	96,517
Repurchase of shares	26(f)	(11,706)	–
Interest paid		(3,325)	(6,764)
Repayment of a senior note		–	(15,707)
Repayment of a loan from a holding company		–	(138,135)
Net cash flows from financing activities		527,002	232,904
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		357,513	361
Effect of foreign exchange rate changes, net		(28,520)	(44,736)
CASH AND CASH EQUIVALENTS AT END OF YEAR		664,103	357,513

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. CORPORATE AND GROUP INFORMATION

BeijingWest Industries International Limited (the “Company”, formerly known as Norstar Founders Group Limited) is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY 1-1111, Cayman Islands and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the year, the Company and its subsidiaries (collectively the “Group”) were principally involved in the manufacture and sale of automotive parts and components and the trading of automotive parts and components.

As at 31 December 2015 and the date of approval of these financial statements, the immediate holding company of the Company is BWI Company Limited (“BWI (HK)”), which is incorporated in Hong Kong with limited liability. In the opinion of the directors of the Company (the “Directors”), the ultimate holding company is Shougang Corporation, which is a state-owned enterprise established in the People’s Republic of China (“PRC”) and is supervised by the State-owned Assets Supervision and Administration Commission of the People’s Government of Beijing Municipality.

As approved by the shareholders of the Company at an extraordinary general meeting held on 13 December 2013 and by the Registrar of Companies of Cayman Islands on 24 January 2014, the name of the Company was changed from “Norstar Founders Group Limited” to “BeijingWest Industries International Limited”.

Completion of the Group’s proposed restructuring, dismissal of winding-up petitions and resumption of trading in the shares of the Company

In January 2009, the Group found difficulties in meeting its obligations to settle the foreign exchange forward contracts and certain short-term debts. At the request of the Company, trading in the ordinary shares of the Company on the Main Board of the Stock Exchange was suspended since 19 January 2009.

On 6 February 2009, petitions to wind up the Company and Norstar Automobile Industrial Holding Limited (“NAIH”), a wholly-owned subsidiary of the Company, were presented to the High Court of Hong Kong (the “High Court”) together with applications for the appointments of provisional liquidator(s) to preserve the assets of the Company and NAIH and to safeguard the interests of their creditors. Messrs. Lai Kar Yan (Derek), Darach E. Haughey and Yeung Lui Ming (Edmund) of Deloitte Touche Tohmatsu were appointed as the joint and several provisional liquidators (the “Provisional Liquidators”) by the High Court on the same date for both the Company and NAIH.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. CORPORATE AND GROUP INFORMATION (continued)

Completion of the Group's proposed restructuring, dismissal of winding-up petitions and resumption of trading in the shares of the Company (continued)

After taking into account of the substantial liabilities of the Group, the claims against the Group and the huge treasury losses, the Provisional Liquidators were of the view that both the Company and the Group as a whole appeared to be insolvent and were at a high risk of collapse unless the debt of the Group could be restructured and new capital injected by way of the introduction of a white knight investor. A restructuring (the "Proposed Restructuring") of the Group comprising (i) debt restructuring; and (ii) capital restructuring was formulated to address the indebtedness of the Company and NAIH and to regularise the financial position and capital needs of the Group through the introduction of an investor.

On 27 May 2013 and 29 May 2013, the Company submitted to the Stock Exchange the final proposal of the Proposed Restructuring comprising the following transactions:

(a) Debt restructuring

The debt restructuring is being effected through the NFG Scheme (note) and the NAIH Scheme (note) (collectively referred to as the "Schemes") pursuant to Section 166 of the Hong Kong Companies Ordinance to address the indebtedness of the Company and NAIH, respectively. Pursuant to the terms of the Schemes, all bank borrowings and liabilities of NAIH were cut-off as at 19 March 2010 and transferred to NAIH SPV (note), whilst all corporate guarantee claims and claims against the Company were transferred to NFG SPV (note). In this regard, subject to the proposed variations, the Company and NAIH have transferred all financial obligations/claims made against the respective companies to NFG SPV and NAIH SPV respectively except for the following:

- (i) a repayment obligation from the Company in favour of NFG SPV for a fixed sum of HK\$200 million pursuant to the NFG Scheme (the "NFG Repayment Obligation");
- (ii) the obligation to repay the senior note (the "Senior Note") in a principal amount of HK\$15,000,000 issued by NAIH pursuant to a senior note subscription agreement (the "Senior Note Subscription Agreement") dated 6 September 2010 (as amended and supplemented by the senior note supplemental deed dated 19 November 2013) entered into between the Company, NAIH, the Provisional Liquidators and Omni Success Limited ("OSL"), a company beneficially owned by Mr. Liu Zhong Liang, a director of Profound Global Limited ("Profound"), which was a then 40%-owned associate of the Company. Further details of the senior note subscription agreement are set out in the Company's announcement dated 5 October 2010;
- (iii) 377,838,480 Subscription Shares (as detailed in (c) below) to be issued and allotted by the Company to NAIH SPV for the benefit of the NAIH Scheme Creditors (note); and
- (iv) the share charge over NAIH's 40% interest in Profound, being a remaining NAIH Repayment Obligation Security (note).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. CORPORATE AND GROUP INFORMATION (continued)

Completion of the Group's proposed restructuring, dismissal of winding-up petitions and resumption of trading in the shares of the Company (continued)

(b) Capital restructuring (the "Capital Restructuring")

The Capital Restructuring comprised:

- (i) the par value of each ordinary share of the Company shall be reduced (the "Capital Reduction") from HK\$0.10 to HK\$0.002 by cancelling HK\$0.098 of the paid-up capital on each ordinary share of the Company, resulting in the reduction of the issued share capital of the Company from HK\$125,946,000 to HK\$2,519,000;
- (ii) immediately following the Capital Reduction, all unissued ordinary shares of HK\$0.10 each in the authorised share capital of the Company will be cancelled (the "Capital Cancellation"). The authorised share capital of the Company became HK\$2,519,000 upon completion;
- (iii) following the Capital Reduction, every five (5) issued Shares with par value of HK\$0.002 each will be consolidated (the "Share Consolidation") into one new ordinary share of the Company at par value of HK\$0.01 such that after the Capital Reduction, the Capital Cancellation and the Share Consolidation, the authorised share capital of the Company will be HK\$2,519,000 divided into 251,892,320 new ordinary shares of the Company at par value of HK\$0.01 each;
- (iv) The authorised share capital of the Company will be increased from HK\$2,519,000 to HK\$100,000,000, divided into 10,000,000,000 new ordinary shares at par value of HK\$0.01 each (the "Increase of Authorised Share Capital"); and
- (v) immediately following the completion of the Increase of Authorised Share Capital, the authorised share capital of the Company shall be re-classified and re-designated as HK\$100,000,000 divided into 10,000,000,000 shares at par value of HK\$0.01 each, comprising of 9,414,453,759 new ordinary shares at par value of HK\$0.01 each and 585,546,241 Class B ordinary shares at par value of HK\$0.01 each.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. CORPORATE AND GROUP INFORMATION (continued)

Completion of the Group's proposed restructuring, dismissal of winding-up petitions and resumption of trading in the shares of the Company (continued)

(c) Execution of the subscription agreement

Pursuant to the subscription agreement (as amended and supplemented by the supplemental agreements dated 2 September 2013 and 19 November 2013 and the side letter dated 24 October 2013) (the "Subscription Agreement") entered into between the Company, the Provisional Liquidators and Success Arrive Limited ("SAL") dated 31 May 2013, 1,555,538,480 new ordinary shares of the Company (the "Subscription Shares") at par value of HK\$0.01 each and 585,546,241 new Class B ordinary shares of the Company (the "Class B Shares") at par value of HK\$0.01 each shall be issued to SAL at the subscription price of HK\$0.1168 per each Subscription Share and Class B Share. The aggregate cash proceeds from the issuance of the Subscription Shares and the Class B Shares of approximately HK\$250 million shall be utilised as follows:

- (i) HK\$200 million for the fulfilment of the NFG Repayment Obligation;
- (ii) approximately HK\$15 million for the repayment of the Senior Note obligations; and
- (iii) the remaining balance of approximately HK\$35 million for the fees and expenses incurred/to be incurred in connection with the implementation of the restructuring and working capital of the Group.

(d) Issuance of the Senior Note

Details of which are set out in (a)(ii) above.

(e) Issuance of the warrants

Pursuant to the senior note supplemental deed entered into between the Company, NAIH, the Provisional Liquidators and OSL dated 19 November 2013, warrants (the "Warrants") to subscribe for 125,946,160 new ordinary shares of the Company at a subscription price of HK\$0.1168 per share shall be issued to the shareholders of OSL.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. CORPORATE AND GROUP INFORMATION (continued)

Completion of the Group's proposed restructuring, dismissal of winding-up petitions and resumption of trading in the shares of the Company (continued)

(f) Group reorganisation

It represented the reorganisation of the Group's structure which envisaged that all the Company's direct and indirect shareholdings in the Scheme Companies (note), all the inter-company loans due by the Scheme Companies to the Company, and all rights and obligations in respect of litigation or any potential litigation involving or in the name of the Company as at 19 March 2010 were transferred to NFG SPV and NAIH SPV respectively.

On 20 November 2013, the Company published and despatched to the Company's shareholders a circular relating to the Proposed Restructuring, which was approved by the Scheme Creditors in the meeting of the Scheme Creditors and the shareholders at the extraordinary general meeting on 23 November 2013 and 13 December 2013 respectively.

Further details of the Proposed Restructuring are set out in the Company's circular and announcements dated 20 November 2013, 25 November 2013 and 13 December 2013.

On 13 January 2014, the High Court ordered that the winding up petitions against the Company and NAIH be dismissed and the Provisional Liquidators be released and discharged, upon the publication of a resumption of trading notice by the Stock Exchange in respect of the shares of the Company.

The Proposed Restructuring and the resumption conditions have been completed and fulfilled on 23 January 2014 and the trading in the shares of the Company on the Stock Exchange has been resumed on 27 January 2014. Further details of which are set out in the Company's announcements dated 24 January 2014 and 27 January 2014 respectively.

Note: Respective definitions are detailed in the Company's circular dated 20 November 2013.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place and date of registration	Nominal value of issued ordinary/ authorised share capital	Percentage of attributable equity interest held by		Principal activities
			Company	Group	
BWI France S.A.S.	France 13 August 2009	EUR2,002,500	–	100	Provision of research and technical services
BWI UK Limited	United Kingdom 16 June 2009	GBP5,938,975	–	100	Manufacture and sale of automotive parts and components
BWI Poland Technologies sp.z.o.o	Poland 12 March 2009	PLN55,538,150	–	100	Manufacture and sale of automotive parts and components

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. CHANGES IN FUNCTIONAL AND PRESENTATION CURRENCY

In prior years, the Company's functional currency was determined as Renminbi ("RMB") by applying the provisions of paragraph 9 of HKAS 21 The Effects of Changes in Foreign Exchange Rates as RMB was the currency of the economic environment that influenced the Group's revenue generated from its businesses.

Upon the completion of the acquisition of BWI Europe Company Limited S.A. ("BWI Europe"), a wholly-owned subsidiary of the Group whose functional currency is Euro ("EUR") on 23 December 2014 as detailed in note 3 to the financial statements, the Directors considered that the primary economic environment has been substantially changed. Since then, the Company's primary source of revenue (i.e. dividend) is derived from the operation of BWI Europe. The Company receives dividends in Hong Kong dollars ("HK\$") from BWI Europe through Billion Million (HK) Limited ("Billion Million"), an indirect wholly-owned subsidiary of the Company incorporated in Hong Kong and the immediate holding company of BWI Europe. As explained in note 3.1 to the financial statements, the acquisition of BWI Europe was regarded as a business combination under common control such that merger accounting basis as if the acquisition of BWI Europe had been completed since 23 January 2014, the date when the Company and BWI Europe became under common control of BWI (HK), was adopted. Accordingly, in preparation of the Group's financial statements for the year ended 31 December 2014, the Directors consider that it is more appropriate to adopt HK\$ as the functional currency of the Company and the presentation currency of the Group and the Company.

The change in functional currency of the Company was applied prospectively from the date of change. On the date of the change of functional currency, all assets, liabilities and profit or loss items were translated into HK\$ at the exchange rate on that date.

The Company changed the presentation currency of its consolidated financial statements from RMB to HK\$ following the change of functional currency of the Company. The Directors are in the opinion that the change simplifies the financial reporting process and provides users of the financial statements with more comparable information with other companies in similar industries. The change in presentation currency of the Group and the Company was applied retrospectively. The comparative figures presented in these consolidated financial statements have also been restated to reflect the change of the presentation currency from RMB to HK\$ accordingly.

3.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention and are presented in HK\$. All values are rounded to the nearest thousand except when otherwise indicated.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.1 BASIS OF PREPARATION (continued)

Pursuant to the agreement for the sale and purchase of shares of BWI Europe dated 5 August 2014 entered into between the Company, Billion Million, BeijingWest Industries Co., Ltd (“BWI”) and BWI (HK), a wholly-owned subsidiary of BWI, Billion Million had completed the acquisition of a 100% equity interest in BWI Europe (the “BWI Europe Acquisition”) on 23 December 2014 at a consideration of HK\$997,000,000. In addition, BWI (HK) is entitled to the profit after taxes of BWI Europe for the period from 1 January 2014 to the last day of the calendar month immediately preceding the completion date of the BWI Europe Acquisition.

As the Company and BWI Europe were under common control of BWI (HK) since 23 January 2014, and BWI Europe was controlled by BWI (HK) both before and after the BWI Europe Acquisition, the BWI Europe Acquisition was regarded as a business combination under common control and accounted for using the merger accounting basis as if the BWI Europe Acquisition had been completed at the beginning of accounting periods as presented in these financial statements, or at the date when the Company and BWI Europe were under common control, whichever the later. Accordingly, the consolidated financial statements of the Company are prepared as if the BWI Europe Acquisition had been completed on 23 January 2014, being the date which the Company and BWI Europe were under common control of BWI (HK).

The consolidated financial statements have been prepared to present the assets and liabilities of the subsidiaries acquired pursuant to the BWI Europe Acquisition using the existing book values from the controlling shareholders’ perspective.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases, except for the results of the subsidiaries acquired pursuant to the BWI Europe Acquisition, which have been consolidated since 23 January 2014 as mentioned above.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19, Defined Benefit Plans: Employee Contributions

Annual Improvements to HKFRSs 2010-2012 Cycle

Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and impact of each amendment is described below:

- (a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no material impact on the Group.
- (b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:
 - HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.
 - HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.
 - HKAS 24 *Related Party Disclosure*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from entities other than related parties.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) The *Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- **HKFRS 3 *Business Combinations*:** Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.
- **HKFRS 13 *Fair Value Measurement*:** Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.
- **HKAS 40 *Investment Property*:** Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the acquisition of investment properties during the year was not a business combination and so this amendment is not applicable.

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 9	<i>Financial Instruments</i> ²
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> ¹
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹
HKFRS 14	<i>Regulatory Deferral Accounts</i> ³
HKFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to HKAS 1	<i>Disclosure Initiative</i> ¹
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ¹
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs ¹

¹ No mandatory effective date yet determined but is available for adoption

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value either recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- | | |
|---------|---|
| Level 1 | – based on quoted prices (unadjusted) in active markets for identical assets or liabilities |
| Level 2 | – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly |
| Level 3 | – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable |

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a holding company of the Group; or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a holding company, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	3.33% – 5%
Machinery and equipment	9% – 20%
Computer equipment and others	18% – 33.33%
Motor vehicles	9% – 20%
Special tools	20%

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of loans and receivables is as follows:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other operating expenses for receivables.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred assets to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, bank borrowings and obligations under finance leases.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, based on the value of service provided;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Technical services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion.

Technical licensing services revenue is recognised based on the terms of the relevant agreement unless, having regard to the substance of the agreement, it is more appropriate to recognise revenue on some other systematic and rational basis.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including the Directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditioned upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. In addition, at the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to the share premium account.

Options which are cancelled prior to their exercise date or lapse are deleted from the register of outstanding options. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits as a movement in reserves.

Other employee benefits

Defined contribution plans

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local governments, the assets of which are held separately from those of the Group. The employees of a subsidiary of the Group which operates in the United Kingdom are entitled to defined contribution pension benefits. Contributions are made by such subsidiaries based on certain percentages of the participating employees' salaries and are charged to profit or loss as they become payable in accordance with the rules of the relevant pension schemes. The employer contributions vest fully once made.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Defined contribution plans (continued)

The Group also operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Defined benefit plan

The Group operates defined benefit pension plans which requires contributions to be made to a separately administered fund for employees of the Group’s certain entities which operated in Europe. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Re-measurements arising from defined benefit pension plans, comprising actuarial gains and losses, are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to re-measurement gains and losses on defined benefit plans through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

The Group recognises the following changes in the net defined benefit obligation under “cost of sales” and “administrative expenses” in the consolidated statement of profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and
- net interest expense or income.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 5% and 13% has been applied to the expenditure on the individual assets.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

3.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of the Group's Mainland China and overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and statements of comprehensive income are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of the exchange fluctuation reserve relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition date are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of Mainland China and overseas subsidiaries are translated into Hong Kong dollars at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of these subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Transfer of construction in progress to property, plant and equipment

Construction in progress is reclassified to appropriate category of property, plant and equipment when completed and ready for use. Thereafter, depreciation is calculated on a straight line basis to write off the cost of such property, plant and equipment to its residual value over its estimated useful life. It requires management's judgement and estimation to determine when the project under construction is substantially ready for its intended use, i.e. when it is capable of commercial operation based on the overall assessment of trial operation results. Further details of which are set out in note 13 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Useful lives and residual values of items of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods. Further details of which are set out in note 13 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of which are set out in note 15 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Management reassesses the estimation at the end of the reporting period. Further details of which are set out in note 13 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details of which are set out in note 25 to the financial statements.

Defined benefit plan

The Group has recognised the defined benefit pension plan as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, the growth rate of the benefits and other factors. The deviation from the actual result and the actuary result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amount of employee pension benefit obligations. Further details of which are set out in note 23 to the financial statements.

Impairment of trade and bills receivables

The policy for impairment of trade and bills receivables of the Group is based on the evaluation of collectability and the aging analysis of trade and bills receivables and on the judgement of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at the end of the reporting period. Further details of which are set out in note 17 to the financial statements.

Provision against obsolete inventories

Management reviews the condition of inventories of the Group at the end of the reporting period and makes provision against obsolete and slow-moving inventory items identified that are no longer suitable for use or sale. Management estimates the net realisable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at the end of the reporting period. Further details of which are set out in note 16 to the financial statements.

Provision for warranties

Provision for product warranties granted by the Group is recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. Further details of which are set out in note 24 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are originated from a single operating segment, which is the manufacture and sale of automotive parts and components. Therefore, no analysis by operating segment is presented.

Products and services

Revenue from external customers

	2015 HK\$'000	2014 HK\$'000
Product revenue	2,863,401	3,224,086
Technical services income	93,447	130,528
	2,956,848	3,354,614

Geographical information

(a) Revenue from external customers

	2015 HK\$'000	2014 HK\$'000
United Kingdom	1,422,517	1,697,468
Germany	559,113	600,228
United States	324,026	301,304
Mainland China	17,924	106,634
Other countries	633,268	648,980
	2,956,848	3,354,614

The revenue information above is based on the locations of the customers.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2015 HK\$'000	2014 HK\$'000
Poland	177,094	193,011
United Kingdom	96,585	92,606
Mainland China	–	58,146
Other countries	24,858	6,635
	298,537	350,398

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

Information about major customers

During the reporting period, the revenues which were generated from two of the Group's customers and were individually accounted for more than 10% of the Group's total revenue are as follows:

	2015 HK\$'000	2014 HK\$'000
Customer A	1,225,697	1,692,678
Customer B	323,074	353,440
	1,548,771	2,046,118

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents: (1) the net invoiced value of goods sold, net of value-added tax and government surcharges and excludes sale taxes, and after allowance for returns and trade discounts; and (2) an appropriate proportion of contract revenue of technical and consultancy service contracts.

An analysis of the Group's revenue, other income and gains, net, is as follows:

	2015 HK\$'000	2014 HK\$'000
Revenue		
Sale of goods	2,863,401	3,224,086
Technical services income	93,447	130,528
	2,956,848	3,354,614
	2015 HK\$'000	2014 HK\$'000
Other income		
Bank interest income	620	14
Profit from sale of scrap materials	–	51
Compensation for contract reduction	–	15,465
Sales of raw materials	–	3,131
Others	5,009	5,168
	5,629	23,829
Gains, net		
Gain on disposal of items of property, plant and equipment	1,085	9,446
Write-off of other payables	–	9,086
	1,085	18,532
Other income and gains, net	6,714	42,361

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. PROFIT BEFORE TAX

The Group's profit before tax from operation is arrived at after charging/(crediting):

	Notes	2015 HK\$'000	2014 HK\$'000
Cost of inventories sold		2,282,088	2,583,901
Depreciation	13	37,670	51,444
Amortisation of prepaid land lease payments	14	199	706
Minimum lease payments under operating leases		59,626	35,223
Auditors' remuneration		3,691	2,234
Employee benefit expense (including directors' remuneration):			
Wages, salaries and benefits		436,955	346,764
Defined benefit obligation expenses	23	6,713	5,577
		443,668	352,341
Research and development costs		347,944	357,110
Less: Staff costs included as research and development cost		(132,637)	(145,041)
Research and development costs, net of staff costs		215,307	212,069
Gain on disposal of items of property, plant and equipment, net		(1,085)	(9,446)
Impairment of items of property, plant and equipment*	13	–	32,175
Impairment/(reversal of impairment) of trade and bills receivables, net*	17	(18)	614
Impairment of other receivables *	18	–	12,359
Provision against obsolete inventories**	16	808	6,927
Provision for warranties, net	24	8,951	12,387
Foreign exchange differences, net		21,337	23,118

* The impairment amounts of items of property, plant and equipment, trade and bills receivables and other receivables are included in "Administrative expenses" in the consolidated statement of profit or loss.

** The provision against obsolete inventories is included in "Cost of sales" in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

8. GAIN ON DECONSOLIDATION OF SUBSIDIARIES, NET

Pursuant to a notice of liquidators' appointment dated 12 February 2015 ("Notice"), Messrs. Darach E. Haughey and Ho Kwok Leung Glen were appointed as the joint and several voluntary liquidators of Fullitech International Limited ("Fullitech"), a direct wholly-owned subsidiary of the Company, as approved in form of written resolutions by the Company in respect of the voluntary winding up of Fullitech on the same date. Such Notice together with other relevant documents were submitted and filed in the Registrar of Corporate Affairs in the territory of the British Virgin Islands in February 2015. As such, the directors of Fullitech ceased to have power over the business activities of Fullitech and the assets of Fullitech were under custody and control of the liquidators, thereby the Group lost control over the operating and financing activities of Fullitech upon the appointment of the liquidators in February 2015. Accordingly, Fullitech ceased to be a subsidiary of the Company and the assets and liabilities of Fullitech together with its subsidiaries (collectively the "Fullitech Group") were deconsolidated from that of the Group since 12 February 2015. Fullitech Group has been engaged in manufacture and sale of automotive parts and components business. The Group recognised a gain arising from deconsolidation of the Fullitech Group which had net liabilities at the time the Group's control was lost.

Gain on deconsolidation of subsidiaries represented the net liabilities of the Fullitech Group at the time when the Group's control was lost, which was analysed as follows:

	As at 12 February 2015 HK\$'000
Property, plant and equipment (note 13)	52,293
Trade and bills receivables	43,955
Prepayments, deposits and other receivables	2,063
Cash and cash equivalents	4,687
Trade payable	(44,214)
Other payables and accruals	(88,012)
Income tax payables	(17,089)
Net liabilities deconsolidated	(46,317)
Release of exchange fluctuation reserve	(38,469)
Impairment of receivables due from Fullitech Group	20,500
Gain on deconsolidation of subsidiaries, net	64,286

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

9. FINANCE COSTS

	2015 HK\$'000	2014 HK\$'000
Interest on bank loans wholly repayable within five years	3,325	6,764

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 HK\$'000	2014 HK\$'000
Fees	720	672
Salaries, allowances and benefits in kind	1,109	128
	1,829	800

An analysis of the directors' remuneration, on a named basis, is as follows:

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2015 HK\$'000	2014 HK\$'000
Mr. Tam King Ching, Kenny	240	224
Mr. Leung Kai Cheung	240	224
Mr. Yip Kin Man, Raymond	240	224
Mr. Choi Tat Ying, Jacky (resigned on 20 January 2014)	–	–
	720	672

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors, non-executive directors and the chief executive

	2015 HK\$'000	2014 HK\$'000
Salaries, allowances and benefits in kind		
Executive directors:		
Mr. Jiang Yunan (chief executive)	—	—
Mr. Li Shaofeng	—	—
Mr. Craig Allen Diem	—	—
Mr. Bogdan Józef Such	1,109	128
Mr. Wang Zhong (resigned on 29 July 2014)	—	—
Madam Lily Huang (resigned on 27 January 2014)	—	—
Mr. Chin Chang Keng, Raymond (resigned on 27 January 2014)	—	—
Non-executive directors:		
Mr. Han Qing	—	—
Mr. Zhang Yaochun	—	—
Mr. Xu Ning (resigned on 23 December 2014)	—	—
	1,109	128

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2015 (year ended 31 December 2014: Nil).

The five highest paid employees during the years ended 31 December 2015 and 31 December 2014 were neither directors of the Company nor chief executive, and details of their remuneration are as follows:

	2015 HK\$'000	2014 HK\$'000
Salaries, allowances and benefits in kind	6,528	7,697
Performance related bonuses	122	129
	6,650	7,826

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

10. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors, non-executive directors and the chief executive (continued)

The remuneration of these highest paid employees fell within the following bands:

	Number of employees	
	2015	2014
Nil to HK\$1,000,000	–	–
HK\$1,000,001 to HK\$1,500,000	5	1
HK\$1,500,001 to HK\$2,000,000	–	4
	5	5

11. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2015 as the Group did not generate any assessable profits arising in Hong Kong during the year (year ended 31 December 2014: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates. Rates of tax prevailing in the countries in which the Group operates include:

	2015	2014
Luxembourg	21%	21%
Poland	19%	19%
United Kingdom	20.25%	21.5%
France	33.33%	33.33%
Germany	31.9%	31.9%
Italy	31.4%	31.4%
Mainland China	25%	25%
Czech	19%	N/A

	2015 HK\$'000	2014 HK\$'000
Current – Elsewhere	32,465	48,228
Deferred (note 25)	(611)	(4,134)
Tax charge for the year	31,854	44,094

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory rate to the tax expense at the effective tax rate and a reconciliation of the Hong Kong statutory tax rate to the effective tax rate, are as follows:

	2015		2014	
	HK\$'000	%	HK\$'000	%
Profit before tax	165,921		388,556	
Income tax charge at the Hong Kong statutory tax rate of 16.5%	27,377	16.5	64,112	16.5
Effect of different income tax rates for foreign operations	5,092	3.1	14,364	3.7
Income not subject to tax	(10,227)	(6.2)	(19,961)	(5.1)
Expenses not deductible for tax purposes	2,275	1.4	4,379	1.1
Tax losses not recognised as deferred tax assets	2,716	1.6	16,065	4.1
Utilisation of prior year tax losses	–	–	(34,865)	(9.0)
Others	4,621	2.8	–	–
Tax charge at the effective rate	31,854	19.2	44,094	11.3

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 5,272,983,839 (2014: 2,274,932,466) in issue during the year.

No diluted earnings per share is presented for the years ended 31 December 2015 and 31 December 2014 as the Company did not have any outstanding dilutive potential ordinary shares during such years.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Special tools HK\$'000	Computer equipment and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2015							
At 31 December 2014 and 1 January 2015:							
Cost	19,884	391,150	4,053	15,306	58,511	47,789	536,693
Accumulated depreciation and impairment	(7,337)	(161,648)	(2,967)	(7,529)	(25,640)	–	(205,121)
Net carrying amount	12,547	229,502	1,086	7,777	32,871	47,789	331,572
At 1 January 2015, net of accumulated depreciation and impairment	12,547	229,502	1,086	7,777	32,871	47,789	331,572
Additions	–	8,639	551	1,052	3,868	45,937	60,047
Deconsolidation of subsidiaries (note 8)	–	(52,192)	(35)	–	(66)	–	(52,293)
Depreciation provided during the year	(2,499)	(24,621)	(320)	(405)	(9,825)	–	(37,670)
Disposals	–	(196)	–	(3,165)	(728)	–	(4,089)
Transfers	1,227	27,634	64	–	6,202	(35,127)	–
Exchange realignment	(1,231)	(16,367)	(100)	(379)	(3,028)	(4,204)	(25,309)
At 31 December 2015, net of accumulated depreciation and impairment	10,044	172,399	1,246	4,880	29,294	54,395	272,258
At 31 December 2015:							
Cost	19,052	277,153	4,164	10,917	60,082	54,395	425,763
Accumulated depreciation and impairment	(9,008)	(104,754)	(2,918)	(6,037)	(30,788)	–	(153,505)
Net carrying amount	10,044	172,399	1,246	4,880	29,294	54,395	272,258

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Special tools HK\$'000	Computer equipment and others HK\$'000	Construction in progress HK\$'000	Total HK\$'000
31 December 2014							
At 31 December 2013 and 1 January 2014:							
Cost	–	149,572	77	–	170	–	149,819
Accumulated depreciation and impairment	–	(50,432)	(31)	–	(123)	–	(50,586)
Net carrying amount	–	99,140	46	–	47	–	99,233
At 1 January 2014, net of accumulated depreciation and impairment	–	99,140	46	–	47	–	99,233
Additions	222	6,640	–	1,410	3,633	74,897	86,802
Acquisition of subsidiaries (note 28)	14,294	184,480	1,162	9,847	31,480	33,702	274,965
Depreciation provided during the year	(2,094)	(37,023)	(616)	(2,447)	(9,264)	–	(51,444)
Disposals	(154)	(9,325)	(9)	–	(1,436)	–	(10,924)
Impairment	–	(32,163)	–	–	(12)	–	(32,175)
Transfers	2,658	46,725	705	–	14,376	(64,464)	–
Exchange realignment	(2,379)	(28,972)	(202)	(1,033)	(5,953)	3,654	(34,885)
At 31 December 2014, net of accumulated depreciation and impairment	12,547	229,502	1,086	7,777	32,871	47,789	331,572
At 31 December 2014:							
Cost	19,884	391,150	4,053	15,306	58,511	47,789	536,693
Accumulated depreciation and impairment	(7,337)	(161,648)	(2,967)	(7,529)	(25,640)	–	(205,121)
Net carrying amount	12,547	229,502	1,086	7,777	32,871	47,789	331,572

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Due to indications of impairment, the Directors carried out reviews of the recoverable amounts of the plant and machinery of Fullitech Group as at 31 December 2014, having considered the competitiveness and market conditions of Fullitech Group's products. The recoverable amount of the machinery and equipment and computer equipment and others of Fullitech Group was determined based on approximate fair value less cost of disposal of HK\$67,116,000 as appraised by Beijing JinZhengYuan Assets Appraisal Co., Ltd, an independent professionally qualified valuer, because the fair value less cost of disposal is higher than the value in use of such assets. Hence an impairment loss of HK\$32,175,000 was recognised in the statement of profit or loss for the year ended 31 December 2014 in order to write down the net carrying amount of such assets to the recoverable amount. The fair value is determined on sales comparison approach, which considered price recently paid for similar equipment with adjustments made to the indicated market prices to reflect condition and utility of the appraised equipment relative to market.

As disclosed in note 8 to the financial statements, in February 2015, Fullitech commenced voluntary liquidation and the Group lost control over Fullitech. Consequently, the entire plant and machinery of Fullitech Group together with related impairment provision was deconsolidated from the Group's consolidated financial statements since then.

14. PREPAID LAND LEASE PAYMENTS

	2015 HK\$'000	2014 HK\$'000
Carrying amount at beginning of the year	12,285	–
Acquisition of subsidiaries (note 28)	–	15,232
Amortisation	(199)	(706)
Exchange realignment	(1,227)	(2,241)
	10,859	12,285

The prepaid land lease payment is related to leasehold land situated in Poland which is held under a long term lease.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

15. GOODWILL

	2015 HK\$'000	2014 HK\$'000
Cost and net carrying amount:		
At beginning of the year	6,541	–
Acquisition of subsidiaries (note 28)	–	5,828
Exchange realignment	(384)	713
Cost and net carrying amount at 31 December	6,157	6,541

Impairment testing of goodwill

Goodwill acquired through business combinations from acquisition in 2009 has been allocated to relevant cash-generating units ("CGU"), mainly representing by the product lines of automotive parts and components, and technical services for impairment testing. The recoverable amounts of CGU have been determined based on value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rates applied to the cash flow projection as at 31 December 2015 is 14.4%-19.6% which are based on the weighted average cost of capital, and cash flows beyond the five-year period are extrapolated using a growth rate of 1%.

Key assumptions were used in the value in use calculation of the CGU of product lines of automotive parts and components at 31 December 2015. The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. INVENTORIES

	2015 HK\$'000	2014 HK\$'000
Raw materials	112,563	135,765
Work in progress	18,127	21,857
Finished goods	33,545	55,093
	164,235	212,715
Provision for impairment	(9,363)	(18,250)
	154,872	194,465

The movements in the provision for impairment of inventories are as follows:

	2015 HK\$'000	2014 HK\$'000
At beginning of the year	(18,250)	(2,750)
Deconsolidation of subsidiaries	8,735	–
Acquisition of subsidiaries	–	(9,814)
Impairment losses recognised, net (note 7)	(808)	(6,927)
Exchange realignment	960	1,241
At end of the year	(9,363)	(18,250)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

17. TRADE AND BILLS RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Trade and bills receivables	373,030	489,810
Impairment	(2,248)	(4,341)
Total	370,782	485,469

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to three months for the customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has control to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by analysis by customer. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing. They are stated net of provisions.

An aging analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2015 HK\$'000	2014 HK\$'000
Within 3 months	368,487	485,469
3 months to 1 year	2,107	–
Over 1 year	188	–
	370,782	485,469

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

17. TRADE AND BILLS RECEIVABLES (continued)

The movements in provision for impairment of trade and bills receivables are as follows:

	2015 HK\$'000	2014 HK\$'000
At beginning of the year	(4,341)	(3,364)
Deconsolidation of subsidiaries	1,914	–
Acquisition of subsidiaries	–	(32,950)
Impairment losses reversed/(recognised), net (note 7)	18	(614)
Amount written-off as uncollectible	–	29,292
Exchange realignment	161	3,295
At end of the year	(2,248)	(4,341)

Included in the provision for impairment of trade and bills receivables are provision for individually impaired trade receivables of HK\$2,248,000 (2014: HK\$4,341,000) with an aggregate carrying amount before provision of HK\$2,295,000 (2014: HK\$28,269,000). The individually impaired trade receivables relate to customers that were in unexpected financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

The aging analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2015 HK\$'000	2014 HK\$'000
Neither past due nor impaired	368,487	461,541
Past due but not impaired:		
Less than 6 months past due	–	–
Over 6 months past due	–	–
	368,487	461,541

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Prepayments	5,876	8,138
Deposits and other receivables	33,733	51,106
Due from fellow subsidiaries (note 33(b)(i))	18,513	53,134
Due from holding companies (note 33(b)(ii))	65,454	56,772
	123,576	169,150
Impairment	–	(12,540)
	123,576	156,610

The movements in provision for impairment of other receivables are as follows:

	2015 HK\$'000	2014 HK\$'000
At beginning of the year	(12,540)	(125)
Impairment losses recognised, net (note 7)	–	(12,359)
Deconsolidation of subsidiaries	12,540	–
Exchange realignment	–	(56)
At end of the year	–	(12,540)

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. CASH AND CASH EQUIVALENTS

	2015 HK\$'000	2014 HK\$'000
Cash and bank balances denominated in:		
EUR	327,172	266,889
HK\$	284,316	33,506
United States dollar ("US\$")	25,818	25,958
Great Pound Sterling ("GBP")	24,685	28,137
Polish Zloty ("PLN")	1,482	2,313
Czech Koruna ("CZK")	604	–
RMB	26	710
	664,103	357,513

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. There was no restricted cash at the end of year 2015 and 2014.

The carrying amount of the cash and cash equivalents approximates to their fair value.

20. TRADE PAYABLES

An aging analysis of the trade payables at the end of the reporting period, based on the invoice date, is as follows:

	2015 HK\$'000	2014 HK\$'000
Within 3 months	365,820	407,266
3 to 6 months	192	4,456
6 to 12 months	71	3,669
Over 12 months	2,787	23,810
	368,870	439,201

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

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For the year ended 31 December 2015

21. OTHER PAYABLES AND ACCRUALS

	2015 HK\$'000	2014 HK\$'000
Other payables	65,920	149,195
Accruals	21,581	38,516
Due to fellow subsidiaries (note 33(b)(iii))	23,410	65,827
Due to holding companies (note 33(b)(iv))	189,842	439,141
	300,753	692,679

Other payables are unsecured, non-interest-bearing and repayable on demand.

22. BANK BORROWINGS

	Notes	2015 HK\$'000	2014 HK\$'000
Bank loans, unsecured	(b)	57,201	54,914
Analysed into, repayable:			
Within one year		57,201	54,914
Total bank borrowings		57,201	54,914
Portion classified as current liabilities		(57,201)	(54,914)
Non-current portion		–	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

22. BANK BORROWINGS (continued)

Notes:

- (a) The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	2015 HK\$'000	2014 HK\$'000
PLN	–	54,914
US\$	50,629	–
EUR	6,572	–
	57,201	54,914

- (b) The bank loans at 31 December 2015 bore interest at 1 month LIBOR plus 2.20% per annum.

23. DEFINED BENEFIT OBLIGATIONS

The Group have defined benefit pension plans, covering substantially all of its qualified employees in Poland, France and Germany. The amounts of employee benefit obligations recognised in the statement of financial position represent the present values of the unfunded obligations.

The defined benefit obligations were determined based on actuarial valuation performed by Towers Watson Consulting Company Limited, an independent actuary, whose registered office is located at 11th Floor, Kerry Center, 1515 West Nanjing Road, Shanghai, the PRC, using the projected unit credit method.

The components of net benefit expenses in profit or loss and the amounts recognised in the statement of financial position are summarised as follows:

- (a) The provisions for defined benefit obligations recognised in the consolidated statement of financial position are shown as follows:

	2015 HK\$'000	2014 HK\$'000
Present value of unfunded obligations	73,642	74,061
Portion classified as current liabilities	(829)	(1,097)
Non-current portion	72,813	72,964

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. DEFINED BENEFIT OBLIGATIONS (continued)

(b) The movements of the defined benefit obligations are as follows:

	2015 HK\$'000	2014 HK\$'000
At beginning of the year	74,061	–
Acquisition of subsidiaries (note 28)	–	69,113
Current service costs	5,119	3,218
Interest cost on benefit obligations	1,594	2,359
Benefits paid during the year	(785)	(1,193)
Re-measurement losses recognised in other comprehensive income	1,395	14,579
Exchange realignment	(7,742)	(14,015)
At the end of year	73,642	74,061

(c) The net expenses recognised in the consolidated profit or loss are analysed as follows:

	2015 HK\$'000	2014 HK\$'000
Current service costs	5,119	3,218
Interest cost on benefit obligations	1,594	2,359
Net benefit expenses	6,713	5,577

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For the year ended 31 December 2015

23. DEFINED BENEFIT OBLIGATIONS (continued)

- (d) The principal actuarial assumptions used in valuing the provisions for defined benefit obligations at the end of the reporting period are as follows:

	2015		
	Germany	Poland	France
	%	%	%
Discount rate	2.30	2.60	2.00
Rate of salary increase	3.00	3.50/4.00	2.50
Rate of price inflation	2.00	2.50	2.00
Rate of social security increases	2.25	N/A	N/A
Pension increase rate	2.00	N/A	N/A

The average duration of the provision for defined benefits at the end of the reporting period is as follows:

	2015		
	Germany	Poland	France
	Years	Years	Years
Average life expectancy			
Plan 1	19	18	16
Plan 2	19	14	N/A

- (e) The quantitative sensitivity analysis of the provisions for defined benefits as at the end of the reporting period is as follows:

	2015			
	Increase/ (decrease) in		Increase/ (decrease) in	
	Increase in rate	provisions for defined benefits	Decrease in rate	provisions for defined benefits
	%	HK\$'000	%	HK\$'000
Discount rate	1	(7,701)	1	9,284

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the provisions for defined benefits as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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For the year ended 31 December 2015

24. PROVISION

	2015 HK\$'000	2014 HK\$'000
Product warranties:		
At beginning of the year	40,717	–
Acquisition of subsidiaries (note 28)	–	48,311
Provision, net (note 7)	8,951	12,387
Amounts utilised during the year	(13,785)	(13,941)
Exchange realignment	(2,771)	(6,040)
At end of the year	33,112	40,717

The Group provides warranties of certain periods to its customers on certain products, under which faulty products are repaired or replaced. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

25. DEFERRED TAX

The components of deferred tax assets and liabilities and their movements during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	Fair value adjustments arising from business combination HK\$'000	Total HK\$'000
At 1 January 2015	(5,384)	(3,435)	(8,819)
Deferred tax charged to profit or loss during the year	(862)	–	(862)#
Exchange realignment	312	44	356
At 31 December 2015	(5,934)	(3,391)	(9,325)

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25. DEFERRED TAX (continued)

Deferred tax assets

	Warranty provision HK\$'000	Defined benefit pension plan HK\$'000	Total HK\$'000
At 1 January 2015	15,175	15,734	30,909
Deferred tax credited/(charged) to profit or loss during the year	2,177	(704)	1,473#
Deferred tax credited to the other comprehensive income during the year	–	465	465
Exchange realignment	(2,321)	(1,042)	(3,363)
At 31 December 2015	15,031	14,453	29,484

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation HK\$'000	Fair value adjustments arising from business combination HK\$'000	Total HK\$'000
At 1 January 2014	–	–	–
Acquisition of subsidiaries (note 28)	(5,345)	(4,528)	(9,873)
Deferred tax credited to profit or loss during the year	330	–	330#
Exchange realignment	(369)	1,093	724
At 31 December 2014	(5,384)	(3,435)	(8,819)

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For the year ended 31 December 2015

25. DEFERRED TAX (continued)

Deferred tax assets

	Warranty provision HK\$'000	Defined benefit pension plan HK\$'000	Total HK\$'000
At 1 January 2014	–	–	–
Acquisition of subsidiaries (note 28)	14,166	12,944	27,110
Deferred tax credited to profit or loss during the year	2,838	966	3,804#
Deferred tax credited to the other comprehensive income during the year	–	3,800	3,800
Exchange realignment	(1,829)	(1,976)	(3,805)
At 31 December 2014	15,175	15,734	30,909

Deferred tax credited to income statement for the year aggregated to HK\$611,000 (2014: HK\$4,134,000)(note 11).

26. SHARE CAPITAL

	2015 HK\$'000	2014 HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
Issued and fully paid:		
5,765,510,688 (2014: 4,606,102,688) ordinary shares of HK\$0.01 each	57,655	46,061

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26. SHARE CAPITAL (continued)

A summary of the movements in the Company's issued share capital during the years ended 31 December 2015 and 31 December 2014 are as follows:

	Notes	Number of ordinary shares in issue	Issued capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2014		251,892,320	2,519	1,655,209	1,657,728
Issuance of the Subscription Shares	(a)	1,555,538,480	15,555	166,132	181,687
Issuance of the Class B Shares	(a)	585,546,241	5,855	62,536	68,391
Exercise of the Warrants	(b)	125,946,160	1,260	13,451	14,711
Share placement	(c)	300,000,000	3,000	93,517	96,517
Acquisition of subsidiaries	(d)	1,787,179,487	17,872	518,282	536,154
At 31 December 2014 and 1 January 2015		4,606,102,688	46,061	2,509,127	2,555,188
Issuance of the subscription shares	(e)	100,000,000	1,000	37,000	38,000
Share placement	(c)	1,100,000,000	11,000	503,000	514,000
Repurchase of shares	(f)	(40,592,000)	(406)	(11,300)	(11,706)
Transaction costs attributable to issue of shares	(g)	–	–	(12,890)	(12,890)
Reduction of share premium account to set off the accumulated losses	(h)	–	–	(1,982,912)	(1,982,912)
At 31 December 2015		5,765,510,688	57,655	1,042,025	1,099,680

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26. SHARE CAPITAL (continued)

Notes:

- (a) The Subscription Shares and the Class B Shares as detailed in note 1(c) to the financial statements were issued on 23 January 2014, and the Class B Shares were converted into ordinary shares on 8 May 2014.
- (b) The Warrants as detailed in note 1(e) to the financial statements were issued on 23 January 2014 and were fully exercised by the shareholders of Omni Success Limited on 27 January 2014 and 24 February 2014 for 100,756,928 and 25,189,232 new ordinary shares of the Company respectively.
- (c) Pursuant to a placing agreement entered into between the Company and two placing agents dated 13 November 2014, 300,000,000 new ordinary shares of the Company were allotted and issued to not less than six placees who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons on 25 November 2014, at a price of HK\$0.33 per share for a total net cash consideration of HK\$96,517,000. Further details of the share placement are set out in the Company's announcements dated 13 November 2014 and 25 November 2014.

Pursuant to a placing agreement entered into between the Company and a placing agent dated 24 April 2015, 300,000,000 new ordinary shares of the Company were placed to not less than six placees who and whose ultimate beneficial owners were third parties independent of the Company and its connected persons on 11 May 2015, at a placing price of HK\$0.38 per placing share. The net proceeds from the placing were approximately HK\$111,141,000. Further details of the share placement were set out in the Company's announcements dated 24 April 2015 and 11 May 2015.

Pursuant to a placing agreement entered into between the Company and a placing agent dated 4 June 2015, 800,000,000 new ordinary shares of the Company were placed to not less than six placees who and whose ultimate beneficial owners were third parties independent of the Company and its connected persons on 22 June 2015, at a placing price of HK\$0.50 per placing share. The net proceeds from the placing were approximately HK\$389,969,000. Further details of the share placement were set out in the Company's announcements dated 4 June 2015 and 22 June 2015.

- (d) 1,787,179,487 new ordinary shares of the Company were allotted and issued to BWI (HK) on 23 December 2014 to settle part of the consideration for the BWI Europe Acquisition. Details of which are set out in note 28 to the financial statements.
- (e) Pursuant to a share subscription agreement entered into between the Company and China Review Property Group Limited (the "Subscriber") dated 23 April 2015, 100,000,000 new ordinary shares of the Company were allotted and issued to the Subscriber, which was wholly and beneficially owned by Mr. Mung Kin Keung ("Mr. Mung") who was a merchant on 11 May 2015, at a price of HK\$0.38 per subscription share for a total net cash consideration of HK\$38,000,000. The Subscriber and Mr. Mung were third parties independent of the Company and its connected persons. Further details of the issue of the subscription shares were set out in the Company's announcements dated 24 April 2015 and 11 May 2015.
- (f) The Company repurchased totally 40,592,000 ordinary shares during the year. The total payment for the repurchase of the shares was approximately HK\$11,706,000 (including the transaction costs approximately HK\$36,000). Further details of the repurchase of the shares were set out in the Company's next day disclosure return dated 28 August 2015, 31 August 2015, 1 September 2015, 21 September 2015 and 21 December 2015.
- (g) Pursuant to the share placements as detailed in note (c) above, the transaction cost attributable to issue of shares was charged to share premium account with an amount of HK\$12,890,000.
- (h) The share premium account of the Company was reduced by an amount of approximately HK\$1,982,912,000, equivalent to the accumulated losses of the Company and the credit arising therefrom was used to fully set off the accumulated losses as at 31 December 2014. Further details of which were set out in the Company's circular dated 26 May 2015.

NOTES TO FINANCIAL STATEMENTS

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27. RESERVES

- (i) The amounts of the Group's reserves and the movements therein for the years ended 31 December 2015 and 31 December 2014 are presented in the consolidated statement of changes in equity.
- (ii) Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account are distributable to the owners of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- (iii) The capital reserve represents the 377,838,480 Subscription Shares issued and allotted by the Company to NAIH SPV for the benefit of NAIH Scheme Creditors and paid by SAL, which was treated as a shareholder contribution by the immediate holding company.
- (iv) The merger reserve represents the difference between the aggregate net assets of the subsidiaries acquired by the Group and the nominal amount of the Company's new ordinary shares issued at the date of reorganisation and the merger reserve arising from BWI Europe Acquisition as set out in the prospectus of the Company dated 29 September 2003 and note 3.1 to the financial statements respectively.

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28. BUSINESS COMBINATION

As detailed in note 3.1 to the financial statements, the BWI Europe Acquisition during the year ended 31 December 2014 was regarded as a business combination under common control and accounted for using the merger accounting basis. BWI Europe was principally engaged in the manufacture and sale of automotive parts and components, and the provision of technical services in Europe.

The carrying amounts of the assets and liabilities of BWI Europe as at the date of acquisition were as follows:

	Notes	Carrying amounts recognised HK\$'000
Property, plant and equipment	13	274,965
Prepaid land lease payments	14	15,232
Goodwill	15	5,828
Deferred tax assets	25	27,110
Inventories		193,291
Trade receivables		493,805
Prepayments, deposits and other receivables		58,068
Due from fellow subsidiaries		49,896
Due from holding companies		68,472
Cash and cash equivalents		304,916
Trade payables		(408,959)
Other payables and accruals		(201,914)
Due to fellow subsidiaries		(24,820)
Due to a holding company		(14,393)
Tax payable		(14,139)
Current defined benefit obligations	23	(1,496)
Provision	24	(48,311)
Non-current defined benefit obligations	23	(67,617)
Deferred tax liabilities	25	(9,873)
Deferred revenue		(1,114)
Loan from a holding company		(138,702)
Net carrying amounts recognised at acquisition		560,245
Satisfied by:		
Cash		300,000
Allotment of ordinary shares of the Company		536,154
Net profit of BWI Europe entitled by BWI (HK) (note 3.1)		186,331
		1,022,485
Merger reserve attributable to the acquisition of BWI Europe		(462,240)

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28. BUSINESS COMBINATION (continued)

The Group incurred transaction costs of HK\$23,647,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2014.

An analysis of the cash flows in respect of the above acquisition of subsidiaries is as follows:

	2015 HK\$'000	2014 HK\$'000
Cash consideration paid	(250,000)*	(50,000)*
Cash and cash equivalents acquired	–	304,916
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries	(250,000)	254,916

*Aggregate cash consideration paid was HK\$300 million.

Since the acquisition, BWI Europe contributed HK\$3,241,742,000 to the Group's turnover and HK\$181,135,000 to the consolidated profit for the year ended 31 December 2014.

Had the above business combinations taken place at the beginning of the year 2014, the Group's profit for the year ended 31 December 2014 would have been HK\$202,342,000 and the Group's revenue (comprising turnover and other income and gains, net) would have been HK\$3,477,333,000.

29. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its property, plant and equipment under operating lease arrangements, with leases negotiated for terms ranging from one to five years (year ended 31 December 2014: one to five years).

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year	15,700	16,013
In the second to fifth years, inclusive	11,431	25,244
	27,131	41,257

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For the year ended 31 December 2015

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	2015 HK\$'000	2014 HK\$'000
Contracted, but not provided for:		
Plant and machinery	20,811	19,235

31. CONTINGENT LIABILITIES

As at 31 December 2015 and 2014, the Group and the Company did not have any significant contingent liabilities.

32. LITIGATION

As at 31 December 2015, the Group has the following outstanding litigation:

In December 2010, a court in the PRC had judged that various entities of Group were liable for the repayment of overdue finance lease obligations plus related overdue interest charges in respect of various finance lease agreements entered into between NAIH and a plaintiff which was guaranteed by certain entities of the Group. In the opinion of the Directors, the plaintiff's claims shall be dealt with in the manner stipulated under the terms of the Schemes (as defined in note 1(a) to the financial statements) and the Group's final restructuring as approved by the Schemes which was completed in January 2014. The Directors understand that the plaintiff is in discussion with the administrator of the Schemes to agree on the portion of secured liabilities in respect of such finance lease obligations to be borne by the Schemes, or the portion of secured liabilities can be determined based on the value of the relevant leased assets to be recovered by the plaintiff. The remaining portion of such finance lease obligations shall be treated as unsecured liabilities which shall be settled by the Schemes under pari passu terms with other creditors of the Schemes. The relevant leased assets were already derecognised from the Group's financial statements in 2014. The Directors are of view that the above court judgement shall not have any material adverse effect on the Group and no provision was made in respect thereof in the Group's consolidated financial statements for the year ended 31 December 2015.

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33. RELATED PARTY DISCLOSURES

The related companies with which the Group had transactions and or balances were as follows:

Name of the related companies	Relationship with the Group
BWI	the intermediate holding company
SAL	the immediate holding company
BWI (HK)	the intermediate holding company
BWI Company Limited S.A.	a fellow subsidiary
BWI North America Inc.	a fellow subsidiary
BWI India Limited	a fellow subsidiary
Beijing West Industries (Shanghai) Co., Ltd ("BWI Shanghai")	a fellow subsidiary
Shougang Concord International Enterprises Company Limited ("Shougang Concord International")	an associate of the controlling shareholder
Beijing Shougang Automation Information Technology Co., Ltd. ("Shougang Automation")	a fellow subsidiary

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	2015 HK\$'000	2014 HK\$'000
Sales of goods to:		
BWI North America Inc.	18,564	38,655
BWI Shanghai	–	22,804
BWI	3,095	3,874
BWI India Limited*	–	1,578
BWI (HK)	2,214	–
	23,873	66,911
Technical services provided to:		
BWI North America Inc.	76,160	90,438
BWI	10,130	9,722
BWI India Limited*	–	2,673
BWI (HK)	–	1,106
	86,290	103,939

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33. RELATED PARTY DISCLOSURES (continued)

(a) Transactions with related parties (continued)

	2015 HK\$'000	2014 HK\$'000
Purchases of goods from:		
Shougang Automation	–	2,926
BWI	485	420
BWI North America Inc.	126	364
BWI Shanghai	80	254
BWI (HK)	17	–
	708	3,964
Management and technical services provided by:		
BWI North America Inc.	184,301	194,761
BWI	15,158	11,365
Shougang Automation	3,314	–
	202,773	206,126
Purchases of items of property, plant and equipment from:		
BWI North America Inc.*	–	3,106
BWI*	–	790
	–	3,896
Interest expenses paid to:		
BWI (HK)*	–	4,343
Company secretary service fee paid to:		
Shougang Concord International	1,200	1,500

In the opinion of the Directors, the above transactions arose from the ordinary course of the Group's business and were conducted in accordance with mutually agreed terms.

* These transactions was discontinued upon the completion of the BWI Europe Acquisition.

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33. RELATED PARTY DISCLOSURES (continued)

(b) Balances with related parties

	Notes	2015 HK\$'000	2014 HK\$'000
Amounts due from fellow subsidiaries	(i)		
BWI North America Inc.		18,513	51,302
BWI Shanghai		–	1,832
		18,513	53,134
Amounts due from holding companies	(ii)		
BWI		65,195	56,388
BWI (HK)		259	384
		65,454	56,772
Amounts due to fellow subsidiaries	(iii)		
BWI North America Inc.		23,377	65,537
Shougang Automation		–	254
BWI Shanghai		33	36
		23,410	65,827
Amounts due to holding companies	(iv)		
BWI (HK)		186,331	436,331
BWI		2,684	2,810
Shougang Automation		827	–
		189,842	439,141
Long term loan due to a holding company:	(v)		
BWI (HK)		424	567

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. RELATED PARTY DISCLOSURES (continued)

(b) Balances with related parties (continued)

Notes:

- (i) The amounts due from fellow subsidiaries included in the Group's current assets are unsecured, interest-free and repayable within one year.
- (ii) The amounts due from holding companies included in the Group's current assets are unsecured, interest-free and repayable within one year.
- (iii) The amounts due to fellow subsidiaries included in the Group's current liabilities are unsecured, interest-free and repayable within one year.
- (iv) The amounts due to holding companies included in the Group's current liabilities are unsecured, interest-free and repayable within one year.
- (v) The long term loan due to a holding company included in the Group's non-current liabilities is unsecured, bears interest at a rate of 4.758% per annum and repayable in 2016.

The related party transactions disclosed above also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

(c) Compensation of key management personnel of the Group

	2015 HK\$'000	2014 HK\$'000
Short term employee benefits	6,650	7,826

Details of directors' emoluments are set out in note 10 to the financial statements.

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34. FINANCIAL INSTRUMENTS BY CATEGORY

All financial assets and liabilities of the Group and the Company as at 31 December 2015 and 2014 were loans and receivables, and financial liabilities stated at amortised cost, respectively.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Financial assets				
Trade and bills receivables	370,782	485,469	370,782	485,469
Financial assets included in prepayments, deposits and other receivables	1,947	7,238	1,947	7,238
Due from fellow subsidiaries	18,513	53,134	18,513	53,134
Due from holding companies	65,454	56,772	65,454	56,772
Cash and cash equivalents	664,103	357,513	664,103	357,513
	1,120,799	960,126	1,120,799	960,126
Financial liabilities				
Trade payables	(368,870)	(439,201)	(368,870)	(439,201)
Financial liabilities included in other payables and accruals	(11,383)	(92,461)	(11,383)	(92,461)
Due to fellow subsidiaries	(23,410)	(65,827)	(23,410)	(65,827)
Due to holding companies	(189,842)	(439,141)	(189,842)	(439,141)
Bank borrowings	(57,201)	(54,914)	(57,201)	(54,914)
Long term loan from a holding company	(424)	(567)	(424)	(567)
	(651,130)	(1,092,111)	(651,130)	(1,092,111)
Net	469,669	(131,985)	469,669	(131,985)

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35. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief accountant. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief accountant. The valuation process and results are discussed with the senior management twice a year for financial reporting purposes.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

Management has assessed that the fair values of the above short term financial instruments approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the long term financial instruments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk as at 31 December 2015 and 31 December 2014 was assessed to be insignificant.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest bearing borrowings and cash and bank balances. The main purpose of these financial instruments is to support the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. Generally, the senior management of the Company meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the board of directors of the Company holds meetings regularly to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are recognised below.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from transactions in currencies other than the units' functional currency. The Group does not enter into any hedging transactions in order to reduce the Group's exposure to foreign currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the EUR exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). In the opinion of the Directors, as the currency exposures arising from possible changes in other currencies will not have any significant financial impact on the Group's equity, the relative sensitivity is not disclosed.

	Increase/ (decrease) in foreign exchange rate	Increase/(decrease) in profit before tax 2015 HK\$'000	2014 HK\$'000
If HK\$ strengthens against EUR	10%	(50,032)	(64,891)
If HK\$ weakens against EUR	(10%)	50,032	64,891

Credit risk

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 subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group only trades with third parties recognised to be creditworthy, no pledge of assets is required from customers. Concentrations of credit risk are managed by analysis by customer.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 17 to the financial statements.

Liquidity risk

The Group aims to maintain sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

The table below summarises the maturity profile of the Group's non-derivative financial liabilities at the end of reporting period based on contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period.

	Within 1 year HK\$'000	1 to 3 years HK\$'000	Total HK\$'000
31 December 2015			
Trade payables	(368,870)	–	(368,870)
Financial liabilities included in other payables and accruals	(11,383)	–	(11,383)
Due to holding companies	(189,842)	–	(189,842)
Due to fellow subsidiary	(23,410)	–	(23,410)
Bank borrowings	(57,201)	–	(57,201)
Long term loan from a holding company	–	(424)	(424)
	(650,706)	(424)	(651,130)
31 December 2014			
Trade payables	(439,201)	–	(439,201)
Financial liabilities included in other payables and accruals	(92,461)	–	(92,461)
Due to holding companies	(439,141)	–	(439,141)
Due to fellow subsidiary	(65,827)	–	(65,827)
Bank borrowings	(54,914)	–	(54,914)
Long term loan from a holding company	–	(567)	(567)
	(1,091,544)	(567)	(1,092,111)

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new ordinary shares or sell assets to reduce debt. No changes in the objectives, policies or processes for managing capital were made during the year ended 31 December 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt is calculated as the total of trade payables, financial liabilities included in other payables and accruals, amounts due to fellow subsidiaries, amounts due to holding companies, a long-term loan from a holding company, and bank borrowings, less cash and cash equivalents. Equity represents equity attributable to owners of the Company.

	2015 HK\$'000	2014 HK\$'000
Trade payables	368,870	439,201
Financial liabilities included in other payables and accruals	11,383	92,461
Due to fellow subsidiaries	23,410	65,827
Due to holding companies	189,842	439,141
Long-term loan from a holding company	424	567
Bank borrowings	57,201	54,914
Less: Cash and cash equivalents	(664,103)	(357,513)
Net debt	(12,973)	734,598
Equity	789,861	227,355
Net debt and equity	776,888	961,953
Gearing ratio	(1.67%)	76.37%

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. EVENT AFTER THE REPORTING PERIOD

There is no material event after 31 December 2015.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 HK\$'000	2014 HK\$'000
Non-current assets:		
Interests in subsidiaries	586,154	586,154
Current assets:		
Due from subsidiaries	518,507	9,723
Cash and cash equivalents	34,497	33,101
Total current assets	553,004	42,824
TOTAL ASSETS	1,139,158	628,978
Current liabilities:		
Other payables and accruals	1,600	12,570
Total current liabilities	1,600	12,570
Net current assets	551,404	30,254
NET ASSETS	1,137,558	616,408
EQUITY		
Equity attributable to owners of the Company		
Issued capital	57,655	46,061
Reserves (note)	1,079,903	570,347
TOTAL EQUITY	1,137,558	616,408

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: A summary of the Company's reserves is as follow:

	Notes	Share premium account HK\$'000 (note 27(ii))	Capital reserve HK\$'000 (note 27(iii))	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2014		1,655,209	–	(1,885,190)	(229,981)
Loss for the year and total comprehensive loss for the year		–	–	(97,722)	(97,722)
Issuance of the Subscription Shares	26(a)	166,132	–	–	166,132
Shareholders contribution	27(iii)	–	44,132	–	44,132
Issuance of the Class B Shares	26(a)	62,536	–	–	62,536
Exercise of the Warrants	26(b)	13,451	–	–	13,451
Share placement	26(c)	93,517	–	–	93,517
Acquisition of subsidiaries	26(d)	518,282	–	–	518,282
At 31 December 2014 and 1 January 2015		2,509,127	44,132	(1,982,912)	570,347
Loss for the year and total comprehensive loss for the year		–	–	(6,254)	(6,254)
Issuance of the Subscription Shares	26(e)	37,000	–	–	37,000
Reduction of share premium account to set off the accumulated losses	26(h)	(1,982,912)	–	1,982,912	–
Share placement	26(c)	503,000	–	–	503,000
Transaction costs attributable to issue of shares	26(g)	(12,890)	–	–	(12,890)
Repurchase of shares	26(f)	(11,300)	–	–	(11,300)
At 31 December 2015		1,042,025	44,132	(6,254)	1,079,903

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2016.