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- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The carry amount of cash, restricted cash, notes receivable, accounts receivable, amounts due from related parties, accounts payable, amounts due to related parties, accrued expenses and other current liabilities as of December 31, 2013 and 2014, approximate their fair values.

Long-term bank loans' fair value is based on the amount of future cash flows associated with each debt instrument discounted at the Combined Entity's current borrowing rate for similar debt instruments of comparable terms. The carrying value of the long-term loans approximate their fair values as all the long-term bank loans carry variable interest rates which approximate rates currently offered by the Combined Entity's bankers for similar debt instruments of comparable maturities.

r. Recently issued accounting standards

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, in May 2014. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should also disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for annual reporting periods beginning after December 15, 2017. The Combined Entity has not yet determined the impact of the new standard on its current policies for revenue recognition.

3. Property, plant and equipment, net

Property, plant and equipment consists of the following:

	December 31,	
	2013	2014
	US\$	US\$
Machinery and equipment	272,251	271,371
Buildings	3,082	3,282
Equipment and furniture	293	311
Vehicles	354	294
	<u>275,980</u>	<u>275,258</u>
Less: Accumulated depreciation	<u>(51,665)</u>	<u>(66,420)</u>
Property, plant and equipment, net	<u>224,315</u>	<u>208,838</u>

Depreciation expense for property, plant and equipment was US\$14,907 and US\$15,062 for the years ended December 31, 2013 and 2014, respectively. As of December 31, 2013 and 2014, the Combined Entity has pledged property, plant and equipment with a total carrying amount of US\$221,480 and US\$205,965, respectively, to secure bank borrowings.

4. Income taxes

No provision for Hong Kong profits tax was made for Honiton XIL and Honiton BAV, as they did not have any assessable profits arising in or derived from Hong Kong in 2013 and 2014.

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