



Accountants &
business advisers

Greater China Precision Components Limited

**Consolidated Financial Statements
For the year ended 31 December 2010**



GREATER CHINA PRECISION COMPONENTS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GREATER CHINA PRECISION COMPONENTS LIMITED

We have audited the accompanying financial statements of Greater China Precision Components Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Group as at 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PKF
Certified Public Accountants
Hong Kong
22 April 2011

Signing Partner : Lam Kar Bo

Tel 852 2806 3822 | Fax 852 2806 3712
E-mail info@pkf-hk.com | www.pkf-hk.com
PKF | 26/F, Citicorp Centre | 18 Whitfield Road | Causeway Bay | Hong Kong

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GREATER CHINA PRECISION COMPONENTS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	<i>Note</i>	2010 RMB'000	2009 RMB'000
Revenue	5	305,060	245,894
Cost of sales		<u>(239,156)</u>	<u>(181,114)</u>
Gross profit		65,904	64,780
Other income	6	10,313	4,565
Selling and distribution costs		(4,211)	(4,589)
Administrative expenses		(33,599)	(28,007)
Finance costs	7	<u>(237)</u>	<u>(184)</u>
Profit before income tax	8	38,170	36,565
Income tax expense	9(a)	<u>(5,125)</u>	<u>(4,806)</u>
Profit for the year		33,045	31,759
Other comprehensive loss			
Exchange difference arising on translation of foreign operations		<u>(751)</u>	<u>(383)</u>
Total comprehensive income for the year		<u>32,294</u>	<u>31,376</u>
Earnings per share	11		
Basic		<u>RMB1.26</u>	<u>RMB1.20</u>
Diluted		<u>N/A</u>	<u>N/A</u>

The accompanying notes form part of the consolidated financial statements.

GREATER CHINA PRECISION COMPONENTS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2010

	Note	2010 RMB'000	2009 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	235,018	205,554
Land use rights	13	19,890	20,355
Deposits for acquisition of property, plant and equipment		<u>5,493</u>	<u>25,427</u>
		<u>260,401</u>	<u>251,336</u>
CURRENT ASSETS			
Land use rights	13	465	465
Financial assets at fair value through profit or loss	14	18,705	22,241
Inventories	15	54,947	65,949
Trade and notes receivables	16	135,438	141,206
Deposits, prepayments and other receivables	17	5,594	4,694
Income tax recoverable		-	15
Restricted cash	18	6,941	15,149
Cash and bank balances	19	<u>42,970</u>	<u>30,521</u>
		<u>265,060</u>	<u>280,240</u>
TOTAL ASSETS		<u><u>525,461</u></u>	<u><u>531,576</u></u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	20	340,273	340,273
Treasury shares	20(b)	(464)	(2,499)
Reserves		<u>99,689</u>	<u>78,674</u>
TOTAL EQUITY		<u><u>439,498</u></u>	<u><u>416,448</u></u>
CURRENT LIABILITIES			
Bank advances for discounted notes	16(b)	-	8,301
Trade and notes payables	22	65,190	85,153
Accrued expenses and other payables	23	18,827	19,646
Amounts due to directors	24	523	564
Income tax payable		<u>1,423</u>	<u>1,464</u>
TOTAL LIABILITIES		<u><u>85,963</u></u>	<u><u>115,128</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>525,461</u></u>	<u><u>531,576</u></u>

The accompanying notes form part of the consolidated financial statements.

GREATER CHINA PRECISION COMPONENTS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

	Share capital RMB'000	Treasury shares RMB'000	Merger reserve RMB'000 (Note 21(a))	Statutory reserves RMB'000 (Note 21(b))	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2009	340,273	-	(56,863)	21,582	(3,360)	86,492	388,124
Total comprehensive income for the year	-	-	-	-	(383)	31,759	31,376
Appropriation to statutory reserves	-	-	-	4,957	-	(4,957)	-
Repurchase of shares (Note 20(b))	-	(3,052)	-	-	-	-	(3,052)
Cancellation of shares (Note 20(b))	-	553	-	-	-	(553)	-
As at 31 December 2009	<u>340,273</u>	<u>(2,499)</u>	<u>(56,863)</u>	<u>26,539</u>	<u>(3,743)</u>	<u>112,741</u>	<u>416,448</u>
As at 1 January 2010	340,273	(2,499)	(56,863)	26,539	(3,743)	112,741	416,448
Total comprehensive income for the year	-	-	-	-	(751)	33,045	32,294
Final dividend for 2009 (Note 10)	-	-	-	-	-	(7,823)	(7,823)
Appropriation to statutory reserves	-	-	-	4,996	-	(4,996)	-
Repurchase of shares (Note 20(b))	-	(1,421)	-	-	-	-	(1,421)
Cancellation of shares (Note 20(b))	-	3,456	-	-	-	(3,456)	-
As at 31 December 2010	<u>340,273</u>	<u>(464)</u>	<u>(56,863)</u>	<u>31,535</u>	<u>(4,494)</u>	<u>129,511</u>	<u>439,498</u>

The accompanying notes form part of the consolidated financial statements.

GREATER CHINA PRECISION COMPONENTS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	38,170	36,565
Adjustments for :-		
Interest income	(289)	(2,754)
Interest expenses	237	184
Amortisation of land use rights	465	465
Depreciation	20,837	12,744
(Reversal of provision)/provision for doubtful debts	(1,161)	79
Provision for obsolete inventories	867	1,621
Gain on disposal of property, plant and equipment	(5)	-
Net gain from financial assets at fair value through profit or loss	(9,183)	(690)
Operating profit before working capital changes	49,938	48,214
Decrease/(increase) in inventories	10,135	(36,014)
Decrease/(increase) in trade and notes receivables	6,945	(21,185)
Increase in deposits, prepayments and other receivables	(869)	(92)
Decrease in restricted cash	8,208	21,412
(Decrease)/increase in trade and notes payables	(18,586)	32,580
Increase in accrued expenses and other payables	73	359
Decrease in amounts due to directors	(70)	(64)
Cash generated from operations	55,774	45,210
Interest received	289	1,936
Income tax paid	(5,149)	(3,356)
NET CASH FROM OPERATING ACTIVITIES	50,914	43,790
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at fair value through profit or loss	14,236	35,077
Proceeds from disposal of property, plant and equipment	40	-
Interest received from investment in structured deposits	-	818
Acquisition of financial assets at fair value through profit or loss	(2,241)	(56,650)
Payments to acquire property, plant and equipment	(27,214)	(72,908)
Net proceeds from investment in structured deposits	-	80,000
Deposits for acquisition of property, plant and equipment	(5,493)	(25,427)
NET CASH USED IN INVESTING ACTIVITIES	(20,672)	(39,090)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease)/increase in bank advances for discounted notes	(8,301)	8,301
Repurchase of shares	(1,421)	(3,052)
Dividend paid	(7,823)	(5,500)
Interest paid	(237)	(184)
Repayment of loan from a related company	-	(15,000)
Decrease in amount due to a related company	-	(14,705)
NET CASH USED IN FINANCING ACTIVITIES	(17,782)	(30,140)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	12,460	(25,440)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(11)	(390)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	30,521	56,351
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	42,970	30,521
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	42,970	30,521

The accompanying notes form part of the consolidated financial statements.

GREATER CHINA PRECISION COMPONENTS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1. GENERAL INFORMATION

Greater China Precision Components Limited (the "Company") is a public listed company and its shares are listed on the Entry Market of the Frankfurt Stock Exchange. The Company and its subsidiaries (collectively the "Group") are engaged in the manufacture and spray paint of mobile handset casings. The registered office of the Company is located at 8 Cross Street 11-00 PWC Building Singapore 048424. Its principal place of business is located in Huizhou, Guangdong Province, the People's Republic of China (the "PRC").

Particulars of the Company's subsidiaries as at 31 December 2010, all of which are wholly-owned, are as follows :-

<i>Name of subsidiaries</i>	<i>Place of incorporation</i>	<i>Principal activities</i>
Pacific Ocean Investments Limited ("Pacific Ocean")	Hong Kong	Investment holding
Smooth Year Group Limited ("Smooth Year")	British Virgin Islands	Investment holding
Green Precision Components (Huizhou) Co., Ltd. ("Huizhou Green")	The PRC	Manufacture and spray paint of mobile handset casings, and provision of handset assembling services

The consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the Group operates.

2. BASIS OF PREPARATION

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (hereinafter collectively referred to as "International Financial Reporting Standards").

GREATER CHINA PRECISION COMPONENTS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

2. BASIS OF PREPARATION (CONT'D)

(b) Initial application of International Financial Reporting Standards

In the current year, the Group initially applied the following International Financial Reporting Standards :-

IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRS 3	Business Combination
IFRIC 17	Distribution of Non-cash Assets to Owners
Amendments to IAS 39	Eligible Hedged Items
Amendments to IFRS 2	Share-based payment - Group Cash-settled Share-based Payment Transactions
IFRSs	Improvements to IFRSs (2009)

The initial application of these International Financial Reporting Standards does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented, except that IFRS 3 (Revised) and IAS 27 (Revised) made a number of clarifications and changes to the requirements on the preparation and presentation of consolidated financial statements regarding the accounting of consideration transferred, assets acquired and liabilities assumed, non-controlling interests, previously held interest in acquired subsidiaries, changes in ownership interest without loss of control and investment retained in former subsidiaries. The newly adopted accounting policies are set out in notes 3 (b) and (c) to the consolidated financial statements. These amendments are applied prospectively from 1 January 2010.

(c) International Financial Reporting Standards in issue but not yet effective

The following International Financial Reporting Standards in issue as at 31 December 2010 have not been applied in the preparation of the Group's consolidated financial statements for the year then ended since they were not yet effective for the annual period beginning on 1 January 2010 :-

IAS 24 (Revised)	Related Party Disclosures
IFRS 9	Financial Instruments
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets
Amendment to IAS 32	Classification of Right Issues
Amendment to IFRS 7	Disclosure - Transfers of Financial Assets
Amendments to IFRIC 14	Payments of a Minimum Funding Requirement
Improvements to IFRSs 2010	

The Group is required to initially apply these International Financial Reporting Standards in its annual consolidated financial statements beginning on 1 January 2011, except that the Group is required to initially apply amendments to IAS 12 in its annual consolidated financial statements beginning on 1 January 2012 and IFRS 9 in its annual consolidated financial statements beginning on 1 January 2013.

GREATER CHINA PRECISION COMPONENTS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Measurement basis

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of financial assets at fair value through profit or loss.

(b) Basis of consolidation

The consolidated financial statements present the financial information of the Company and entities controlled by the Company as if they are a single economic entity. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date that control commenced or up to the date that control ceased. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the Company. Total comprehensive income of subsidiaries is attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. When a subsidiary is derecognised for loss of control, any investment retained in the former subsidiary is initially measured at its fair value at the date when control is lost.

(c) Business combinations

The acquisition of businesses is accounted for using the acquisition method.

The consideration transferred in exchange for subsidiaries acquired in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred, the equity interests issued and the obligation to pay contingent consideration, except that assets or liabilities included in the consideration transferred that remain within the combined entity after the business combination are measured at their carrying amounts immediately before the acquisition date.

Identifiable assets acquired and the liabilities assumed in the business combination transaction are measured at their acquisition-date fair values.

GREATER CHINA PRECISION COMPONENTS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Business combinations (cont'd)

Non-controlling interest in the acquired subsidiaries at the acquisition date are measured at the non-controlling interest's proportionate share of the subsidiaries' identifiable net assets or at fair value.

Any previously held equity interest in the acquired subsidiaries are re-measured at its acquisition-date fair value

Goodwill is initially measured as the excess of the aggregate amount of consideration transferred, non-controlling interest and any previously held equity interest in the acquired subsidiaries over the net amount of the identifiable assets acquired and the liabilities assumed at the acquisition date.

(d) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Other than construction in progress, depreciation on property, plant and equipment is calculated to write off the cost of the assets to their residual values over their estimated useful lives using the straight-line basis at the following annual rates :-

<i>Type</i>	<i>Estimated useful lives</i>	<i>Depreciation rate</i>
Buildings	30 years	3.23%
Leasehold improvements	1 year	100%
Motor vehicles	5 years	19.4%
Furniture, fixtures and equipment	5 years	19.4%
Plant and machinery	10 years	9.7%

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

GREATER CHINA PRECISION COMPONENTS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment (cont'd)

Construction in progress represents buildings, plant and equipment under development, and is stated at cost less any accumulated impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognising the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognised.

(e) Subsidiary

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(f) Land use rights

Land use rights represent operating lease payments paid to the PRC government authorities. Land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses. Land use rights are amortised on the straight-line basis over the terms from 47 to 48 years.

(g) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

GREATER CHINA PRECISION COMPONENTS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Impairment of non-financial assets (cont'd)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation increase.

(h) Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

The Group's financial assets are classified into the following categories: financial assets at fair value through profit or loss, and loan and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or it is designated as this category.

A financial asset is classified as held for trading if :-

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

GREATER CHINA PRECISION COMPONENTS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial assets (cont'd)

Financial assets at fair value through profit or loss (cont'd)

A financial asset other than a financial asset held for trading may be designated as fair value through profit or loss upon initial recognition if :-

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Dividend or interest earned on the financial asset is included in profit or loss.

Loans and receivables

Trade and notes receivables, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss for the period in which the impairment occurs.

GREATER CHINA PRECISION COMPONENTS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Financial assets (cont'd)

Impairment of financial assets (cont'd)

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss for the period in which the reversal occurs.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour, subcontracting fee and an appropriate proportion of overheads. Net realisable value is based on estimated selling price less all further costs expected to be incurred to completion and to make the sale.

(j) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Financial liabilities

The Group's financial liabilities include trade and notes payables, borrowings and amounts due to directors.

GREATER CHINA PRECISION COMPONENTS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Financial liabilities (cont'd)

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in profit or loss.

Trade and notes payables, and amounts due to directors

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

Borrowings

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

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged or cancelled or they expire.

(l) Provisions

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

(m) Equity instruments

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

Where share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are cancelled immediately upon the repurchase or classified as treasury shares and are presented as a deduction from total equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue and cancellation of the Company's own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

GREATER CHINA PRECISION COMPONENTS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

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

(o) Leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant leases.

(p) Retirement benefits

The Group participates in the statutory defined contribution retirement scheme organised by the relevant local government authority in the PRC. Certain employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Group is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at certain percentage of the local standard basic salaries.

(q) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Foreign currencies (cont'd)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in RMB using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's exchange reserve. Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

(r) Income tax

Income tax comprises current and deferred taxes.

Current tax represents the tax currently payable based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Income tax (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case they are also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

(s) Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker, directors of the Company, for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the directors are determined following the Group's major product and service lines.

The Group identifies the following reportable segments :-

- Manufacture of mobile handset casings segment comprises molding and fabrication of handset casings, followed by the surface spray painting and assembling of the parts; and
- Spray paint of mobile handset casings segment comprises surface painting of handset casings.

Each of these operating segments is managed separately as each of the product and service lines requires different sources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if :-

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of the key management personnel of the Group or the Group's parent or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

4. CRITICAL ACCOUNTING ESTIMATION

In the process of applying the Group's accounting policies, management makes various estimates based on past experience, expectations of the future and other information. The key sources of estimation uncertainty that can significantly affect the amounts recognised in the financial information are disclosed below :-

(a) Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual values and the useful lives of property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation of the year the estimate is changed and of the future periods.

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4. CRITICAL ACCOUNTING ESTIMATION (CONT'D)

(b) Provision for doubtful debts

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

Based on the above assessment, during the reporting years, the management establishes the general provisioning policy to make provision equivalent to 5% of gross amount of trade and other receivables outstanding at the end of the reporting period. Additional specific provision is made against trade and other receivables to the extent which they are considered to be doubtful.

(c) Provision for obsolete inventories

The Group reviews the aging analysis of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in the business. The management estimates the net realisable value of such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items.

During the reporting years, the management establishes the general provisioning policy to make provision equivalent to 5% of gross amount of inventories at the end of the reporting period.

5. REVENUE

Revenue represents the invoiced value of goods sold, net of value added tax and other sales taxes, after allowances for goods returns and trade discounts. An analysis of the Group's revenue is as follows :-

	2010 RMB'000	2009 RMB'000
Manufacture of mobile handset casings	304,283	228,486
Spray paint of mobile handset casings	<u>777</u>	<u>17,408</u>
	<u>305,060</u>	<u>245,894</u>

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6. OTHER INCOME	2010	2009
	RMB'000	RMB'000
Bank interest income	289	1,936
Interest income from investment in structured deposits	-	818
Net gain arising from financial assets at fair value through profit or loss	9,183	690
Others	841	1,121
	<u>10,313</u>	<u>4,565</u>
7. FINANCE COSTS	2010	2009
	RMB'000	RMB'000
Interest on bank borrowings	-	79
Interest on loan from a related company	-	105
Discounted notes interest	237	-
	<u>237</u>	<u>184</u>
8. PROFIT BEFORE INCOME TAX	2010	2009
	RMB'000	RMB'000
Profit before income tax is arrived at after charging/(crediting) :-		
Employee benefits expense		
- Salaries, wages and other benefits	56,711	42,346
- Pension scheme costs	838	666
	57,549	43,012
Amortisation of land use rights	465	465
Depreciation	20,837	12,744
Exchange loss	1,835	63
Minimum lease payments under operating leases for factory premises and quarters	1,296	2,363
(Reversal of provision)/provision for doubtful debts	(1,161)	79
Provision for obsolete inventories	867	1,621
Gain on disposal of property, plant and equipment	(5)	-

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9. INCOME TAX

- (a) The Company is subject to Singapore income tax at tax rate of 17%. It has no chargeable income for income tax purposes for the year.

Smooth Year was incorporated in the British Virgin Islands and is not subject to income tax under the current law.

Pacific Ocean is subject to Hong Kong profits tax at tax rate of 16.5% on the estimated assessable profit for the year. It has no chargeable income for income tax purposes for the year.

Huizhou Green is subject to the PRC enterprise income tax ("EIT") at tax rate of 25%. As approved by the PRC tax authority, Huizhou Green is entitled to two years' tax exemption, from the first profit making calendar year of operations after offset of accumulated taxable losses, followed by 50% tax reduction for the immediate next three calendar years. Huizhou Green's tax holiday commenced in year 2007.

Income tax expense in the consolidated statement of comprehensive income represents current tax :-

	2010 RMB'000	2009 RMB'000
Provision for PRC EIT	4,757	4,721
Provision for Hong Kong profits tax	-	71
Under-provision in respect of prior year	368	14
	<u>5,125</u>	<u>4,806</u>

The Group's income tax expense differs from the theoretical amount that would arise using the tax rate applicable to the Group's profit before income tax as follows :-

	2010 RMB'000	2009 RMB'000
Profit before income tax	<u>38,170</u>	<u>36,565</u>
Income tax based on the PRC EIT rate of 25%	9,542	9,141
Effect of non-deductible expenses	1,300	929
Effect of non-taxable income	(1,773)	(288)
Effect of differential tax rates	-	(36)
Effect of tax holiday	(4,327)	(4,825)
Under-provision in respect of prior year	368	14
Others	15	(129)
Income tax expense	<u>5,125</u>	<u>4,806</u>

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9. INCOME TAX (CONT'D)

- (b) A withholding tax of 5% is levied on the Hong Kong companies in respect of dividend distributions arising from profits of PRC foreign investment enterprises earned after 1 January 2009. During the year, Huizhou Green did not declare dividend in relation to its profits earned after 1 January 2008 and no withholding tax on dividend was charged to profit or loss accordingly.

As at 31 December 2010, the Group was in a position to control the dividend policies of Huizhou Green and had no intention to declare dividend from Huizhou Green's profits earned after 1 January 2008 in the foreseeable future. In this regard, no deferred tax liabilities had been recognised in respect of the temporary differences of approximately RMB93,830,000 (2009 : RMB69,402,000) associated with Huizhou Green's undistributed earnings.

10. DIVIDEND

A final dividend of RMB0.30 per share totalling RMB7,823,000 for the year ended 31 December 2009 was declared and approved during the year.

Subsequent to the reporting period, the directors proposed a final dividend of RMB0.3 per ordinary share (2009 : RMB0.3 per ordinary share). This dividend has not been recognised as a liability as at 31 December 2010.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of RMB33,045,000 (2009 : RMB31,759,000) and the weighted average number of ordinary shares in issue during the year of 26,302,752 (2009 : 26,420,581).

Diluted earnings per share amount has not been disclosed as there were no dilutive options and other potential dilutive ordinary shares in issue during the current and preceding years.

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12. PROPERTY, PLANT AND EQUIPMENT

	<i>Construction in progress</i> RMB'000	<i>Buildings</i> RMB'000	<i>Leasehold improvements</i> RMB'000	<i>Motor vehicles</i> RMB'000	<i>Furniture, fixtures and equipment</i> RMB'000	<i>Plant and machinery</i> RMB'000	<i>Total</i> RMB'000
Cost :-							
As at 1 January 2009	64,601	-	1,326	4,023	7,035	85,978	162,963
Additions	49,017	-	-	660	7,085	27,592	84,354
Transfers	(71,130)	59,511	-	-	-	11,619	-
As at 31 December 2009	42,488	59,511	1,326	4,683	14,120	125,189	247,317
Accumulated depreciation :-							
As at 1 January 2009	-	-	1,078	2,537	3,209	22,195	29,019
Charge for the year	-	-	248	433	1,355	10,708	12,744
As at 31 December 2009	-	-	1,326	2,970	4,564	32,903	41,763
Net book value :-							
As at 31 December 2009	42,488	59,511	-	1,713	9,556	92,286	205,554
Cost :-							
As at 1 January 2010	42,488	59,511	1,326	4,683	14,120	125,189	247,317
Exchange difference	-	-	-	(16)	-	-	(16)
Additions	19,081	1,769	-	-	8,225	21,273	50,348
Disposals	-	-	-	-	(134)	-	(134)
Transfers	(60,827)	47,738	-	-	12,400	689	-
As at 31 December 2010	742	109,018	1,326	4,667	34,611	147,151	297,515
Accumulated depreciation :-							
As at 1 January 2010	-	-	1,326	2,970	4,564	32,903	41,763
Exchange difference	-	-	-	(4)	-	-	(4)
Charge for the year	-	2,998	-	479	3,371	13,989	20,837
Written off on disposals	-	-	-	-	(99)	-	(99)
Transfers	-	-	-	-	-	-	-
As at 31 December 2010	-	2,998	1,326	3,445	7,836	46,892	62,497
Net book value :-							
As at 31 December 2010	742	106,020	-	1,222	26,775	100,259	235,018

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13. LAND USE RIGHTS

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

	2010 RMB'000	2009 RMB'000
Cost	22,112	22,112
Accumulated amortisation	<u>(1,757)</u>	<u>(1,292)</u>
Net book value as at 31 December	<u>20,355</u>	<u>20,820</u>
Representing :-		
Net book value as at 1 January	20,820	21,285
Amortisation	<u>(465)</u>	<u>(465)</u>
Net book value as at 31 December	20,355	20,820
Current portion	<u>(465)</u>	<u>(465)</u>
Non-current portion	<u>19,890</u>	<u>20,355</u>

As at 31 December 2010, land use right with net book value of approximately RMB6,488,000 (2009 : Nil) was pledged to the bank to secure the notes payables (Note 22) issued by the Group.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 RMB'000	2009 RMB'000
Listed equity securities in the United States, at market value	<u>18,705</u>	<u>22,241</u>

The market value of the Group's investments in listed equity securities was determined directly by reference to their published price quotations in active markets as at 31 December 2010.

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15. INVENTORIES	2010 RMB'000	2009 RMB'000
Raw materials	12,582	13,147
Work in process	11,464	11,202
Finished goods	<u>33,793</u>	<u>43,625</u>
	57,839	67,974
Provision for obsolete inventories	<u>(2,892)</u>	<u>(2,025)</u>
	<u>54,947</u>	<u>65,949</u>
 16. TRADE AND NOTES RECEIVABLES	 2010 RMB'000	 2009 RMB'000
Trade receivables	43,099	61,984
Provision for doubtful debts	<u>(2,153)</u>	<u>(3,330)</u>
	40,946	58,654
Notes receivables	<u>94,492</u>	<u>82,552</u>
	<u>135,438</u>	<u>141,206</u>

Notes :-

- (a) An aged analysis of the trade receivables before provision for doubtful debts is as follows :-

	2010 RMB'000	2009 RMB'000
Within 90 days	35,925	58,740
Between 91 days to 365 days	4,892	1,286
Over 365 days	<u>2,282</u>	<u>1,958</u>
	<u>43,099</u>	<u>61,984</u>

As at 31 December 2010, trade receivables of approximately RMB9,655,000 (2009 : RMB3,996,000) were past due for less than one year but not impaired. These receivables relate to a number of independent customers for whom there is no recent history of default.

Except for trade receivables whose recovery are considered remote and impairment of which have been written off directly from the carrying amount, a provision for doubtful debts of past due trade receivables is maintained. Movements of the provision during the year were as follows :-

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16. TRADE AND NOTES RECEIVABLES (CONT'D)

(a) (cont'd)

	2010 RMB'000	2009 RMB'000
As at 1 January	3,330	3,277
(Reversal)/provision for the year	<u>(1,177)</u>	<u>53</u>
As at 31 December	<u>2,153</u>	<u>3,330</u>

(b) As at 31 December 2009, the Group transferred notes receivable of RMB8,301,000 to a bank in exchange for cash. The transaction had been accounted for as collateralised bank advances.

(c) As at 31 December 2010, notes receivables of approximately RMB6,709,000 (2009 : Nil) were pledged to the bank to secure the notes payables (Note 22) issued by the Group.

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2010 RMB'000	2009 RMB'000
Other receivables	2,386	1,533
Provision for doubtful debts	<u>(73)</u>	<u>(57)</u>
	2,313	1,476
Deposits and prepayments	<u>3,281</u>	<u>3,218</u>
	<u>5,594</u>	<u>4,694</u>

Movements of the provision for doubtful debts during the year were as follows :-

	2010 RMB'000	2009 RMB'000
As at 1 January	57	31
Provision for the year	<u>16</u>	<u>26</u>
As at 31 December	<u>73</u>	<u>57</u>

18. RESTRICTED CASH

The restricted cash was pledged to the bank to secure the notes payables (Note 22) issued by the Group.

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19. CASH AND BANK BALANCES	2010 RMB'000	2009 RMB'000
Cash at banks and on hand	20,970	30,521
Short-term deposit	<u>22,000</u>	<u>-</u>
	<u>42,970</u>	<u>30,521</u>

As at 31 December 2010, 87% of the cash and bank balances was denominated in RMB, 11% was denominated in Euro and the remaining 2% was denominated in other foreign currencies. Conversion of the balances in RMB into foreign currencies is subject to the rules and regulations on foreign exchange controls promulgated by the PRC government.

20. SHARE CAPITAL

Ordinary shares with no par value

Issued and fully paid :-	Number of shares	RMB'000
As at 1 January 2009	26,741,651	340,273
Cancellation of repurchased shares (Note 20(b))	<u>(141,651)</u>	<u>-</u>
As at 31 December 2009	26,600,000	340,273
Cancellation of repurchased shares (Note 20(b))	<u>(500,000)</u>	<u>-</u>
As at 31 December 2010	<u>26,100,000</u>	<u>340,273</u>

Notes :-

- (a) The Company has no authorised share capital.
- (b) The 370,500 treasury shares, held by the Company as at 31 December 2009, with aggregate consideration paid of approximately RMB2,499,000, were cancelled during the year. An amount equivalent to the consideration paid was deducted against retained earnings.

In addition, during the year ended 31 December 2010, the Company completed the buy-back of 216,620 (2009 : 512,151) ordinary shares under its share buy back program. The total consideration for shares bought back on the market is approximately RMB1,421,000 (2009 : RMB3,052,000), being an average market price, including incidental costs, of RMB6.56 (2009 : RMB5.96) per share. 129,500 (2009 : 141,651) of these shares were immediately cancelled upon the repurchase and the aggregate consideration paid of approximately RMB957,000 (2009 : RMB553,000) was deducted from retained earnings. The remaining 87,120 (2009 : 370,500) repurchased shares, which were held by the Company as at 31 December 2010 and with aggregate consideration paid of approximately RMB464,000 (2009 : RMB2,499,000), were classified as a deduction from equity under "Treasury shares".

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21. RESERVES

(a) Merger reserve

Merger reserve arises from the acquisition of Pacific Ocean and Smooth Year by the Company.

(b) Statutory reserves

	<i>General reserve fund RMB'000</i>	<i>Employees' bonus and welfare fund RMB'000</i>	<i>Total RMB'000</i>
As at 1 January 2009	14,388	7,194	21,582
Appropriation from retained earnings	<u>3,305</u>	<u>1,652</u>	<u>4,957</u>
As at 31 December 2009	17,693	8,846	26,539
Appropriation from retained earnings	<u>3,330</u>	<u>1,666</u>	<u>4,996</u>
As at 31 December 2010	<u>21,023</u>	<u>10,512</u>	<u>31,535</u>

Notes :-

(i) The statutory reserves are appropriated from the retained earnings of Huizhou Green.

(ii) General reserve fund

In accordance with the relevant laws and regulations of the PRC, Huizhou Green, being a wholly-foreign owned enterprise, is required to appropriate 10% of its net profit reported in the PRC statutory accounts, after offsetting any prior years' losses, to the general reserve fund. When the balance of the general reserve fund reaches 50% of Huizhou Green's registered capital, any further appropriation is optional.

The general reserve fund is non-distributable and can only be used to offset accumulated losses, for future expansion or to increase registered capital.

(iii) Employees' bonus and welfare fund

In accordance with the relevant laws and regulations of the PRC, a wholly-foreign owned enterprise can, at the directors' discretion, appropriate its net profit reported in the PRC statutory accounts, after offsetting any prior years' losses, to the employees' bonus and welfare fund. The employees' bonus and welfare fund is not distributable and can only be used on items for the collective benefits of the employees. The Group appropriated 5% of the net profit of Huizhou Green to this fund.

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22. TRADE AND NOTES PAYABLES	2010 RMB'000	2009 RMB'000
Trade payables	44,533	64,896
Notes payables	<u>20,657</u>	<u>20,257</u>
	<u>65,190</u>	<u>85,153</u>

Notes :-

- (a) As at 31 December 2010, notes payables were secured by the following assets of the Group :-

	2010 RMB'000	2009 RMB'000
Land use rights (Note 13)	6,488	-
Notes receivables (Note 16)	6,709	-
Restricted cash (Note 18)	<u>6,941</u>	<u>15,149</u>
	<u>20,138</u>	<u>15,149</u>

Notes payables were also guaranteed by the directors Messrs. Wu Baofa and Wu Baoyu, who did not receive any compensation for acting as guarantors for the Group.

- (b) As at 31 December 2010, approximately RMB1,265,000 (2009 : RMB2,641,000) of these notes payables were issued by the Group for the acquisition of property, plant and equipment.

23. ACCRUED EXPENSES AND OTHER PAYABLES	2010 RMB'000	2009 RMB'000
Salaries and welfare payable	5,328	4,659
Payable for acquisition of property, plant and equipment	8,743	9,660
Accruals	1,269	2,002
Other payables	1,070	1,031
Value-added tax payable	2,138	1,234
Other taxes payable	<u>279</u>	<u>1,060</u>
	<u>18,827</u>	<u>19,646</u>

24. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are interest-free, unsecured and repayable on demand.

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25. RETIREMENT BENEFIT COSTS

The Group participates in the statutory defined contribution retirement scheme for its employees in the PRC. Contributions are made based on a certain percentage of the local standard basic salaries and are charged to profit or loss in the year in which they become payable.

Pension scheme costs charged to profit or loss represent contributions paid and payable by the Group to the scheme and amounted to approximately RMB838,000 (2009 : RMB666,000) for the year.

26. PERFORMANCE SHARE SCHEME

The Group has a Performance Share Scheme ("PSS") to provide an opportunity for directors (including non-executive directors) and employees of the Group who have met performance targets to be remunerated not just through cash bonuses but also by an equity stake in the Company.

The total number of new shares which may be issued pursuant to awards granted under the PSS shall not exceed 3% of the issued share capital of the Company on the day preceding the relevant date of award.

The PSS shall continue in force for a maximum period of 10 years commencing on the date the PSS is adopted by the Company in general meeting, provided always that the PSS may continue beyond the above stipulated period with the approval of shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.

Notwithstanding the expiry or termination of the PSS, any awards made to participants prior to such expiry or termination will continue to remain valid.

No awards were granted, forfeited, cancelled or exercised during the years ended 31 December 2010 and 2009.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group manages credit risk by setting up credit control policy and periodic evaluation of credit performance of other parties, measured by the extent of past due or default and their financial healthiness.

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27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(a) Credit risk (cont'd)

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount and on major other debtors. The evaluations on customers focus on their past history of making payments when due and current ability to pay, and may take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The evaluations on major other debtors focus on their current ability to pay. Normally, the Group does not obtain collateral from customers and other debtors. The Group has no significant concentrations of credit risk with exposure over a large number of customers.

Carrying amounts of financial assets as at 31 December 2010, which represented the amounts of maximum exposure to credit risk, are as follows :-

	2010 RMB'000	2009 RMB'000
Trade and notes receivables	135,438	141,206
Other receivables	2,313	1,476
Restricted cash	6,941	15,149
Cash and bank balances	<u>42,970</u>	<u>30,521</u>
	<u>187,662</u>	<u>188,352</u>

The directors are satisfied with the credit quality of the above financial assets.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages liquidity risk by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the Group's ability to meet its financial obligations, measured by the debt-to-equity ratio.

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27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) Liquidity risk (cont'd)

The table below summarises the maturity profile of the Group's non-derivative financial liabilities as at 31 December 2010 based on contractual undiscounted payments.

	2010 RMB'000	2009 RMB'000
Bank advances for discounted notes	-	8,301
Trade and notes payables	65,190	85,153
Accrued expenses and other payables	18,657	19,646
Amounts due to directors	<u>523</u>	<u>564</u>
Due for payment on demand or within one year	<u>84,370</u>	<u>113,664</u>

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group manages currency risk, when it is considered significant, by entering into appropriate currency forward contracts.

Carrying amounts of the Group's financial assets/(liabilities) as at 31 December 2010 that exposed to currency risk are as follows :-

	2010 RMB'000	2009 RMB'000
Financial assets at fair value through profit or loss	18,705	22,241
Trade and notes receivables	2,676	943
Other receivables	1,255	603
Cash and bank balances	5,516	21,348
Trade and notes payables	<u>-</u>	<u>(2,641)</u>
Net financial assets exposed to currency risk	<u>28,152</u>	<u>42,494</u>

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27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(c) Currency risk (cont'd)

The above financial assets/(liabilities) were denominated in the following foreign currencies :-

	2010	2009
	RMB'000	RMB'000
Euro	5,789	18,491
United States dollars	22,078	26,644
Hong Kong dollars	285	-
Japanese Yen	<u>-</u>	<u>(2,641)</u>
	<u>28,152</u>	<u>42,494</u>

Should RMB as at 31 December 2010 fluctuate by 10% against all the foreign currencies, the carrying amount of the Group's net financial assets exposed to currency risk as at 31 December 2010 determined in accordance with IFRS 21 "The Effects of Changes in Foreign Exchange Rates" would increase/decrease, and hence the equity as at 31 December 2010 would increase/decrease, by approximately RMB2,107,000 (2009 : RMB4,409,000) and the profit for the year then ended would increase/decrease by RMB708,000 (2009 : RMB160,000).

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group manages its interest rate risk exposure, when it is considered necessary, by entering into interest rate swaps.

The interest rate profile of the Group's financial assets and financial liabilities as at 31 December 2010 is as follows :-

	Effective		2010	2009
	interest rate		RMB'000	RMB'000
	2010	2009		
	%	%		
Fixed rate assets/(liabilities)				
Short-term deposit	1.35	-	22,000	-
Bank advances for discounted notes	-	1.95	<u>-</u>	<u>(8,301)</u>

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27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(d) Interest rate risk (cont'd)

	<i>Effective interest rate</i>		<i>2010 RMB'000</i>	<i>2009 RMB'000</i>
	<i>2010 %</i>	<i>2009 %</i>		
Variable rate assets				
Bank balances	0.36	0.36	20,948	21,818
Restricted cash	1.89	1.85	<u>6,941</u>	<u>15,149</u>

Should the market interest rate as at 31 December 2010 fluctuate by 10 basis points with all other variables held constant, there would be no significant change to the profit for the year.

(e) Market price risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument traded in the market will fluctuate because of changes in market prices. The Group manages the market price risk through diversification and placing limits on individual and total equity instruments.

The Group's equity investments of RMB18,705,000 (2009 : RMB22,241,000) are listed in the United States and are exposed to market price risk. Should the market price of these investments as at 31 December 2010 fluctuate by 10%, their carrying amount would increase/decrease, and hence the equity as at 31 December 2010 would increase/decrease, by approximately RMB57,000 (2009 : RMB2,000) and profit for the year then ended would increase/decrease by RMB1,814,000 (2009 : RMB2,222,000).

(f) Fair value

(i) Financial instruments carried at fair value

The three levels of the fair value hierarchy in IFRS 7 "Financial Instruments : Disclosures" are defined as follows :-

- Level 1 (highest level) : Fair values are measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2 : Fair values are measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level) : Fair values are measured using valuation techniques in which any significant input is not based on observable market data

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27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(f) Fair value (cont'd)

(i) Financial instruments carried at fair value (cont'd)

As at 31 December 2010, the Group's financial assets at fair value through profit or loss of RMB18,705,000 (2009 : RMB22,241,000) were carried at fair value which was based on Level 1 of the fair value hierarchy.

During the year ended 31 December 2010, there were no transfers between financial instruments in Level 1 and Level 2.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2010 and 2009.

(g) Capital management

The Group's capital management objectives are to safeguard the Group's ability to continue as a going concern and to provide an adequate return to shareholders commensurately with the level of risk. To meet these objectives, the Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions by paying dividends, issuing equity shares and raising or repaying debts as appropriate.

The Group's capital management strategy, which is unchanged from the previous periods, is to maintain a reasonable proportion in total debt and equity capital. The Group monitors equity capital on the basis of the debt-to-equity capital ratio, which is calculated as net debt over equity capital. Net debt is calculated as total debt less cash and cash equivalents. Equity capital comprises all components of equity. The debt-to-equity capital ratio as at 31 December 2010 was as follows :-

	2010 RMB'000	2009 RMB'000
Total debt	85,963	115,128
Less: Cash and cash equivalents	<u>42,970</u>	<u>30,521</u>
Net debt	<u>42,993</u>	<u>84,607</u>
Total equity	<u>439,498</u>	<u>416,448</u>
Debt-to-equity capital ratio	<u>0.10</u>	<u>0.20</u>

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28. RELATED PARTY TRANSACTIONS

- (a) Apart from the information as disclosed in notes 22 and 24 to the consolidated financial statements, the Group had no other material transactions with its related party during the year. During the year ended 31 December 2009, the Group purchased materials and moulds of approximately RMB75,000 and paid loan interest of approximately RMB105,000 to a related company in which directors Messrs. Wu Baofa and Wu Baoyu had control.

(b) Key management compensation	2010 RMB'000	2009 RMB'000
Salaries, wages and other benefits	<u>1,045</u>	<u>1,158</u>

29. COMMITMENTS

- (a) As at 31 December 2010, the Company had capital commitments in respect of acquisition of property, plant and equipment, which were contracted but not provided for, of approximately RMB3,253,000 (2009 : RMB30,444,000).
- (b) As at 31 December 2010, the Group had outstanding commitments under non-cancellable operating leases which fall due as follows :-

	2010 RMB'000	2009 RMB'000
Within one year	654	704
Two to five years	<u>428</u>	<u>1,033</u>
	<u>1,082</u>	<u>1,737</u>

The leases are negotiated for an average term of three years with fixed monthly rentals and for the Group's manufacturing facilities and staff quarters.

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30. SEGMENT INFORMATION

IFRS 8 "Operating Segments" replaces IAS 14 "Segment Reporting". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of IFRS 8 has not affected the identified and reportable operating segments for the Group.

The Group has two reportable segments, namely manufacture of mobile handset casings and spray paint of mobile handset casings, respectively. The segment information is as follows :-

	<i>Manufacture of mobile handset casings</i>		<i>Spray paint of mobile handset casings</i>		<i>Unallocated</i>		<i>Total</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from external customers	<u>304,283</u>	<u>228,486</u>	<u>777</u>	<u>17,408</u>	<u>-</u>	<u>-</u>	<u>305,060</u>	<u>245,894</u>
Segment profits	<u>28,813</u>	<u>31,095</u>	<u>74</u>	<u>2,369</u>	<u>9,231</u>	<u>1,349</u>	<u>38,118</u>	<u>34,813</u>
Interest income							<u>289</u>	<u>1,936</u>
Finance costs							<u>(237)</u>	<u>(184)</u>
Profit before income tax							<u>38,170</u>	<u>36,565</u>
Income tax expense							<u>(5,125)</u>	<u>(4,806)</u>
Profit for the year							<u>33,045</u>	<u>31,759</u>
Depreciation and amortisation	<u>21,248</u>	<u>12,274</u>	<u>54</u>	<u>935</u>	<u>-</u>	<u>-</u>	<u>21,302</u>	<u>13,209</u>
Segment assets	<u>505,279</u>	<u>469,623</u>	<u>1,290</u>	<u>35,780</u>	<u>18,892</u>	<u>26,173</u>	<u>525,461</u>	<u>531,576</u>
Segment liabilities	<u>85,642</u>	<u>106,912</u>	<u>219</u>	<u>8,145</u>	<u>102</u>	<u>71</u>	<u>85,963</u>	<u>115,128</u>
Capital expenditure incurred during the year	<u>30,337</u>	<u>89,409</u>	<u>77</u>	<u>6,812</u>	<u>-</u>	<u>-</u>	<u>30,414</u>	<u>96,221</u>

Substantially all of the businesses of the Group are carried out in the PRC. Accordingly, no segment information is presented.

During the year ended 31 December 2010, there were three (2009 : two) single customers of the manufacture of mobile handset casings segment that individually contributed more than 10% to the Group's revenue. The revenue from transactions with these three (2009 : two) customers amounted to approximately RMB132,361,000, RMB47,687,000 and RMB33,541,000 (2009 : approximately RMB88,434,000 and RMB52,851,000), respectively.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorised for issue on 22 April 2011.