Wasion Group Holdings Limited
威勝集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3393)

ENERGY

ENERGY METERING &
ENERGY SAVING EXPERT

ANNUAL REPORT 2015

MOTTOS OF OPERATION:

PERFECT WORK WITH PASSION AND SUCCESS ACHIEVED WITH INTEGRITY

GLOBAL LEADER

CORPORATE

SPIRIT:

BE COHESIVE, AMBITIOUS, DOWN-TO-EARTH AND CREATIVE

HIGHER
QUALITY

STRONG

LINKAGE

ER

CORPORATE VISION:

CONTINUAL INNOVATION CONTRIBUTING TO WASION'S CENTENNIAL HISTORY

Contents

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Ji Wei *(Chairman)*
Ms. Cao Zhao Hui
Mr. Zeng Xin
Ms. Zheng Xiao Ping
Mr. Wang Xue Xin
Ms. Li Hong

NON-EXECUTIVE DIRECTOR

Mr. Kat Chit

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Jin Ming
Mr. Pan Yuan
Mr. Cheng Shi Jie
Mr. Hui Wing Kuen

COMPANY SECRETARY

Mr. Choi Wai Lung Edward *FCCA, FCPA*

AUTHORISED REPRESENTATIVES

Mr. Ji Wei
Mr. Choi Wai Lung Edward *FCCA, FCPA*

AUDIT COMMITTEE

Mr. Hui Wing Kuen *(Chairman)*
Mr. Wu Jin Ming
Mr. Pan Yuan
Mr. Cheng Shi Jie

NOMINATION COMMITTEE

Mr. Ji Wei *(Chairman)*
Mr. Hui Wing Kuen
Mr. Wu Jin Ming

REMUNERATION COMMITTEE

Mr. Hui Wing Kuen *(Chairman)*
Mr. Ji Wei
Mr. Wu Jin Ming

PRINCIPAL BANKERS

In Hong Kong:

Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of Communications Hong Kong Branch

In the People's Republic of China (the "PRC"):

China Construction Bank
Bank of Communications

LEGAL ADVISER

Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

AUDITOR

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS

Unit 2605, 26/F, West Tower, Shun Tak Centre
168–200 Connaught Road Central
Sheung Wan
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Boardroom Share Registrars (HK) Limited
31/F, 148 Electric Road
North Point
Hong Kong

COMPANY WEBSITE

www.wasion.com

STOCK CODE

3393

CORPORATE PROFILE

LEADING TOTAL SOLUTION PROVIDER OF ADVANCED METERING, ADVANCED DISTRIBUTION AND ENERGY EFFICIENCY MANAGEMENT

Wasion Group Holdings Limited ("Wasion Group" or the "Group") is the leading total solution provider of advanced metering, advanced distribution and energy efficiency management in China, and is committed to becoming an "Energy Metering and Energy Saving Expert" in China and across the world. The Group was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in December 2005, which was the first professional syndicate engaged in energy metering and energy efficiency management in China listed overseas, as well as the first company in Hunan Province listed on the Main Board overseas.

Wasion Group has long been focusing on the research and development, production and sales of total solutions relating to energy metering and energy efficiency management, the products and services of which have been extensively applied in energy supply industries for electricity, water, gas and heat, and large energy-consuming units of large-scale public infrastructure, petroleum and chemical, transportation, machine manufacturing, metallurgical and chemical fields and residents.

The advanced smart metering business of the Group mainly comprises of comprehensive smart meters, smart water meters, smart gas meters and ultrasonic calorimeters; various meters and power quality monitoring devices; comprehensive energy data collection terminals, load management terminals and user management devices; measurement automation systems and various application systems, services and energy data mining. The Group, with more than 20% of the domestic market share of high-end metering products, has built up its leading position in China and is the only professional manufacturer in China which provides various advanced energy metering products, systems and services for electricity, water, gas and heat, as well as satisfies the demand of the whole process from energy production, transmission and distribution to consumers.

The advanced distribution and energy efficiency management business of the Group comprises mainly of 40.5kV/12kV comprehensive high voltage switchgear; 12kV smart switchgear; 35kV/10kV comprehensive circuit breakers; 10kV power distribution automation terminals; electrical and electronic devices for power quality control and smooth connection with new energy; smart distribution systems, engineering and services; energy-saving services, etc. The Group is devoted to becoming the leading total solution provider for advanced distribution system in China.

Amidst the substantial changes in energy production and energy consumption mode in China and the world, the material social responsibility and development opportunities arisen from energy saving and carbon reduction as well as the new demand of smart power grids, Wasion Group will adhere to its corporate motto "Energy Metering and Energy Saving Expert" while upholding its core value "Perfect Work with Passion, and Success Achieved with Integrity" by continuous innovation and improvement in order to become the pioneer in smart power grids and smart metering in China, one of the major international smart power grids and smart metering provider and a well-known international brand.

In the future, every city, every enterprise and every family will be benefited from the use of the technology, products and services of Wasion.

QUALIFICATIONS & AWARDS

JANUARY 2015

Wasion Group Limited ("Wasion Group") was awarded site audit certification of ISO27001:2013 Information Security Management System of SGS Certification Center, a international renowned certification authority, becoming the first enterprise in the industry which acquired ISO27001 Information Security Certificate

FEBRUARY 2015

Changsha Weisheng Information Technology Company Limited won the Third Prize of the Research and Application of Reliability Technologies of Smart Power Meters and Metering Terminals

Hunan Switchgear Co., Ltd. was successfully awarded certification of ISO14001: Environmental Management System and OHSAS18001: Occupation Health Safety System

MAY 2015

The first phase of Wasion Electric Industry Park was completed and put into operation

JUNE 2015

Wasion Group was awarded ISO9001: Management System Certification

SEPTEMBER 2015

Wasion Group was awarded certification of ISO14001: Environmental Management System and OHSAS18001: Occupation Health Safety Management System

Wasion Group was granted AEO Certification Enterprise Certificate

Wasion Electric Limited ("Wasion Electric") successfully won the bid for procurement project of 0.4 kV switchgear and active power filter equipments and related services in the first phase of Line 3 of Changsha City Rail Transport

QUALIFICATIONS & AWARDS (continued)

OCTOBER 2015

The Research and Application of Key Technologies of SOC Smart Power Meters won the Second Prize for Scientific & Technological Progress in Changsha City

Wasion Group was granted a Certificate of Anti-static System Certification by China MII Anti-Static Products Quality Supervision & Testing Center

Wasion Smart Electrical Co., Ltd. was granted Certification of High and New Technology Enterprise in Hubei Province

NOVEMBER 2015

Weisheng Energy Industrial Technology Co., Ltd. was awarded Level B Qualification for the Design of New Energy Power Generation

Wasion Electric was granted Certification of High and New Technology Enterprise in Hunan Province

Wasion Electric was granted Certification of Municipal Enterprise Technology Center in Xiangtan

DECEMBER 2015

Wasion Group was awarded certification of SA8000: 2008 Social Responsibility Management System, which was the first enterprise in the industry acquiring such certification

Wasion Group was honored as Academicians and Experts Workstation Outstanding Unit again

Wasion Group was granted a Certificate of Laboratory Accreditation by CNAS, and its laboratory management ability and technology capacity was highly recognized by charismatic authorities and ranks leading position in peer industry

Mexico M1 Project was awarded certification of LAPEM smoothly

The Project of Key Technologies in Fault Self-healing Control of Power Distribution System and Complete Sets of Equipments in which Wasion Group participated won the First Prize for 2015 Scientific & Technological Progress in Hunan Province

Wasion Academicians and Experts Workstation was honored as 2015 Outstanding Unit of Establishing Workstation

CHAIRMAN'S STATEMENT

TO ALL SHAREHOLDERS,

On behalf of the board of directors (the "Board") of Wasion Group Holdings Limited (the "Group"), I am pleased to present the operating results of the Group for the financial year ended 31 December 2015.

For the full year of 2015, the Group recorded operating revenue of RMB2,969.03 million, representing an increase of 6% over 2014. Net profit amounted to RMB423.53 million. Earnings per share were RMB42 cents. The Board has recommended to distribute a final dividend of HK$0.24 per share.

In 2015, Chinese government proposed a more explicit blueprint on energy market reform, and introduced a number of policies in favor of the Group's future development. However, Chinese economy has entered a period of new normal, with the sharp devaluation of RMB in the second half of the year, which brought serious challenges to many domestic enterprises. To adapt to the changes in the macroeconomic environment and stick to the pace of healthy development, the Group adopted a series of effective measures to ensure the healthy and stable development of the Group's business. Of which, Smart Meter (SM) business recorded a growth of 4%, Advanced Metering Infrastructure (AMI) business recorded a growth of 1%, and Advanced Distribution Operations (ADO) business recorded a growth of 37%. In respect of gross margin, with the background of a slowdown in the growth in macro-economy, the Group adhered to the mottos of operation which is "Perfect Work with Passion" and a principle of prudent and safe funding in business strategy, and gave up orders with high gross margin but long payback period, which pulled down the Group's consolidated gross profit margin to a certain extent. Meanwhile, the factors including the devaluation of RMB in the second half of the year, the postponing of the State Grid centralised tenders and the changes in product mix led to a reduction in net profit of the Group.

CHAIRMAN'S STATEMENT (CONTINUED)

Looking backward 2015, in respect of SM business, the Group continued to exert its comprehensive strengths in branding, technology, market size, quality, business scale and management, and recorded an outstanding performance in the State Grid and China Southern Power Grid centralized tenders for SM. In terms of AMI business, with its overall strength and rich experience, the Group continued to maintain its leading position in this industry, with a stable overall development of this business. Among them, benefited from China's active promotion of water escalating pricing, one-household-one-meter and Ten Measures on Water, the Group has successfully entered into the smart water meter solutions tender list of 53 city level water companies up to now, which brought solid support to the Group's AMI water business. By leveraging its brand and capabilities built over the years in overseas market, the Group achieved certain breakthroughs in international market. The Group not only achieved a steady increase in the contract sum in traditional markets, but also by leveraging with its cooperation with Siemens, the Group gained sizeable contracts in Mexico and successfully entered into Brazilian market. For ADO business, the Group continued to actively expand its advanced distribution operations. The Wasion Electric Industry Park newly built by the Group as the research and development ("R&D") and production base for ADO business was successfully put into operation on 21 May 2015 and began to take shape, which effectively increased the technical and service base of ADO business.

Looking forward, "Opinions on Deepening the Reform of Electricity System" (《關於進一步深化電力體制改革的若干意見》), "Action Plan for the Construction of Reform of Distribution Power Grid (2015–2020)" (《配電網建設改造行動計劃(2015–2020年)》) and "Guiding Opinions on Promoting the Development of "Internet Plus" Smart Energy" (《關於推進「互聯網+」智慧能源發展的指導意見》) as well as other related ancillary documents released by the Government declared the development route for the Internet of Energy in the coming decade and strong market demand for it, among which involves several industries that are closely related to the Group's business. Under the strong supports from the Government, China smart grid and also the construction of smart cities will reach its peak in the next few years, and will also support the Group's development. To better seize future opportunities and gradually move towards the international leading position, the Group has developed a series of development strategies, and will uphold the mottos of operation which is "Perfect Work with Passion, and Success achieved with Integrity" to highly respond to market changes and client requirements. We will also persist in the operation and management direction of "Seek improvement and foster innovation whilst maintaining a healthy development" to promote "technology and product innovation, market and sales innovation, operation and service innovation, management and mechanism innovation", planning rules and layout for the Group's next five-year plan and realizing a successful transition from equipment supplier of Internet of Energy to integrated service provider of Internet of Energy and its ambitious vision of "Continual Innovation Contributing to Wasion's Centennial History"!

Yours faithfully,
Ji Wei
Chairman

Hong Kong, 18 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

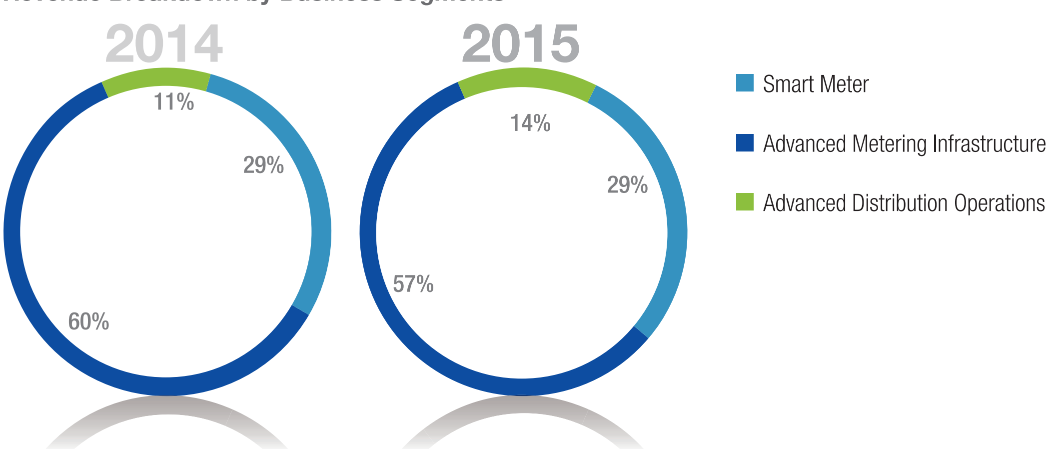
Financial Highlights

	2015 RMB'000	2014 RMB'000
Revenue	**2,969,033**	2,811,871
Gross profit	**896,199**	962,687
Profit attributable to owners of the Company	**423,533**	482,439
Total assets	**7,223,094**	5,618,550
Equity attributable to owners of the Company	**4,101,160**	3,245,509
Basic earnings per share (RMB)	**0.42**	0.51
Diluted earnings per share (RMB)	**0.42**	0.51

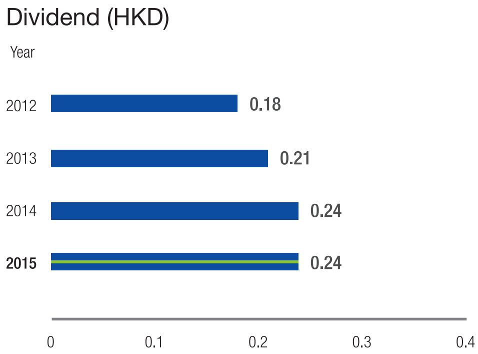
Key Financial Figures

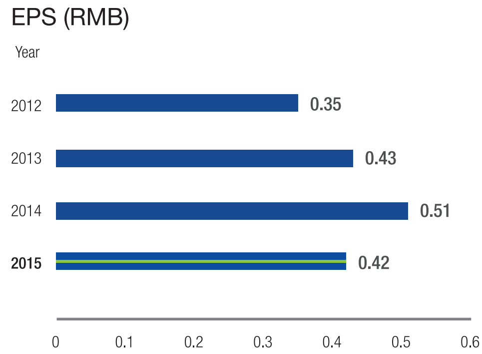
	2015	2014
Gross profit margin	**30%**	34%
Operating profit margin	**17%**	20%
Net profit margin	**14%**	17%
Return on equity of the shareholders	**10%**	15%
Current ratio	**1.91**	1.72
Quick ratio	**1.78**	1.56
Inventory turnover period (Days)	**59**	63
Trade receivable turnover period (Days)	**284**	227
Trade payable turnover period (Days)	**279**	215
Gearing ratio (Total borrowings divided by total assets)	**12%**	13%
Interest coverage (Profit from operations divided by finance costs)	**19.50**	19.76

Revenue Breakdown by Business Segments



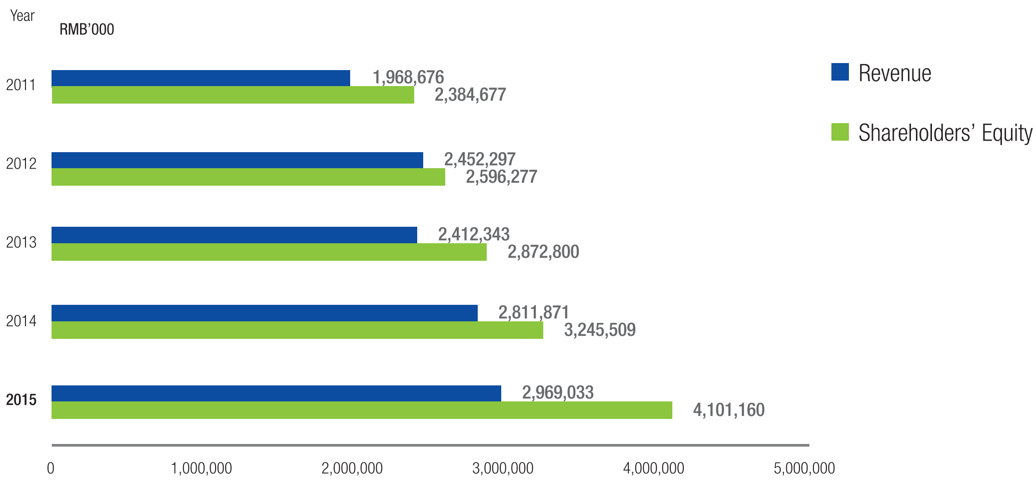
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)





FIVE YEARS' FINANCIAL SUMMARY

Five Years' Financial Information



	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**2,969,033**	2,811,871	2,412,343	2,452,297	1,968,676
Profit for the year attributable to owners of the Company	**423,533**	482,439	401,125	323,149	247,486
Total assets	**7,223,094**	5,618,550	4,741,215	4,265,893	4,445,028
Total liabilities	**3,083,522**	2,312,309	1,868,015	1,669,216	2,059,951
Equity attributable to owners of the Company	**4,101,160**	3,245,509	2,872,800	2,596,277	2,384,677

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Revenue

During the year under review, revenue increased by 6% to RMB2,969.03 million (2014: RMB2,811.87 million).

Gross Profit

The Group's gross profit decreased by 7% to RMB896.20 million for the year ended 31 December 2015 (2014: RMB962.69 million). The overall gross profit margin is 30% in 2015 (2014: 34%).

Other Income

The other income of the Group amounted to RMB145.19 million (2014: RMB104.60 million) which was mainly comprised of interest income, dividend income, government grants and refund of value-added tax.

Operating Expenses

In 2015, the Group's operating expenses amounted to RMB524.88 million (2014: RMB485.68 million) and accounted for 18% of the Group's turnover in 2015, representing an increase of 1% as compared with 17% in 2014.

Finance Costs

For the year ended 31 December 2015, the Group's finance costs amounted to RMB25.39 million (2014: RMB28.87 million). The decrease was attributable to the adjustment of the mix of bank borrowings and the reduction of interest rate of variable-rate borrowings during the year.

Operating Profit

Earnings before finance costs and tax for the year ended 31 December 2015 amounted to RMB495.06 million (2014: RMB570.42 million), representing a decrease of 13% as compared with last year.

Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the year ended 31 December 2015 decreased by 12% to RMB423.53 million (2014: RMB482.44 million) as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Capital Structure

On 5 May 2015, the Company entered into a placing agreement under which the placing agents have agreed to place up to 68,000,000 existing ordinary shares of the Company at a price of HK$10.80 per share. 61,000,000 new ordinary shares were issued in the share placement. The net proceeds from the share placement after deducting the commission and expenses of the placement payable by the Company amounted to approximately HK$645 million, in which HK$385 million will be applied for the construction of the new production base of the ADO business, HK$130 million will be used for potential mergers and acquisitions in relation to ADO and the remaining HK$130 million for research and development.

On 1 June 2015, the Company entered into a subscription agreement with International Finance Corporation ("IFC") pursuant to which IFC agreed to subscribe 14,000,000 new ordinary shares of the Company at a price of HK$10.80 per share. The net proceeds from the share subscription amounted to approximately HK$148 million will be applied for the Company's development in the ADO business and as general working capital of the Company.

During the year ended 31 December 2015, certain employee has also exercised 30,000 share options at an exercise price of HK$3.20. In light of the above, the Company's issued shares increased from 951,851,675 as at 31 December 2014 to 1,026,881,675 as at 31 December 2015.

Liquidity and Financial Resources

The Group's primary sources of working capital and long-term funding needs have been cash flows from operation and financing activities.

As at 31 December 2015, the Group's current assets amounted to approximately RMB4,760.47 million (2014: RMB3,514.95 million), with cash and cash equivalents totaling approximately RMB1,171.84 million (2014: RMB327.43 million).

As at 31 December 2015, the Group's total bank loans amounted to approximately RMB877.09 million (2014: RMB750.64 million), of which RMB300.84 million (2014: RMB503.00 million) will be due to repay within one year and the remaining RMB576.25 million (2014: RMB247.64 million) will be due after one year. As at 31 December 2014, the net book value of the Group's pledged assets for the bank loans was RMB158.21 million (2015: Nil). In 2015, the interest rate for the Group's bank borrowings ranged from 1.44% to 4.35% per annum (2014: 1.17% to 9.23% per annum).

The gearing ratio (total borrowings divided by total assets) decreased from 13% in 2014 to 12% in 2015.

Exchange Rate Risk

Most of the businesses of the Group are settled in Renminbi while businesses in foreign currencies are mainly settled in USD. The fluctuation of exchange rate of both currencies will have certain impact on the Group's business which are settled in foreign currencies. During the year, the Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Emolument Policy

As at 31 December 2015, the Group had 4,189 (2014: 4,153) staff members. The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB279.24 million (2014: RMB279.47 million) in 2015. Employee remuneration is determined on performance, experience and prevailing market conditions of the employees, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB4.07 million (2014: RMB3.75 million) in 2015.

The Group's employees in the PRC have enrolled in the mandatory central pension scheme operated by the State. The Group also provides housing allowances and benefits for medicine, employment injury and retirement for its staff in the PRC in accordance with the relevant PRC rules and regulations. The directors of the Company (the "Directors") confirm that the Group has fulfilled its obligations under the relevant PRC employment laws. The Group also set up the Mandatory Provident Fund Scheme for the employees in Hong Kong.

Share Option Scheme

The Company has established a share option scheme to recognise and acknowledge the contributions made or will be made to the Group by the eligible participants. The purpose of the scheme is to encourage the eligible participants to continue their contribution. The eligible participants include any full-time or part-time employees, executives, officers, Directors (including executive, non-executive and independent non-executive Directors), advisers, consultants, suppliers and agents of the Company or any of its subsidiaries or invested entities, and any person who, in the opinion of the board of directors of the Company, will contribute to the Group or have done so. The existing share option scheme has been expired on 25 November 2015 and a new share option scheme will be proposed for shareholders' approval in the forthcoming annual general meeting.

Acquisitions

On 28 January 2015, the Group completed the acquisition of 64% equity interest of Hunan Lineng Technology Co., Ltd. ("Lineng Technology") from an independent third party at a consideration of RMB6,400,000. On 5 August 2015, the Group further acquired from the non-controlling interests for the remaining 36% equity interest in Lineng Technology at a consideration of RMB3,600,000. Lineng Technology is principally engaged in manufacturing, developing and selling energy saving devices that used in power stations and oil rigs. The acquisition enables the Group to broaden its energy saving product range.

Charge on Assets

As at 31 December 2015, the pledge deposits are denominated in Renminbi and Hong Kong dollars and are pledged to banks as security for bills facilities granted to the Group. In addition, the Group's land and buildings are pledged to banks as security for bank loans to the Group.

Capital Commitments

As at 31 December 2015, the capital commitments in respect of the acquisition of property, plant and equipment and additions of construction in progress contracted for but not provided in the consolidated financial information amounted to RMB70.63 million (2014: RMB126.48 million).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Contingent Liabilities

As at 31 December 2015, the Group had no material contingent liabilities.

MARKET REVIEW

Chinese economy has entered a period of new normal since 2015 with a GDP growth of 6.9% and smaller growth drivers for exports, investments and consumptions. Given the slowdown in microeconomic growth, especially in the fourth quarter, and the continued RMB depreciation which brought unexpected foreign exchange loss to a number of Chinese corporations, the business environment in China became difficult. Nevertheless, the Chinese government has shown definite and clear determination in developing clean energy and implementing long term power reform policies. During the year under review, State Grid completed RMB535.6 billion of investment targets among which RMB452.1 billion was invested in power grid development. In the meantime, the development of smart cities in China had been accelerating. During the 12th Five Year Plan, investment in constructing smart cities reached RMB500 billion, driving the demand for the overall use of all kinds of information technology and products. During the year, "Four-in-one Data Collection System" project had been started to support the construction of smart cities, which stimulated the demand for corresponding systems and smart water, heat and gas meters.

After the announcement of "Opinions regarding the Deepening of the Power Sector's Reform" (《關於進一步深化電力體制改革的若干意見》) as well as other related ancillary documents by State Council of China in March 2015, National Development and Reform Commission ("NDRC") together with National Energy Administration ("NEA") jointly announced the "Guiding Opinions on Advancing Smart Grid Development" (《關於促進智能電網發展的指導意見》) in July, and NEA issued "Guiding Opinions on Promoting New Energy Micro-Grid Demonstration Projects Construction" (《關於推進新能源微電網示範項目建設的指導意見》) and "Action Plan for the Construction of Reform of Distribution Power Grid (2015–2020)" (《配電網建設改造行動計劃(2015–2020年)》) in July and August respectively, creating a much clearer development blueprint for China's power market. In the meantime, Chinese government had been actively promoting the "One Belt One Road" strategy and signed cooperation agreements including power business with numerous countries which helped establishing a strong export platform for Chinese corporates. The market impacts from the above measures are yet to be reflected, but they serve as good proof of government's support towards the industry and its determination in creating a suitable development environment.

In face of the change in Chinese macroeconomics and future market opportunities, during the year under review, the Group devoted much effort on balancing risks and opportunities for all three key business segments in order to achieve steady growth in an active and cautious manner. During the year under review, the Group recorded a total turnover of RMB2,969.03 million (2014: RMB2,811.87 million), representing an increase of 6% year-over-year. Due to the unfavorable macroeconomic situation, the Group recorded a net profit of RMB423.53 million (2014: RMB482.44 million). In view of the changes in macroeconomic environment, the Group adopted a series of solutions in order to secure short term results and long term development during the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW

Advanced Metering Infrastructure ("AMI")

AMI provided by the Group is a technology platform consists of smart meter, data collection terminal and communication, and smart metering system integration and services, with which customers can use the information provided by the system to change their normal consumption patterns to save energy, reduce losses and take advantage of lower prices. The Group's AMI business can be subdivided into AMI power business and AMI water, gas and heat business, which addresses a wider spectrum of customers' needs ranging from power grid companies, water companies to industrial and commercial clients.

AMI business constitutes a fundamental part of the Group. With our integrated strengths and strong experience, the Group continued to maintain a leading position in the AMI industry during the reviewing year. The turnover of AMI business during the year under review recorded a growth of 1% to RMB1,688.90 million (2014: RMB1,677.04 million) and accounting for 57% (2014: 60%) of the Group's total revenue.

During the year under review, benefited from China's active promotion of water escalating pricing and one-household-one-meter, AMI water business of the Group recorded a strong growth of 23% as compared with last year to RMB173.30 million. Currently, the Group has entered into the smart water meters solutions tender list of another 53 city level water companies.

Smart Meter ("SM")

During the year under review, with our comprehensive strengths in branding, technology, market size, quality, business scale and management, the Group continued to be a solid market leader in winning tenders from State Grid Corporation of China (hereinafter referred to as "State Grid") and China Southern Power Grid Co., Ltd. (hereinafter referred to as "Southern Grid"). During 2015, State Grid organized three tenders and the Group successfully won RMB1,082.35 million contracts, of which RMB777.84 million was the contract value for smart meters. The Group continued to be in a leading position in Southern Grid's tenders by winning a total contract value of RMB95.69 million in the reviewing year. During the year under review, the revenue from SM amounted to RMB853.52 million (2014: RMB824.48 million), representing an increase of 4% as compared with last year and accounting for 29% (2014: 29%) of the Group's total revenue.

Advanced Distribution Operations ("ADO")

ADO service provided by the Group comprises of smart distribution devices ("SDD"), smart distribution solutions ("SDS") and efficient and effective solutions (EES). Driven in a large part by smart grid initiatives in China, the Group's ADO business can, on one hand provide premium quality smart power distribution products as well as solutions to its power company customers, and on the other hand provide customers from high-end industries such as new energy power generation, railway and transportation, hospitals and high-end commercial buildings, oil and petrochemicals and data centres with smart distribution and energy efficiency management solutions in order to assist customers in developing a new 4S+ generation of power distribution system which refers to higher Safety, more energy Saving, Smarter and better Service.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the year under review, the newly established Wasion Electric Industry Park further enhanced the technology and service quality of ADO business. Upon its completion, Wasion Electric Industry Park will be one of the most professional technology park in the ADO industry in Central China with the most leading technology, biggest operation scale, most comprehensive systems and product series and most advanced equipment.

Upholding the strategy to be the technology leader, the Group intensified the research on smart grid, energy saving and emission reduction, and clean energy during the year under review to target the new industry policies on the grid development and energy structural adjustment in China. In terms of smart power distribution grid, the Group successfully made a breakthrough in the core technologies of new type fault detection, isolation system and responsive self-healing systems for power distribution grid.

During the year under review, the turnover from ADO business was RMB426.61 million (2014: RMB310.36 million), representing a year-over-year growth of 37% and accounting for 14% (2014: 11%) of the Group's total revenue.

International Markets

During the year under review, the Group achieved certain breakthroughs in international market. By leveraging its brand and capabilities built over the years in overseas market, the contract sum procured by the Group in traditional markets increased steadily. And by leveraging with its cooperation with Siemens, the Group gained sizeable contracts in Mexico and successfully entered into Brazilian market.

While working on further cooperation with Siemens, the Group has kicked start some technological cooperation projects with other international leaders. The new cooperation further enhances the Group's technologies for systems and solutions and serves as an important foundation for new market exploration.

During the year under review, the Group's international business recorded significant growth, with turnover reaching RMB303.26 million, representing a 146% year-over-year growth.

Research and Development

The Group has been working strenuously in the research and development of know-how of every single AMI and ADO product in order to grasp market demand and technology development in the industry. During the year under review, the Group's investment in the research and development accounted for 7% of its operating revenue with 129 patents for its new products and energy saving services and 127 patents for its software received. The number of effective patents for new products and energy saving services increased to 689 and 498 respectively.

In terms of AMI, the Group continued to have in-depth research on power meters, smart power consumption and energy efficiency management, terminal communication as well as water, gas and heat meters, and have launched various systems with industry leading technologies based on the new standards on energy consumption monitoring and centralised data collection technology established by the Chinese government and power grid companies. They are expected to bring significant contribution after the full application of the new standards.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In terms of ADO, the Group tailor-made different solutions according to the needs of different clients with a focus on primary and secondary power equipment integration, integration technology of hardware and software as well as energy data and service technology which can totally secure power safety and increase power supply reliability and power consumption quality.

PROSPECTS

According to macro data, the growth of China economy will further slowdown in the future bringing heavier pressure and more uncertainties to the operating environment. Yet the prospects for the Group's related industries including smart grid, smart power distribution, and energy efficiency management and advanced metering infrastructure remain promising according to the favorable development plan launched by the Chinese government and power grid companies.

Eye on the development of the whole energy market, NDRC, NEA and Ministry of Industry and Information Technology jointly announced "Guiding Opinions on Promoting the Development of "Internet Plus" Smart Energy" (《關於推進「互聯網+」智慧能源發展的指導意見》) which declared the development route for the Internet of Energy in the coming decade in February 2016. The Internet of Energy is a new shape of the energy industry representing the in-depth integration of internet and energy generation, transmission, storage, consumption and the energy market. Among which, the development of power data collection, energy efficiency management, distributed power storage, remote automated data collection for water, gas, heat and power, all meters in one, are all closely related to the Group's business.

In terms of power grid, "Guiding Opinions on Advancing Smart Grid Development"《關於促進智能電網發展的指導意見》jointly announced by NDRC and NEA in July 2015, outlined the target to preliminarily establish the smart power grid system by early 2020 for achieving comprehensive allocation of energy generation and consumption, as well as pushing forward clean energy and distributed energy for building a safe, highly efficient, clean, modern and secured energy system. "Action Plan for the Construction of Reform of Distribution Power Grid (2015–2020) "《配電網建設改造行動計劃 (2015–2020年)》announced by NEA in August clearly stated the need to establish a city-country-coordinated, safe and reliable, highly economical efficient, technological advanced and environmental-friendly distribution network facilities and service systems with the aim of providing welfare, pulling in investments, improving manufacturing standards as well as supporting the energy interconnection and Internet Plus development. The stated notional investment amount on distribution network development was no less than RMB2 trillion. "Guiding Opinions about Accelerating the Construction and Reform of Power Distribution Grid" (《關於加快配電網建設改造的指導意見》) later announced by NEA emphasized the importance of solving the problems related to weak and fragile China power distribution network, enhancing the ability for new energy connection, pushing forward the facilities upgrade and technological innovations to speed up the development of modern distribution network and service systems.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Concurrently, China will utilize the foundation of smart cities construction in 12th Five Year Plan to accelerate the promotion of the concept of smart city to different places, continuously stimulating every industry that can enhance the intelligence and informatization of cities, including high-end energy data collection systems and smart water, gas and heat meters.

Under the support of the favorable policies, the development of China smart grid and Internet of Energy and also the construction of smart cities will reach its peak in the near future, bringing a bright and promising future for the related industries. To better seize this historical opportunity, the Group has established a series of development strategies and will adopt a flexible pace to match with market changes in achieving stable and sustainable development.

In terms of AMI business, according to "Implementing Opinions about Accelerating Energy Development and Construction in Poor Regions from Poverty" (《關於加快貧困地區能源開發建設推進脫貧攻堅的實施意見》) announced by NEA, full power coverage in rural area can be achieved by 2020 which translates into huge demand for the Group's various smart metering products and systems. On the other hand, the market outlook of total solution which supports micro grid and the monitoring and analysis of big data on power is prosperous and the Group will develop relative business proactively.

The development of power distribution grid is one important measure under China's determination in improving power quality and promoting efficient energy management, which again is the future development focus for the power industry. The Group has been actively developing and expanding its ADO business for the past 2 years and is able to enjoy some first mover advantage. ADO market is still at startup stage which is very fragmented, and the lack of market leader gives the Group much room for development. Upon the commencement of operation of Wasion Electric Industry Park, the research and development, integration, intellectualization and systemization of the Group's ADO business is expected to be more centralized which is beneficial for improving the business all-rounded competence in ADO business.

While developing AMI and ADO markets, the Group will continue to maintain its market leading position in smart metering market. Market expects State Grid will attain 100% coverage rate for its smart metering in the coming year and will kick start meter replacement right after. The Group will stay close to the development of State Grid, and to maintain its market share by high standard products.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In terms of international markets, the Group will leverage on its strategic cooperation with international industry leaders such as Siemens and Huawei, to actively participate in the AMI transformation projects of different counties; and through Siemens to swiftly push forward its comprehensive smart metering business development in American market. For Asia, Africa and Latin America, the Group will focus on developing its own brand and channels construction, and to increase market penetration through current customer base.

The Group believes innovations, research and development form the strong foundation for long term development of any technology companies, and that underlies our commitment in devoting resources in research and development for inventing market leading technological breakthroughs and to become the provider of quality products and services. In the future, the Group will continue to fine-tune and upgrade its existing products and system technology based on market demand and national standards; and to strengthen its research and development capabilities by working side-by-side with industry experts and famous talents for building a solid foundation for future energy market development.

In the future, facing numerous market opportunities and variable macroeconomic environment, the Group will adhere closely with its corporate vision of "Continual Innovation Contributing to Wasion's Centennial History" to continue to develop its business at steady pace and to gradually build up its international leading position.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ji Wei (吉為), aged 59, is an executive Director, the chairman of the Company and the founder of the Group. Mr. Ji is responsible for the Group's overall strategic planning and the formulation of corporate policies. Prior to founding the Group in 2000, Mr. Ji was a business manager of Hunan Province Minerals Import and Export Company (湖南省五金礦產進出口公司) between 1980 and 1985 and the import and export manager of Hunan International Economic Development (Group) Company (湖南省國際經濟開發(集團)公司) between 1985 and 1989. Mr. Ji is also a director of Hunan Willfar Information Technology Co., Ltd. (湖南威遠信息技術有限公司) ("Hunan Willfar") and Hunan Classic Investment Co., Ltd. (湖南經典投資有限公司). Mr. Ji was appointed as an executive Director of the Company with effect from 20 July 2004. Mr. Ji was appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province from 2007 to 2012 and he was re-elected in 2013. He was awarded with several honourary titles such as "Most Socially Responsible Entrepreneur", "Most Caring Entrepreneur on Staff Development", "Excellent Entrepreneur of Changsha Hi Tech Zone", "The Sixth Top Ten Educational Entrepreneur Award in China" and "Special Recognition Award for Occupational Technology Creation in Hunan Province".

Ms. Cao Zhao Hui (曹朝輝), aged 48, is an executive Director and the chief executive officer. Ms. Cao graduated from Hunan Commerce College with a bachelor degree in Economics. She also obtained a degree in executive master of business administration (EMBA) from the University of Hunan (湖南大學). Ms. Cao joined the Group in 2000 and was the director of finance and the director of the general manager's office from 2000 to 2003. She was appointed as an executive Director of the Company with effect from 3 March 2005. Ms. Cao was accredited the honor of "Woman Pioneer" and "Excellent Entrepreneur" of Changsha in 2005. Ms. Cao was appointed as a member of the Chinese People's Political Consultative Conference of Changsha and the Vice President of the Women Entrepreneurs Organization of Changsha (長沙市女企業家協會) in 2007.

Mr. Zeng Xin (曾辛), aged 45, is an executive Director and General Manager of Wasion Electric Limited. Mr. Zeng graduated from the National University of Defense Technology with a bachelor's degree in system engineering in 1992. During 1992 to 1993, he studied in the Qinghua University for a postgraduate degree programme. In 1995, Mr. Zeng obtained a master degree in engineering from the China Academy of Space Technology (中國空間技術研究院). In 2012, he graduated from the Advanced Management in the Energy Sector of Cheung Kong Graduate School of Business. He participated in several research projects in the China Academy of Space Technology (中國空間技術研究院) during his studies and after graduation. Mr. Zeng worked with Hunan Weisheng Electronics Co., Ltd. (湖南威勝電子有限公司) ("Hunan Weisheng") as a system engineer, vice-director of research, director of research and director of system between 1995 and 1999 and as the general manager with Hunan Willfar between 1999 and July 2004, and a director from December 1999 to January 2005. Mr. Zeng joined the Group in July 2004 and was appointed as an executive Director of the Company with effect from 1 September 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Ms. Zheng Xiao Ping (鄭小平), aged 52, is an executive Director, an EMT member and chief operating officer. Ms. Zheng graduated from the Taiyuan University of Technology with a bachelor's degree in industrial automation in 1984. She obtained a master degree of engineering in automation from the North China Institute of Technology in 1987 and holds the qualification of Senior Engineer. Between 1987 and 1988, Ms. Zheng was a teaching assistant at the North China Institute of Technology. She lectured at the Taiyuan University of Technology between 1988 and 1993 and was appointed as the research director of Hunan Weisheng from 1993 to 2000 being responsible for the research and development work. She joined the Group in 2000 and was responsible for the research and development work of the Group. Ms. Zheng was appointed as the executive Director of the Company with effect from 1 September 2005. Ms. Zheng was appointed as a director of Changsha Weisheng Electronics Co., Ltd. (長沙威勝電子有限公司) ("Changsha Weisheng") in March 2004 and an executive director in September 2005. Ms. Zheng was also awarded with various honourary titles such as "Individual with Advanced Technology Creation in Hunan", "Excellent Entrepreneur of Changsha Hi Tech Zone", "Excellent Management of Quality Control in Machinery (Automobile) Industry of Hunan Province", "The Seventh Group of Outstanding Experts in Changsha", "Top Ten Women Entrepreneurs with Outstanding Achievement in Changsha City", "Awarded Women with Contribution and Improvement in Changsha Hi Tech Zone" and "National Labour Day Medal". Ms. Zheng is the spouse of Mr. Wang Xue Xin.

Mr. Wang Xue Xin (王學信), aged 53, is an executive Director, an EMT member and the director of technology. Mr. Wang graduated from the Taiyuan University of Technology with a bachelor's degree in automation in 1984, and obtained a master degree in automation from the Harbin Industrial University in 1987 and holds the qualification of Senior Engineer. Mr. Wang lectured at the Taiyuan University of Technology between 1987 and 1990 and was the director of the development team of Taiyuan University of Technology Technological Development Company from 1990 to 1993. Mr. Wang worked as the chief engineer and the general manager of Hunan Weisheng from 1993 to 2000. Mr. Wang joined the Group in 2000 and is responsible for carrying out the research and development functions of the Group and was served as a general manager of foreign business. Mr. Wang obtained the Changsha Award for Scientific Advancement and Elite Expert of Changsha in 1998 and 2003 respectively. Mr. Wang was a director of Hunan Willfar from February 2000 to January 2005, a director of Hunan Weike Power Meters Company Limited ("Hunan Weike") from May 2002 to January 2005 and a director of Hunan Weiming Technology Co., Ltd. ("Hunan Weiming") from May 2002 to May 2004. Mr. Wang was appointed as an executive Director of the Company with effect from 3 March 2005. Mr. Wang is the spouse of Ms. Zheng Xiao Ping.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Ms. Li Hong (李鴻), aged 40, is an Executive Director and president of Wasion Group Limited. Ms. Li graduated from the Hunan University, majoring in law, and obtained an EMBA degree from the Renmin University of China. She obtained a doctoral degree in business administration at the University of Management and Technology of the United States of America. Ms. Li joined the Group in 2000 and held various management positions within the Group, including the director of personnel, and served as executive vice president, vice president and president from 2000 to 2011. She is also a legal person of Hunan Weiming, and a director of Hunan Weike, Changsha Weisheng Energy Industrial Technology Company Limited, Changsha Wasion Industrial Investment Company Limited, Changsha Ruisheng Electronic Company Limited and Beijing Weisheng Technology Company Limited, all being subsidiaries of the Group. Ms. Li was awarded the "2015 Excellent Manager in China" award by International Human Resources (國際人力資源) in 2015. Moreover, she was awarded with various honourary titles such as "the 13th Chinese Economists of the China Economic Summit Forum 2015" jointly organized by NDRC China Economic Herald and the China Economy Information under Economy Daily in 2015. Ms. Li was appointed as an executive Director of the Company in September 2012.

Non-Executive Director

Mr. Kat Chit (吉喆), aged 32, is a non-executive Director. Mr. Kat graduated from the University of British Columbia of Canada with a bachelor degree in economics in 2007. He has been a director of Hunan Jianhe Property Development Company Limited (湖南建和地產有限公司) since 2016, and was a director and general manager of Hunan Jianhe Property Development Company Limited from 2013 to 2015. From 2011 to 2012, he was the investment manager of Hunan Shenghe Investment Company Limited (湖南晟和投資有限公司) and from 2007 to 2011, he was an executive of the equity capital markets division of Macquarie Group Limited. Mr. Kat was appointed as a non-executive Director of the Company on 12 August 2014. Mr. Kat is the son of Mr. Ji Wei, the chairman, executive Director and controlling shareholder of the Company.

Independent Non-Executive Directors

Mr. Wu Jin Ming (吳金明), aged 52, is an independent non-executive Director. Mr. Wu graduated from the Agricultural University of Hunan in 1986 with a degree in agricultural economics and undertook further studies in 1987 in economics at the Wuhan University. During 1986 to 1998, Mr. Wu was a teaching assistant, a lecturer and a vice-professor at the faculty of agricultural economics, head of the teaching and research section and the dean of the faculty of economics and business in the Agricultural University of Hunan. He was a visiting scholar at the Shiga University of Japan. Mr. Wu has been a professor of the College of Commerce of the Central South University since 2001 and is now the instructor of doctorial students and doctors of economics. Mr. Wu was a member of the Chinese People's Political Consultative conference of Hunan Province in 2003 and was appointed as the advisory consultant as regards the decisions on substantial projects of the Hunan provincial government in June 2004. Mr. Wu has been appointed as chairman of the economic and technological committee of the Chinese People's Political Consultative Conference of Hunan Province since 2008. Mr. Wu was appointed as an independent non-executive Director of the Company in September 2005.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Pan Yuan (潘垣), aged 82, is an independent non-executive Director. Mr. Pan graduated from the Electricity Faculty of the Central China Industrial College (華中工學院電力系), and is now an expert on magnetic confinement fusion technology and pulsed high power supply technology. He is one of the key members first engaged in fusion research in China and the major pathbreaker of magnetic confinement fusion technology as well as the large-scale pulsed power supply technology, and currently serves as the director of national defense science and technology committee (國防科學技術委員會) of Huazhong University of Science and Technology, the honourary dean of School of Electrical and Electronic Engineering, a member of the national expertise committee of key projects (國家重大專項專家委員會) on Inertia Confinement Fusion Ignition Facility (ICFIF), a scientific consultant of national expertise committee on Magnetic Confinement Fusion (MCF) and deputy director of academic committee of China Electric Power Research Institute. He used to preside over and co-host the projects of three fusion experimental devices development and one device upgrade, and took charge of the design of engineering proposal, overall electromagnetic engineering, pulsed power supply and turnkey control system while developing HL-1, during which he has overcome various important technological problems. In addition, Mr. Pan has been successfully applied confinement electromagnetic engineering technology to the national economy and defense construction and thus gained fruitful accomplishments. Since his transfer to Huazhong University of Science and Technology, Mr. Pan has explored some new research fields, such as superconducting power, pulse power and its application, plasma biological medicines, electric field-catalyzed artificial rainfall/snowfall, pulsed high magnetic field, magnetic confinement fusion as well as the new generation of high-voltage circuit-breaker. Among which, pulsed high magnetic field has been approved by the government to become "National Science Center of Pulsed High Magnetic Field". After establishment, it could be ranked as top four pulsed high magnetic field laboratories around the world, thus making a great contribution to the discipline development of Huazhong University of Science and Technology. Being more than eighty, he is still actively engaged in scientific research and education. Mr. Pan was awarded the first prize of National Scientific and Technological Progress, a couple of first and second prizes of Chinese Academy of Sciences and the Scientific and Technological Progress of Ministry of Nuclear Industry as well as the first prize of Scientific and Technological Progress of Ministry of Education. He was elected as Academician of Chinese Academy of Engineering in 1997. Mr. Pan was appointed as an independent non-executive Director of the Company in September 2005.

Mr. Cheng Shi Jie (程時杰), aged 70, is an independent non-executive Director. Mr. Cheng graduated from the Xi'an Jiaotong University with a bachelor degree in electronic engineering in 1967, the Huazhong University of Science and Technology with a master degree in electrical engineering in 1981 and the University of Calgary, Canada with a doctoral degree in philosophy in 1986, respectively. He has been a professor in the Huazhong University of Science and Technology since 1991 and a visiting professor in the Nanyang Technological University in 1995 and 1996. Mr. Cheng was granted the qualification of doctoral tutor by the Academic Degrees Committee of the State Council in 1993 and was elected as an academician of the Chinese Academy of Sciences and a fellow of the Institute of Electrical and Electronics Engineers (美國電子電氣工程師協會) in 2007 and 2010 respectively. Mr. Cheng was appointed as an independent non-executive Director of the Company on 12 August 2014.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Hui Wing Kuen (許永權), aged 67, is an independent non-executive Director and an Australian by nationality. Mr. Hui has extensive financial and taxation experience in Hong Kong and Australia. He is a member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and CPA Australia. He obtained his Master of Business Administration degree from the University of South Australia. Mr. Hui was previously an independent non-executive Director of the Company from September 2005 to May 2014. Mr. Hui was appointed as an independent non-executive Director of the Company on 15 May 2015.

SENIOR MANAGEMENT OF THE GROUP

Mr. Choi Wai Lung Edward (蔡偉龍), aged 47, is the chief financial officer and company secretary of the Company. Mr. Choi is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants with over 25 years of experience in accounting, auditing and finance.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and an associate are set out in notes 37 and 17 to the consolidated financial statements, respectively.

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the group and an indication of likely future developments in the group's business, can be found in the "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report", "Corporate Social Responsibility" and "Financial Summary" sections of this Annual Report. The above sections form part of this Directors' Report.

DIVIDENDS

The results of the Group for the year ended 31 December 2015 and the Group's financial position at that day are set out in the consolidated financial statements on pages 65 to 67 of the annual report. No interim dividend was paid to the shareholders during the year.

The directors have proposed a final dividend of HK$0.24 (2014: HK$0.24) per share to shareholders of the Company whose names appear in the register of members on 20 May 2016 and a resolution to this effect will be proposed and subject to the shareholders' approval in the forthcoming annual general meeting. The final dividend is expected to be paid on or before 27 May 2016.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2015 comprised the share premium, merger reserve and retained profits of RMB2,129,179,000 (2014: RMB1,599,179,000) in aggregate.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Ji Wei *(Chairman)*
Cao Zhao Hui *(Chief Executive Officer)*
Zeng Xin
Zheng Xiao Ping
Wang Xue Xin
Li Hong

Non-executive director:

Kat Chit

Independent non-executive directors:

Wu Jin Ming	
Pan Yuan	
Cheng Shi Jie	
Hui Wing Kuen	(appointed on 15 May 2015)
Chan Cheong Tat	(retired on 15 May 2015)

Pursuant to Article 87 of the Articles, at each annual general meeting one third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. The directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring directors shall be eligible for re-election. Pursuant to Article 87 of the Articles, Mr. Ji Wei ("Mr. Ji"), Ms. Zheng Xiao Ping ("Ms. Zheng"), Ms. Li Hong ("Ms. Li") and Mr. Pan Yuan ("Mr. Pan") will retire at the Annual General Meeting. Mr. Ji, Ms. Zheng and Ms. Li, being eligible, have offered themselves for election at the Annual General Meeting. Mr. Pan has informed the Board that he will not offer himself for re-election at the Annual General Meeting. Accordingly, Mr. Pan will retire upon the conclusion of the Annual General Meeting.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors and non-executive directors (including independent non-executive directors) entered into service agreements with the Company for a term of three years and one year respectively and either the Company or the executive director/non-executive director (including independent non-executive directors) may terminate the appointment by giving the other a prior notice of three months in writing before its expiration.

Other than as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2015, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("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, were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Ji Wei	Interest of controlled corporation (Note 1)	515,886,888	50.24%
Wang Xue Xin	Beneficial owner (Note 2)	3,682,000	0.36%
Zheng Xiao Ping	Beneficial owner (Note 2)	3,682,000	0.36%
Cao Zhao Hui	Beneficial owner	2,000,000	0.19%
Zeng Xin	Beneficial owner	2,000,000	0.19%
Li Hong	Beneficial owner	350,000	0.03%
Hui Wing Kuen (Note 3)	Beneficial owner	440,000	0.04%
Pan Yuan	Beneficial owner	200,000	0.02%
Wu Jin Ming	Beneficial owner	200,000	0.02%

Notes:

(1) The shares are held by Star Treasure Investments Holdings Limited ("Star Treasure"), a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Ji Wei.

(2) 1,692,000 shares and 1,990,000 shares are held by Mr. Wang Xue Xin and Ms. Zheng Xiao Ping respectively. Ms. Zheng Xiao Ping is the spouse of Mr. Wang Xue Xin.

(3) Mr. Hui Wing Kuen was appointed as a director of the Company on 15 May 2015.

DIRECTORS' REPORT (CONTINUED)

Other than as disclosed above, none of the directors, chief executives nor their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as at 31 December 2015.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in shares and underlying shares" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions — Ordinary shares of HK$0.01 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued capital of the Company
Ji Wei	Interest in controlled corporation	515,886,888	50.24%
Star Treasure	Beneficial owner	515,886,888	50.24%

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2015.

RELATED PARTY TRANSACTIONS

Related party transactions entered into for the year are set out in note 30 to the consolidated financial statements.

CONNECTED TRANSACTIONS

For the year ended 31 December 2015, the Group had not entered into any connected transactions nor continuing connected transactions which are required to be disclosed in this report pursuant to the Listing Rules.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share options", at no time during the year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements.

The following table disclosed movements in the Company's share options during the year:

Name and category of participation	Number of share options: As at 1 January 2015	Number of share options: Exercised during the year	Number of share options: As at 31 December 2015	Date of grant of share options	Vesting period of share options	Exercise period of share options	Exercise price of share options*	Share price of the Company as at the date of grant of share options**
Other employees	30,000	(30,000)	–	7 February 2007	7 February 2007 to 6 February 2009	7 February 2009 to 6 February 2017	3.200	3.200
Other employees	9,000,000	–	9,000,000	10 February 2014	10 February 2014 to 9 February 2016	10 February 2016 to 9 February 2024	4.680	4.680
Other employees	9,000,000	–	9,000,000	10 February 2014	10 February 2014 to 9 February 2017	10 February 2017 to 9 February 2024	4.680	4.680
Total	18,030,000	(30,000)	18,000,000					

* The exercise price of share options is subject to adjustment made in respect of the alteration in capital structure of the Company.

** The share price of the Company as at the date of the grant of share options was the closing price as quoted on the Stock Exchange of the trading day on the date of the grant of share options.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REPORT (CONTINUED)

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all of the independent non-executive directors are independent.

CORPORATE GOVERNANCE

The Company is committed to maintain the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 37 to 54 of the annual report.

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

Reference is made to the announcement of the Company dated 5 May 2015 in relation to the placing of existing shares and subscription for new shares. On 5 May 2015, the Company entered into a placing agreement ("Placing Agreement") with Star Treasure, Mr. Ji and three placing agents. Pursuant to the Placing Agreement, 68,000,000 existing ordinary shares of the Company which are held by Star Treasure will be placed to independent third parties at a price of HK$10.80 per share. Amongst the 68,000,000 placing shares, 61,000,000 shares were beneficially owned by Star Treasure and 7,000,000 shares were held by Star Treasure on behalf of 20 research and development staff of the Company. On the same day, the Company has also entered into a subscription agreement with Star Treasure under which Star Treasure has agreed to subscribe 61,000,000 new ordinary shares at a subscription price of HK$10.80 per share. The subscription was completed on 7 May 2015 with 61,000,000 new ordinary shares issued on 8 May 2015.

Reference is made to the announcement of the Company dated 1 June 2015 in relation to the subscription of new shares. On 1 June 2015, the Company entered into a subscription agreement with International Finance Corporation ('IFC") pursuant to which IFC agreed to subscription 14,000,000 new ordinary shares of the Company at a price of HK$10.80 per share. The subscription was completed on 4 June 2015 with 14,000,000 new ordinary shares issued on 12 June 2015.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company during the year ended 31 December 2015.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS' REPORT (CONTINUED)

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers accounted for less than 30% of the Group's total sales and total purchases of the Group respectively.

None of the directors, their associates or any shareholders of the Company which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 31 December 2015.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 144 of the annual report.

AUDIT COMMITTEE

The audit committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2015.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messers. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Ji Wei
CHAIRMAN

Hong Kong
18 March 2016

CORPORATE GOVERNANCE REPORT

The Company recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the needs of its business.

The Company's corporate governance practices are based on the principles of the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

During the year ended 31 December 2015, the Company has applied the principles of and has complied with all code provisions of the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules ("Corporate Governance Code").

Code Provision A.6.7 of the Corporate Governance Code provides that independent non-executive directors and non-executive directors of the Company should attend general meetings of the Company. Mr. Wu Jin Ming, Mr. Pan Yuan and Mr. Cheng Shi Jie all independent non-executive directors of the Company, failed to attend the annual general meeting of the Company ("2015 AGM") held on 15 May 2015 due to conflicts with their schedules.

Save as disclosed, there has been no deviation from the code provisions of the Corporate Governance Code for the year ended 31 December 2015.

The Company regularly reviews its organisational structure to ensure that operations are conducted in accordance with the standards of the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors of the Company (the "Directors") and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2015.

The Company has also established written guidelines on terms no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD OF DIRECTORS

Responsibilities

The overall management of the Company's business is vested with the board of Directors of the Company (the "Board"), which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The Board makes decisions on all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company (the "Company Secretary"), with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer of the Company (the "Chief Executive Officer") and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

Board Composition

The composition of the Board ensures a balance of skills and experience necessary for its independent judgement and fulfilling its business needs.

The Board currently comprises eleven members, consisting of six executive Directors, one non-executive Director and four independent non-executive Directors. Their biographical details are set out on pages 25 to 29 of this annual report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board comprises the following Directors:

Executive Directors:

Mr. Ji Wei, chairman of the Board (the "Chairman") and the nomination committee of the Company (the "Nomination Committee"), and member of the remuneration committee of the Company (the "Remuneration Committee")

Ms. Cao Zhao Hui (Chief Executive Officer)
Mr. Zeng Xin
Ms. Zheng Xiao Ping
Mr. Wang Xue Xin
Ms. Li Hong

Non-executive Director:

Mr. Kat Chit

Independent Non-executive Directors:

Mr. Hui Wing Kuen, chairman of the audit committee of the Company (the "Audit Committee") and the Remuneration Committee, and member of the Nomination Committee (appointed on 15 May 2015)

Mr. Chan Cheong Tat, chairman of the Audit Committee and the Remuneration Committee, and member of the Nomination Committee (retired on 15 May 2015)

Mr. Wu Jin Ming, member of the Audit Committee, the Remuneration Committee and the Nomination Committee

Mr. Pan Yuan, member of the Audit Committee

Mr. Cheng Shi Jie, member of the Audit Committee

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

During the year under review, the Board at all times met the requirements of rule 3.10(1) and (2), and 3.10A the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The independent non-executive Directors bring a wide range of technical, business and financial expertise, experiences and independent judgement to the Board. Through their active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

The Company is of a view that Board diversity is an essential element to achieve sustainable and balanced development. Board diversity has been considered and practiced by the Company with reference to a number of factors, including but not limited to gender, age, cultural and educational background, professional experience and other qualities of directors. The Company has adopted a policy on Board diversity (the "Board Diversity Policy") setting out the approach to achieve diversity in the Board. The existing Board is considered well-balanced with a diverse mix appropriate for the business of the Company. The Nomination Committee will review the Board Diversity Policy on a regular basis to determine an appropriate composition of the Board.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the executive Directors is engaged in a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice. All the non-executive Director and independent non-executive Directors are appointed for a specific term. The terms of their appointments are as follows:

Mr. Kat Chit	:	up to the 2016 annual general meeting
Mr. Hui Wing Kuen	:	up to the 2016 annual general meeting
Mr. Wu Jin Ming	:	up to the 2016 annual general meeting
Mr. Pan Yuan	:	up to the 2016 annual general meeting
Mr. Cheng Shi Jie	:	up to the 2016 annual general meeting

Pursuant to the Articles, all Directors are subject to retirement by rotation once every three years and any new Director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following general meeting and the next following annual general meeting respectively.

Training for Directors

According to Code Provision A.6.5 of the Corporate Governance Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of the directors.

The Company encourages the Directors to attend any relevant programme to further enhance their knowledge to enable them to discharge their duties and responsibilities more effectively. There are also arrangements in place for providing continue briefing and professional development to Directors whenever necessary such as continuously update the Directors on the latest developments of the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Each newly appointed Director receives comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

During the year ended 31 December 2015, the training participated by each Director is set out below:

Directors	**Training received**
Executive Directors:	
Mr. Ji Wei	A, C, D
Ms. Cao Zhao Hui	A, C, D
Mr. Zeng Xin	A, C, D
Ms. Zheng Xiao Ping	A, C, D
Mr. Wang Xue Xin	A, C, D
Ms. Li Hong	A, C, D
Non-executive Director:	
Mr. Kat Chit	A, C, D
Independent Non-Executive Directors:	
Mr. Hui Wing Kuen*	A, D
Mr. Chan Cheong Tat**	A, B, D
Mr. Wu Jin Ming	A, B, D
Mr. Pan Yuan	A, B, D
Mr. Cheng Shi Jie	A, B, D

A: attending conferences, seminars and forums
B: giving talks at conferences, seminars and forums
C: participation in in-house seminars
D: private study of materials relevant to the Company's business or director's duties and responsibilities

*: appointed on 15 May 2015
**: retired on 15 May 2015

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Meetings

Number of Meetings and Directors' Attendance

In 2015, the Company has held ten board meetings. The Company will endeavour to hold at least four regular board meetings a year.

The attendance of the Directors at board meetings held during the year is set out below:

Directors	**Attendance/ Number of Meetings**
Executive Directors:	
Mr. Ji Wei *(Chairman)*	10/10
Ms. Cao Zhao Hui	9/10
Mr. Zeng Xin	9/10
Ms. Zheng Xiao Ping	8/10
Mr. Wang Xue Xin	8/10
Ms. Li Hong	9/10
Non-executive Director:	
Mr. Kat Chit	9/10
Independent Non-Executive Directors:	
Mr. Hui Wing Kuen*	6/6
Mr. Chan Cheong Tat**	5/5
Mr. Wu Jin Ming	8/10
Mr. Pan Yuan	7/10
Mr. Cheng Shi Jie	7/10

*: appointed on 15 May 2015

**: retired on 15 May 2015

CORPORATE GOVERNANCE REPORT (CONTINUED)

Practices and Conduct of Board Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Agenda and Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors appraised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The Chief Executive Officer, chief financial officer of the Company and Company Secretary attend all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Minutes of all Board meetings and committee meetings are kept by the Company Secretary. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to the current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Articles also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the chairman of the Board (the "Chairman") and the Chief Executive Officer to ensure a balance of power and authority. So, the posts of the Chairman and Chief Executive Officer are held separately by Mr. Ji Wei and Ms. Cao Zhao Hui respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practices. With support of the senior management, the Chairman is also responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at the Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. She is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD COMMITTEES

The Board has established three committees, namely, the Nomination Committee, the Remuneration Committee and the Audit Committee, for overseeing particular aspects of the Company's affairs. All Committees of the Company are established with defined written terms of reference. The terms of reference have been posted on the websites of Stock Exchange and the Company.

The majority of the members of each Committee are independent non-executive Directors and the list of the chairman and members of each Committee is set out under "Board Composition" of this report on pages 38 to 39.

The Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

NOMINATION COMMITTEE

The duties of the Nomination Committee include the following:

(a) To review the structure, size and composition of the Board (including the skills, knowledge and experience) at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

(b) To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships.

(c) To make recommendations to the Board on the appointment or re appointment of directors and succession planning for directors in particular the chairman and the chief executive.

(d) To assess the independence of independent non-executive directors.

(e) To review the policy on Board diversity Policy and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives; and to make disclosure of its review results in the annual report of the Company annually.

(f) Where the Board proposes a resolution to elect an individual as an independent non-executive director at the general meeting, the Committee should set out in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting why they believe the individual should be elected and the reasons why they consider the individual to be independent.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Nomination Committee carries out the process of selecting and recommending candidates for directorships by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Four Nomination Committee meetings have been held during the year to review the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company. During the year, the Nomination Committee nominated Mr. Hui Wing Kuen as independent non-executive Director to fill up the position of Mr. Chan Cheong Tat who retired as independent non-executive Director upon the conclusion of the 2015 annual general meeting held on 15 May 2015.

The attendance of individual members at Nomination Committee meetings held during the year is set out below:

	Attendance/ Number of Meetings
Mr. Ji Wei *(Chairman)*	4/4
Mr. Hui Wing Kuen*	3/3
Mr. Chan Cheong Tat**	1/1
Mr. Wu Jin Ming	3/4

*: appointed on 15 May 2015
**: retired on 15 May 2015

In accordance with the Articles, Mr. Ji Wei, Ms. Zheng Xiao Ping, Ms. Li Hong and Mr. Pan Yuan shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT (CONTINUED)

REMUNERATION COMMITTEE

The duties of the Remuneration Committee include the following:

(a) To make recommendations to the Board on the Company's policy and structure for all directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

(b) To review and approve the management's remuneration proposals with reference to corporate goals and objectives resolved by the Board from time to time.

(c) To determine the remuneration packages of individual executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on the remuneration of non-executive directors. The Committee should consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the group. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

(d) To review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive.

(e) To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.

(f) To ensure that no director or any of his associate is involved in deciding his own remuneration.

(g) The Committee shall advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under Rule 13.68 of the Listing Rules.

The Remuneration Committee normally meets quarterly of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive Directors and the senior management and other related matters. The human resources department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the chairman about these recommendations on remuneration policy and structure and remuneration packages.

Four Remuneration Committee meetings have been held during the year to review the remuneration policy and structure of the Company and remuneration packages of the executive Directors and the senior management.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The attendance of individual members at Remuneration Committee meetings held during the year is set out below:

	Attendance/ Number of Meetings
Mr. Hui Wing Kuen *(Chairman)**	3/3
Mr. Chan Cheong Tat *(Chairman)***	1/1
Mr. Ji Wei	4/4
Mr. Wu Jin Ming	3/4

*: appointed on 15 May 2015
**: retired on 15 May 2015

AUDIT COMMITTEE

The Audit Committee comprises four independent non-executive Directors (including one independent non-executive Director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The duties of the Audit Committee include the following:

(a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(c) to discuss with the external auditor before the audit commences, the nature and scope of the audit and reporting obligations, and ensure co-ordination where more than one audit firm is involved;

(d) to develop and implement policy on engaging an external auditor to supply non-audit services. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(e) to monitor the integrity of financial statements of the Company and the annual report and accounts, half-year report and, if prepared for publication, quarterly reports and to review significant financial judgements contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:

  (i) any changes in accounting policies and practices;

  (ii) major judgmental areas;

CORPORATE GOVERNANCE REPORT (CONTINUED)

(iii) significant adjustments resulting from the audit;

(iv) the going concern assumption;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting.

(f) to liaise with the Board, senior management and the chief financial officer of the Company and to meet, at least twice a year, with the Company's auditors and to consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's chief financial officer, compliance officer or auditors;

(g) to review the Company's financial controls, internal control and risk management systems;

(h) to discuss the internal control system with management to ensure that the management has performed its duty to have an effective internal control system. The discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function of the Company;

(i) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management response; findings of internal investigations and management's response to these findings;

(j) (where an internal audit function exists) to ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(k) to review the Group's financial and accounting policies and practices;

(l) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(m) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(n) to review arrangements 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 should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(o) to act as the key representative body for overseeing the Company's relations with the external auditor;

(p) to report to the Board on the matters set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules;

CORPORATE GOVERNANCE REPORT (CONTINUED)

(q) to establish a whistle blowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company; and

(r) to consider other topics, as defined by the Board.

The Audit Committee held four meetings during the year to review and discuss the financial results and reports, financial reporting and compliance procedures, and the re-appointment of the external auditors.

The attendance of individual members at Audit Committee meetings held during the year is set out below:

	Attendance/ Number of Meetings
Mr. Hui Wing Kuen *(Chairman)**	3/3
Mr. Chan Cheong Tat *(Chairman)***	1/1
Mr. Wu Jin Ming	3/4
Mr. Pan Yuan	2/4
Mr. Cheng Shi Jie	2/4

*: appointed on 15 May 2015
**: retired on 15 May 2015

There is no material uncertainty relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The Company's annual results for the year ended 31 December 2015 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE FUNCTION

The Board will be responsible for performing the following corporate governance duties:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

CORPORATE GOVERNANCE REPORT (CONTINUED)

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules and disclosure in the Corporate Governance Report in the annual report of the Company.

The Board may delegate the corporate governance duties to a committee of the Board.

During the year ended 31 December 2015, the Board has reviewed the Company's corporate governance practices.

AUDITORS' REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 63 to 64 of this annual report.

The Company's external auditor is Deloitte Touche Tohmatsu. Total auditor's remuneration paid and payable by the Group for the year ended 31 December 2015 amounted to RMB2.8 million, which comprises RMB2.3 million for the audit of the Group's consolidated financial statements for the year ended 31 December 2015 and RMB0.5 million for the review of the Group's interim report for the six months ended 30 June 2015.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2015.

INTERNAL CONTROLS

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and the Group's assets. The Group has maintained a tailored governance structure with defined lines of responsibility and appropriate delegation of responsibility and authority to the senior management. The management of the Company is responsible for establishing the Group's internal control framework, covering all material controls including financial, operational and compliance controls. The internal control framework also provides for identification and management of risk.

The Board has conducted through the Audit Committee an annual review of the effectiveness of internal control system of the Group which covers all material controls, including financial, operational and compliance controls and risk management functions. No major issue but only minor areas for improvement have been identified. The Board is of the view that the internal control system of the Group for the year ended 31 December 2015 is sufficient to safeguard the interest of shareholders and the Group's assets.

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMPANY SECRETARY

During the year ended 31 December 2015, Mr. Choi Wai Lung Edward was the Company Secretary. Mr. Choi is a full-time employee of the Company.

SHAREHOLDERS' RIGHTS

Rights and procedures for shareholders to convene an extraordinary general meeting ("EGM") (including putting forward proposals/moving a resolution at the EGM)

Pursuant to article 58 of the Articles, any one or more shareholders 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 (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at Unit 2605, 26/F West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong, for the attention of the Company Secretary.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included the details of the business(es) proposed to be transacted in the special general meeting, signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholder will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal or the resolution proposed by the Eligible Shareholder at the EGM.

If within 21 days of the deposit of the Requisition the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the M&A, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Procedures by which enquiries may be put to the Board

Shareholders of the Company (the "Shareholders") may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong at Unit 2605, 26/F West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong by post or email to enquires@wasiongroup.com.hk for the attention of the Company Secretary.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Upon receipt of the enquiries, the Company Secretary of the Company will forward:

- communications relating to matters within the Board's purview to the executive directors of the Company;
- communications relating to matters within a Board committee's area of responsibility to the chairman of the appropriate committee; and
- communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the appropriate management of the Company.

Procedures for Shareholders to propose a person for election as a director

- If a shareholder wishes to propose a person other than a director of the Company (the "Director") for election as a Director, the shareholder must deposit a written notice (the "Notice") to the principal place of business of the Company in Hong Kong at Unit 2605, 26/F West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong or the branch share registrar of the Company, Boardroom Share Registrars (HK) Ltd., at 31/F, 148 Electric Road, North Point, Hong Kong for the attention of the Company Secretary of the Company.
- The Notice must state clearly the name of the shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the Shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent signed by the person proposed to be elected on his/her willingness to be elected as a Director.
- The period for lodgment of the Notice will commence no earlier than the day after the despatch of the notice by the Company of the general meeting appointed for election of directors of the Company and end no later than seven (7) days prior to the date of such general meeting. If the Notice is received less than 15 days prior to the general meeting, the Company will need to consider the adjournment of the general meeting in order to give shareholders 14 days' notice of the proposal.
- The Notice will be verified with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Nomination Committee and the Board to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

CORPORATE GOVERNANCE REPORT (CONTINUED)

INVESTOR RELATIONS

The Board has established a shareholders' communication policy which aims to set out the provisions with the objective of ensuring the Shareholders are provided with equal and timely access to information about the Company, in order to enable the Shareholders to exercise their rights in an informed manner and to allow them to engage actively with the Company.

The Board will maintain an on-going dialogue with the Shareholders and will review this policy regularly to ensure its effectiveness. Information will be communicated to the Shareholders through the Company's financial reports, annual general meetings and other general meetings that may be convened, as well as all the disclosures submitted to the Stock Exchange. Effective and timely dissemination of information to the Shareholders will be ensured at all times.

A dedicated Investor Relations section is available on the Company's website www.wasion.com. Information on the Company's website is updated on a regular basis. Information released by the Company to the Stock Exchange is also posted on the Company's website immediately thereafter. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents etc. All presentation materials provided in conjunction with the Company's annual general meeting and results announcement each year will be made available on the Company's website. All press releases and Shareholders' newsletters will also be made available on the Company's website.

Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings. Board members, in particular, the chairmen of the Board committees or their delegates, appropriate senior management and external auditors will attend annual general meetings to answer Shareholders' questions.

During the year ended 31 December 2015, the 2015 AGM was held on 15 May 2015. All the resolutions proposed at the 2015 AGM were duly passed by the Shareholders by way of poll and the results of the poll have been published on the websites of the Stock Exchange and the Company. Mr. Ji Wei, the chairman of the Board and Nomination Committee, chaired the 2015 AGM to answer Shareholders' questions. Mr. Wu Jin Ming, an independent non-executive director and member of Nomination Committee, Remuneration Committee and Audit Committee, Mr. Pan Yuan, an independent non-executive director and member of Audit Committee and Mr. Cheng Shi Jie, an independent non-executive director and member of Audit Committee, failed to attend the 2015 AGM due to conflicts with their schedules. The external auditor of the Company, Deloitte Touche Tohmatsu, attended the 2015 AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the independent auditor's report and independence of auditor.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The attendance of the Directors at the 2015 AGM is set out below:

Directors	AGM Attended/held
Executive Directors:	
Mr. Ji Wei *(Chairman)*	1/1
Ms. Cao Zhao Hui	0/1
Mr. Zeng Xin	0/1
Ms. Zheng Xiao Ping	0/1
Mr. Wang Xue Xin	0/1
Ms. Li Hong	0/1
Non-Executive Director:	
Mr. Kat Chit	1/1
Independent Non-Executive Directors:	
Mr. Hui Wing Kuen*	1/1
Mr. Chan Cheong Tat**	1/1
Mr. Wu Jin Ming	0/1
Mr. Pan Yuan	0/1
Mr. Cheng Shi Jie	0/1

*: appointed on 15 May 2015
**: retired on 15 May 2015

The forthcoming annual general meeting of the Company will be held on 16 May 2016 ("2016 AGM"). The notice convening the 2016 AGM together with the circular will be published on the websites of the Stock Exchange and the Company and dispatched to Shareholders before 30 April 2016.

Shareholders are also encouraged to attend Shareholders' activities organized by the Company, where information about the Company, including its latest strategic plan, products and services will be communicated.

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There was no significant change in the Company's constitutional documents during the year ended 31 December 2015.

CORPORATE SOCIAL RESPONSIBILITY

(I) REPORT OVERVIEW

The report is the second corporate social responsibility report Wasion Group Holdings Limited ("Wasion Group" or "Wasion" or the "Group") released to the public. The report will introduce the Group's intent to perform obligations and its performance in economic, social and environmental aspects during 2015, aiming to reflect the practices and efforts the Group has made in improving the business value, strengthening the conservation and efficient use of energy, and fulfilling social responsibility, and provide convenient communication channels for its stakeholders.

The report is formulated with reference to the "Environmental, Social and Governance Reporting Guide" in Appendix 27 of the Listing Rules of The Stock Exchange of Hong Kong Limited, "Sustainability Reporting Guidelines of Global Reporting Initiative (GRI)" (G4 Version), and "Guide to the Preparation of Chinese Corporate Social Responsibility Report (CASS-CSR3.0)".

(II) INTENT TO PERFORM OBLIGATIONS

1. Concept of social responsibility

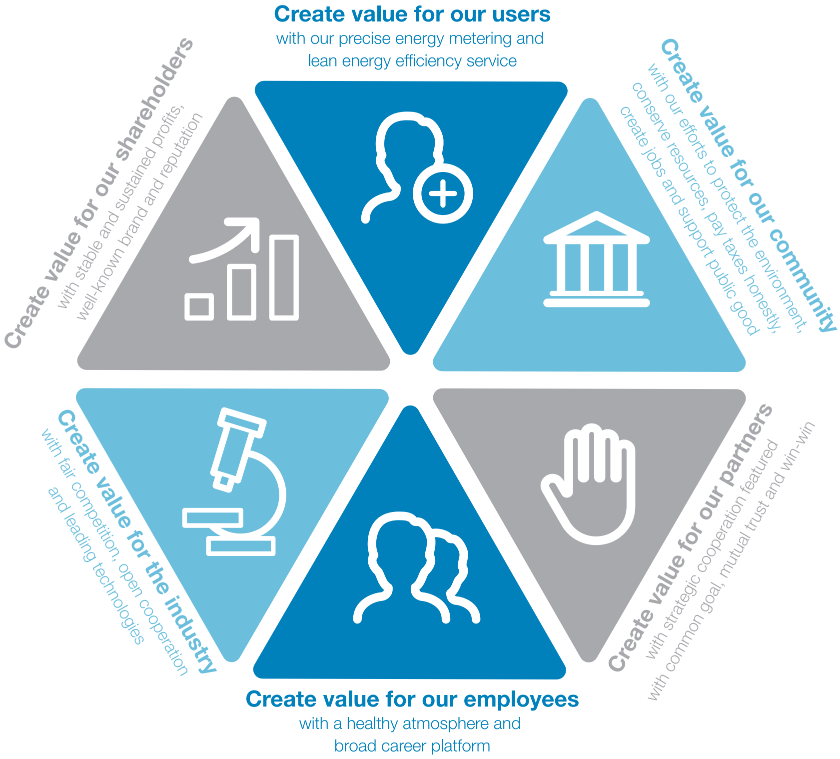
MISSION
Energy metering and energy saving expert

VISION
Continual innovation contributing to Wasion's centennial history

MOTTO
Perfect work with passion, and success achieved with integrity

Currently, energy and environment has become a major social responsibility issue that restrains the sustainable development of humankind. As a pioneer in energy metering and energy efficiency management, Wasion Group has been making constant efforts in the field it excels. We firmly believe that precise energy metering technology and lean energy efficiency management service can help the whole society gradually improve the energy utilization rate and reduce the environmental pollution in the process of energy utilization. Therefore, the Group will focus on electricity, water, gas and heat metering and energy efficiency management for quite a long period of time. The Wasion Group has listed the task to "make irreplaceable contributions to the conservation and efficient utilization of energy" in its mission statement.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)



In the meantime, Wasion constantly uphold the motto of operation which is "Perfect Work with Passion, and Success Achieved with Integrity" and spare no efforts to realize its ambitious vision of "Continual Innovation Contributing to Wasion's Centennial History" by actively fulfilling its social responsibility and closely watching the interests of stakeholders, maximizing the overall value in economic, social and environmental aspects and striving to maximize its contribution to sustainable development.

2. Development strategies of social responsibility

The year 2015 was the ending of the "3rd Five-Year Plan" as well as the beginning of the "4th Five-Year Plan". The Group has clearly set the "Sustained and Healthy Development" as the keynote of the "4th Five-Year Plan". Beside focusing on and enhancing the current businesses, the Group also actively draw the blueprint of the "Two Alternatives" and the new energy market, respond to the national strategic blueprint of "Four Comprehensives", promote the energy production and consumption reform, and take the same responsible attitude as in social and environmental issues towards its business strategies.

Meanwhile, it is the first time that the Group has included the corporate social responsibility in its mid- and long-term strategic development plan (the "4th Five-Year Plan"), ensuring that the Group will gradually implement the "Responsible and Public-Minded Wasion" in the future five years. Through the "Four Goals and Four Measures" strategy, Wasion has set the four goals of "zero environmental pollution scandal, zero major safety accident, employment satisfaction, and significant increase in fund expenditure in public welfare", and laid out the four measures of "perfecting the social responsibility management system, fostering a pilot enterprise of safety and occupational health, promote the stakeholders satisfaction project, and designing the public-minded marketing mode". Wasion strives to ensure the interests of stakeholders and to be a benchmark enterprise in the industry that "advocating harmonious development and fulfilling the social responsibility" through unremitting endeavor.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

3. Social responsibility management system

Since early 2015, Wasion Group has begun to build the social responsibility management system with reference to the standards and requirements in the SA8000: 2008 Social Responsibility Management System. Wasion Group has basically established a social responsibility management system by adopting a series of management measures such as setting up organizations, perfecting the mechanism, improving abilities, promoting the implementations, enhancing communication, and constant improving, etc.

Set up organizations	• Set up social responsibility management groups
Perfect mechanism	• Set social responsibility management measures and goals • Establish and perfect social responsibility management system
Improve ability	• Carry out social responsibility management training for high-level management • Carry out social responsibility awareness training for the staff
Promote implementation	• Implement the policies on social responsibility • Conduct compliance assessment • Improve infrastructure • Develop emergency response solutions for social responsibility events
Enhance communication	• Establish communication channels for stakeholders • Release social responsibility report
Improve constantly	• Conduct internal inspection and management assessment • Strengthen regular inspection

In December 2015, Wasion Group smoothly obtained the certificate of the SA8000:2008 Social Responsibility Management System, which made the Group the first enterprise to be awarded the certificate in the industry in China, marking Wasion Group's international standard in the management and performance of social responsibility and steadfast determination to proactively fulfilling social responsibility.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

(III) PERFORMANCE IN FULFILLING OBLIGATIONS

1. Environmental

1.1 Emissions

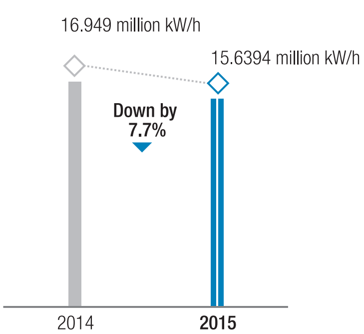
In order to minimize the wastewater discharge, the Group has adopted clean production mode since 2008. In the no-clean procedure, the production does not use water nor produce industrial wastewater. As to domestic sewage, the Group has established advanced sewage processing station to deal with the domestic sewage in the park, obtained the sewage discharge permission of the local environmental protection department, and discharge the sewage according to the requirement of the permission and the third grade of discharge.

The Group's main atmospheric emissions are oil fume and waste gas, and a small amount of welding fume produced by wave soldering and reflow soldering. The former is emitted in upper air after being processed by the oil fume purification equipment certified by the provincial environmental protection department; and the latter is discharged in upper air after gathering them according to the requirement of local environmental protection department. All the above measures are maintained on regular basis through "simultaneous design, simultaneous construction, and simultaneous operation" as required in the environmental impact assessment report, and have passed the environmental impact assessment inspection and acceptance of the local environmental protection department.

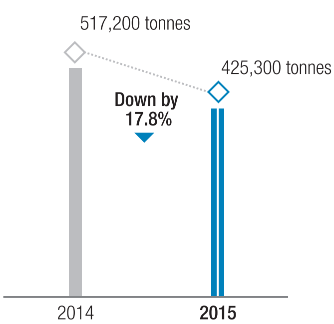
As to the solid waste in the process of production, the Group has formulated the "Solid Waste Management Regulation", recycle the recyclable waste and collect the non-recyclable waste separately in fixed points for qualified subcontractors to handle.

1.2 Use of resources

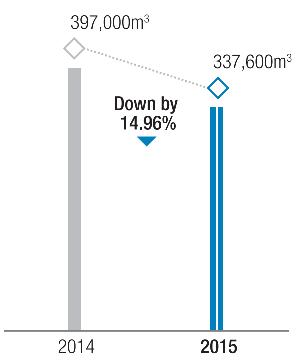
As a responsible listed company and an energy saving expert, the Group has laid out "Regulation on Energy Conservation and Consumption Reduction" to guide the intelligent use of resources, and set the first example take on various measures to conserve energy and reduce consumption so as to reduce the negative effect on environment.



Power consumption



Water consumption



Gas consumption

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

In power consumption, through the solar photovoltaic new energy project in the No.11 plant, the Group implemented the energy conservation reform of air compressor so that the air conditioner can adjust the temperature intelligently in peak season of electricity consumption in summer. The Group also made energy conservation improvement in the coolant pump of refrigeration station, and changed the landscape lamp into energy-saving LED lights. Through the series of measures, the Group's power consumption reduced by 7.7% in 2015 compared with that in 2014. And photovoltaic power generation provided 512,300 kW/h clean electricity. In water consumption, the Group used 17.8% less water in 2015 compared with last year through a series of measures such as strengthening the pump maintenance, analyzing the water consumption data each month, strengthening underground pump inspection, cleaning the radiator of the cooling tower of the central air conditioner during peak summer season to reduce the evaporation rate of cooling water, improving the drinking water by reducing concentrated water discharge and installing the water-saving water closet in toilet. In gas consumption, the Group used 14.96% less gas in 2015 through a series of measures such as enhancing the daily maintenance of boilers for improvement of boiler thermal efficiency, improving the high-consumption gas kitchen for conservation of natural gas, cleaning the pump and tank of solar water heater for enhancement of heat transfer effect, adjusting and setting the temperature of hot water at a reasonable level to shorten the run-up time of boiler.

1.3 Environment and natural resources

Wasion Group always takes "protecting the ecosystem and fulfilling its social responsibility" as its responsibility, and it has introduced in the ISO14001 Environmental Management System since 2006 and scientifically and systematically carried out environment protection. To identify the environmental factors, assess the environmental impacts, monitor the environmental performance, and reduce the negative influence on environment, the Group gradually formulated a series of management documents such as "Environmental Factors Identification and Evaluation Assessment Control Procedures", "Laws, Regulations and Other Required Control Procedures", "Monitoring and Metering Control Procedures", and "Compliance Evaluation Control Procedures", etc.

In 2015, centered on environment protection guideline of "constantly improving resources utilization rate, cutting energy consumption, constant reforming, and fulfilling the social responsibility to protect environment", the Group made overall plans, coordination and supervision of environmental protection, held regular meetings concerning environmental issues, constantly assessed the environmental performance and implemented the improvement measures under the leadership of occupational health, safe production and environment protection committee. It also established the double (internal and external) monitoring mechanism of environmental performance. The internal monitoring mechanism conducts daily, weekly and monthly polling, regularly inspects the park environment, and meanwhile invites the third party to conduct sampling monitoring on the environmental indicators in the park. Due to the internal and external environment change in 2015, the environmental factors were identified and assessed for two times, and chemical storages and wastewater processing stations were improved on a large scale so as to best prevent the leakage of chemicals and conform to the local wastewater discharge regulations and standards. With concerted efforts, the Group achieved good environmental, economic and social benefits in 2015.

At the same time, the Group made use of its technology to help other enterprises and organizations maximize their environmental, economic and social benefits. By the end of December 2015, Wasion Group had contracted the energy management and conservation service projects of over 128 industrial enterprises and over 124 large public buildings, and provided scientific and reliable energy management methods and systematic solutions to energy consuming enterprises, which helped them save 29,120 tonnes of standard coal each year, or reduce the emission 72,596 tonnes of carbon dioxide, 2,184 tonnes of sulfur dioxide, and 1,070 tonnes of oxides.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

2. Social

2.1 Employment

Wasion's development would have been impossible if not for the staff's contribution and innovation. We value every employee and strive to offer a comfortable working environment, a sound salary and welfare guarantee, and broad career prospects for them. We grow together with our over four thousand employees, treat them well while developing the business.

In 2015, Wasion Group actively conducted self-assessment and reform in the eight aspects of child laborer, force labor, health and safety, the freedom to form labor union and the right to collective bargaining, discrimination, punishment, working time, and salary in accordance with the SA8000 Social Responsibility Standard, adequately protecting the legal rights and interests of our employees and ensuring their physical and mental health. The labor contract signing rate, the coverage rate of "five social insurance and one housing fund", compliance of employment of the Group all reached 100%. Meanwhile, the condition that the basic requirements and basic welfare policies such as salary, recruitment, paid annual leave which the Group conform to the local laws, regulations and basic moral standard and are effectively implemented, the Group expands the welfare coverage such as free work lunch and shuttle bus, annual physical check, commercial accident insurance, cash and gifts for festivals and holidays, allowance for high temperature for production and sales personnel and engineering technician, staff nursing room, helping employees' children enter the famous schools nearby, etc., all of which made the employee satisfaction rise by 9% year-over-year in 2015.

2.2 Health and safety

Early in 2009, the Group has thoroughly introduced in the OHSAS18001 Occupational Health and Safety Management System, and gradually formulated 20 management documents such as "Identification of Source of Danger and the Assessment and Control Procedures", "Safe Production Management Procedures", "Employee Labor Protection and Control Procedure", "Accident Investigation, Handing and Control Procedures", "Fire Safety Management Regulation", and "Power Management Regulation", and scientifically and systematically carried out the measures on occupational health and safety management.

In 2015, the Group established the occupational health, safe production and environmental management committee, made an overall plans in these aspects, and ensured the achievement of the annual goals through the five measures of "undertaking the responsibilities and perfecting the system, planning systematically and progressing separately, strengthening training and publicizing, inspect regularly and preventing potential danger, holding meetings regularly and improving constantly". No major accidents concerning safe production, occupational health, and environmental pollution happened, nor was there any complaint against the community, the government and media throughout the year. The Group successfully passed the inspection of "Changsha City Occupational Health Management Pilot Enterprise".

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

2.3 Development and training

The Group sets up various occupational development channels for employees and consolidates them through the "Human Resources Control Procedures", "Training Management Regulations", and "Regulations on Evaluation and Management of the Certificate of Leadership Qualification".

As to management channel, the Group selects and promotes 5% of leaders among grass-root employee annually, and newly promoted leaders takes up 5% of the total number of leaders. On the one hand, it has established sound training and evaluation system for the certificate of leadership qualification to encourage employees to get a higher position through technology channel and meanwhile to coordinate with competent employees in passing the national professional examinations and thus improving their professional abilities. On the other hand, the Group organized 1,294 trainings with 25,028 trainees in total, lasting 8,219 hours all together, so as to improve the employees' professional skills and comprehensive quality.

2.4 Labor standards

As required by the SA8000 Social Responsibility Management System, the Group set out a series of documents such as the "Recruitment Management Regulation", the "Promoting Education Control Procedure" and the "Non-Forced Labor Control Procedure" to guarantee that no child labor or forced labor is hired. In early recruitment, the human resource department has checked the identity information of each employee with the public security organization in order to avoid child labor. At the same time, in order to prevent and avoid forced labor, the Group promoted regular, standardized and transparent democratic management through social responsibility management assessment, internal inspection, staff meeting and operation trainings, etc.

2.5 Supply chain management

To ensure that the suppliers' social responsibility performance conform to the Group's mission and to expand the influence of social responsibility through encouraging the suppliers to undertake theirs, the Group revised the "Suppliers Control Procedure" and "Suppliers management Regulation" in 2015. Through these two regulations, supplier management department added assessment articles concerning social responsibility to the site inspection and regular assessment of suppliers upon first introduction so as to choose the suppliers with good social responsibility performance. In the meantime, the Group instills the concept and the basic requirements of social responsibility through delivering social responsibility notification to suppliers and signing commitment letter of social responsibility with them. 2015 witnessed the Group signing commitment letter of social responsibility with 59 major suppliers.

2.6 Product responsibility

The Group formulated "Logo and Traceability Control Procedure" and "Product Certification and Logo Management Regulation" to standardize the health and safety of the supplied products and services, and apply the CCC or CE certification to certain products to ensure the health and safety, and provided on the instruction the details of ensuring health and safety in using the products.

The Group also set out the "Hardware Products and Service Supply Control Procedure" and "Management Regulation on Customers' Complaint against Product Quality" to standardize the procedures of coping with customer complaints, and opened 400 hot lines to receive and process customer feedback without delay.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

In addition, the Group set out the "Intellectual Property Rights Management Regulation" to standardize intellectual property rights protection and supervision, aiming to protect internal and external intellectual property rights.

2.7 Anti-corruption

As required by the ten principles of "Global Compact" of the UN, Wasion Group has always been holding high the flag of anti-corruption. It formulated "Wasion Group Supervision System" to standardize the anti-corruption procedure and supervision, set up special risk control center, exercised the function of the prevention and supervision of corruption, accepted the report of corruption and implemented anti-corruption investigation. Besides, the Group specified three anti-corruption terms in the ban on the ten major commercial activities in the "Wasion Values and Behavior Code Manual" so as to improve the staff's anti-corruption awareness through constant educating and publicizing.

2.8 Community investment

"Sensibility, Honesty, Kindness and Self-esteem" has always been the behavior code for all Wasion employees. Therefore, ever since its founding, Wasion has been abiding by laws, honestly paying the tax, actively participating in public welfare programs, advocating friendship and mutual help, caring about the society and contributing to the society.

Since its establishment, Wasion has spared no efforts in creating jobs. In 2015, it provided about 4,000 jobs for over 4,000 families. Meanwhile, it indirectly created nearly 30,000 jobs for suppliers, calculating by the purchasing volume. Moreover, the Group values cooperation with colleges and universities, not only dedicated to the exchanging of production, learning and research for marketization purpose, but also providing internships and jobs for college and university students, accepting these students to work in finance, research and development, and technology departments with a tolerant and win-win attitudes. In 2015, the Group arranged short-term 603 internships and 284 jobs on an accumulative basis.

Fully aware of its social responsibility, Wasion Group keeps involving in public welfare programs. In December 2015, the Group contributed to the society by subsidizing poor students and realized 16 wishes of these students in Changsha Hongqiao Primary School through the activity of "realizing small wishes and lighting the big world".

Wasion Group set up the two special funds of "Employee Support Fund" and "Employee Innovation Fund", and established corresponding management regulations, making the funds function normally. "Employee Support Fund", holding the principle of helping the poor, extends warmth and care to financially difficult employees of the Group and their families to help them get through the hardship. In 2015, the Group released 11 batches of poverty-alleviation funds with a total amount of RMB827,000, benefiting 259 employees. "Employee Innovation Fund", holding the principle of helping employees achieve success, sets up platforms for innovators and makers of the Group, and provides funds for various creative ideas and plans. In 2015, the Group accepted 575 applications for innovation funds, granted 470 rewards with 82% of reward rate, and delivered RMB2.769 million in total.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF WASION GROUP HOLDINGS LIMITED
威勝集團控股有限公司
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Wasion Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 65 to 142, which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statement of profit or loss and other 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.

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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 auditor's judgment, 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 auditor considers 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 audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Revenue	5	**2,969,033**	2,811,871
Cost of sales		**(2,072,834)**	(1,849,184)
Gross profit		**896,199**	962,687
Other income	6	**145,189**	104,604
Other gains and losses	7	**(18,338)**	(7,140)
Administrative expenses		**(136,978)**	(167,512)
Selling expenses		**(244,570)**	(205,952)
Research and development expenses		**(143,330)**	(112,216)
Finance costs	8	**(25,389)**	(28,871)
Share of results of an associate	17	**(3,108)**	(4,051)
Profit before taxation	9	**469,675**	541,549
Income tax expense	10	**(47,856)**	(55,375)
Profit for the year		**421,819**	486,174
Profit (loss) for the year attributable to			
— Owners of the Company		**423,533**	482,439
— Non-controlling interests		**(1,714)**	3,735
		421,819	486,174
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation		**(6,339)**	(159)
Fair value changes on available-for-sale investments		**4**	10,175
Reclassification upon disposal of available-for-sale investments		**—**	(15,896)
Other comprehensive expense for the year		**(6,335)**	(5,880)
Total comprehensive income for the year		**415,484**	480,294
Total comprehensive income (expense) for the year attributable to			
— Owners of the Company		**417,198**	476,559
— Non-controlling interests		**(1,714)**	3,735
		415,484	480,294
Earnings per share	13		
Basic		**RMB42 cents**	RMB51 cents
Diluted		**RMB42 cents**	RMB51 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14(a)	**1,182,303**	1,000,879
Prepaid lease payments	14(b)	**400,571**	322,807
Investment properties	15	**16,098**	16,328
Goodwill	16(a)	**300,537**	297,919
Other intangible assets	16(b)	**296,236**	241,505
Investment in an associate	17	**1**	3,109
Available-for-sale investments	18	**83,816**	29,811
Amounts due from related parties	30(b)	**20,956**	20,956
Other non-current assets	19	**162,111**	170,287
		2,462,629	2,103,601
CURRENT ASSETS			
Inventories	20	**334,104**	334,702
Trade and other receivables	21	**2,800,166**	2,398,459
Prepaid lease payments	14(b)	**7,870**	6,135
Loan receivables	22	**205,000**	205,000
Pledged bank deposits	23(a)	**241,489**	243,219
Bank balances and cash	23(b)	**1,171,836**	327,434
		4,760,465	3,514,949
CURRENT LIABILITIES			
Trade and other payables	24	**2,133,520**	1,485,745
Tax liabilities		**54,452**	55,798
Borrowings — due within one year	25	**300,839**	502,998
		2,488,811	2,044,541
NET CURRENT ASSETS		**2,271,654**	1,470,408
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,734,283**	3,574,009

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CAPITAL AND RESERVES			
Share capital	26	**10,180**	9,588
Reserves		**4,090,980**	3,235,921
Equity attributable to owners of the Company		**4,101,160**	3,245,509
Non-controlling interests		**38,412**	60,732
		4,139,572	3,306,241
NON-CURRENT LIABILITIES			
Borrowings — due after one year	25	**576,248**	247,641
Deferred tax liability	27	**18,463**	20,127
		594,711	267,768
		4,734,283	3,574,009

The consolidated financial statements on pages 65 to 142 were approved and authorised for issue by the Board of Directors on 18 March 2016 and are signed on its behalf by:

Ji Wei
DIRECTOR

Cao Zhao Hui
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company											
	Share capital RMB'000 (note 26)	Share premium RMB'000	Merger reserve RMB'000 (Note i)	Exchange reserve RMB'000	PRC statutory reserves RMB'000 (Note ii)	Share option reserve RMB'000	Investment revaluation reserve RMB'000	Other reserve RMB'000 (Note iii & iv)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2014	9,429	1,237,360	49,990	(72,404)	189,835	17,802	5,721	33,164	1,401,903	2,872,800	400	2,873,200
Profit for the year	–	–	–	–	–	–	–	–	482,439	482,439	3,735	486,174
Other comprehensive expense for the year	–	–	–	(159)	–	–	(5,721)	–	–	(5,880)	–	(5,880)
Total comprehensive (expense) income for the year	–	–	–	(159)	–	–	(5,721)	–	482,439	476,559	3,735	480,294
Issue of shares upon exercise of share options	159	62,597	–	–	–	(17,802)	–	–	–	44,954	–	44,954
Recognition of equity-settled share-based payment	–	–	–	–	–	9,881	–	–	–	9,881	–	9,881
Transfer to PRC statutory reserves	–	–	–	–	34,988	–	–	–	(34,988)	–	–	–
Acquisition of subsidiaries (note 28)	–	–	–	–	–	–	–	–	–	–	15,883	15,883
Acquisition of additional interests in a subsidiary (Note iv)	–	–	–	–	–	–	–	(773)	–	(773)	773	–
Acquisition of assets and liabilities through acquisition of a subsidiary (note 29)	–	–	–	–	–	–	–	–	–	–	30,005	30,005
Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	–	–	9,936	9,936
Dividend recognised as distribution (note 12)	–	–	–	–	–	–	–	–	(157,912)	(157,912)	–	(157,912)
At 31 December 2014	9,588	1,299,957	49,990	(72,563)	224,823	9,881	–	32,391	1,691,442	3,245,509	60,732	3,306,241
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**423,533**	**423,533**	**(1,714)**	**421,819**
Other comprehensive (expense) income for the year	**–**	**–**	**–**	**(6,339)**	**–**	**–**	**4**	**–**	**–**	**(6,335)**	**–**	**(6,335)**
Total comprehensive (expense) income for the year	**–**	**–**	**–**	**(6,339)**	**–**	**–**	**4**	**–**	**423,533**	**417,198**	**(1,714)**	**415,484**
Subscription of shares	**591**	**638,337**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**638,928**	**–**	**638,928**
Transaction costs attributable to subscription of shares	**–**	**(15,453)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(15,453)**	**–**	**(15,453)**
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**–**	**–**	**11,461**	**–**	**–**	**–**	**11,461**	**–**	**11,461**
Issue of shares upon exercise of share options	**1**	**76**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**77**	**–**	**77**
Transfer to PRC statutory reserves	**–**	**–**	**–**	**–**	**37,577**	**–**	**–**	**–**	**(37,577)**	**–**	**–**	**–**
Acquisition of additional interests in a subsidiary (Note iv)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,809)**	**–**	**(4,809)**	**(31,292)**	**(36,101)**
Acquisition of a subsidiary (note 28)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,128**	**2,128**
Capital injection by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,558**	**8,558**
Dividend recognised as distribution (note 12)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(191,751)**	**(191,751)**	**–**	**(191,751)**
At 31 December 2015	**10,180**	**1,922,917**	**49,990**	**(78,902)**	**262,400**	**21,342**	**4**	**27,582**	**1,885,647**	**4,101,160**	**38,412**	**4,139,572**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2015

Notes:

(i) Merger reserve represents the difference between the nominal value of shares of the subsidiary acquired over the nominal value of the shares used by the Company in exchange thereafter.

(ii) PRC statutory reserves are reserves required by the relevant laws in the People's Republic of China (the "PRC") applicable to the Group's PRC subsidiaries.

(iii) Other reserve of RMB27,582,000 includes an amount of RMB33,164,000 representing the excess of the balance of plan asset over the carrying amount of shares held under share award plan of the Company, which was recognised upon termination of the plan in prior years.

(iv) The Group accounts for changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over those subsidiaries as equity transactions and recognises any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received in other reserve.

During the year ended 31 December 2015, the Group acquired an additional 23.08% equity interest and 36% equity interest in two existing subsidiaries, respectively, from the non-controlling interests. The difference between the amounts of consideration and the carrying values of the interests acquired amounting to RMB4,809,000, in aggregate, is recorded in other reserve.

During the year ended 31 December 2014, the Group acquired an additional 10.29% equity interest in an existing subsidiary by way of capital injection. The difference between the amount of capital injection and the carrying value of the interests acquired amounting to RMB773,000 was recorded in other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**469,675**	541,549
Adjustments for:		
Amortisation of intangible assets	**44,766**	43,019
Bank interest income	**(6,513)**	(8,567)
Depreciation of investment properties	**230**	230
Depreciation of property, plant and equipment	**45,215**	43,897
Dividend income from available-for-sale investments	**(3,485)**	—
Finance costs	**25,389**	28,871
Gain on disposal of available-for-sale investments	**—**	(15,896)
Impairment loss recognised on other receivables	**—**	155
Interest income from available-for-sale investments	**(3,003)**	—
Interest income from consideration receivable for disposal of a subsidiary/assets	**(1,344)**	(6,153)
Interest income from loan receivables	**(24,536)**	(36,848)
Net (gain) loss on disposal of property, plant and equipment	**(101)**	146
Net foreign exchange loss	**18,439**	6,839
Release of prepaid lease payments	**6,204**	1,474
Share of results of an associate	**3,108**	4,051
Share-based payment expenses	**11,461**	9,881
Operating cash flows before movements in working capital	**585,505**	612,648
Decrease in inventories	**2,648**	6,567
Increase in trade and other receivables	**(427,621)**	(650,898)
Increase in trade and other payables	**658,683**	129,191
Cash generated from operations	**819,215**	97,508
Income tax paid	**(50,866)**	(46,800)
NET CASH FROM OPERATING ACTIVITIES	**768,349**	50,708

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
INVESTING ACTIVITIES			
Placement of pledged bank deposits		**(496,292)**	(453,533)
Purchase of property, plant and equipment		**(226,899)**	(122,398)
Placement of short-term bank deposits		**(150,000)**	—
Advances of short-term loan receivables under entrusted loan contracts		**(105,000)**	(230,000)
Expenditure on intangible assets		**(99,497)**	(71,237)
Deposit paid for purchase of a piece of land and certain properties		**(75,554)**	(103,452)
Investment in available-for-sale investments		**(54,000)**	—
Withdrawal of pledged bank deposits		**498,022**	357,322
Repayment of advances of short-term loan receivables under entrusted loan contracts		**105,000**	330,000
Interest received		**43,702**	102,709
Dividends received from available-for-sale investments		**3,485**	—
Interest income received from available-for-sale investments		**3,003**	—
Acquisition of subsidiaries, net of cash and cash equivalents acquired	28	**2,468**	(93,844)
Proceeds from disposal of property, plant and equipment		**1,023**	749
Repayment of consideration payable on acquisition of a subsidiary		**—**	(100,000)
Repayment (advances to) from related parties		**—**	(30)
Proceeds from disposal of available-for-sale investments		**—**	115,896
Repayment of consideration receivable for disposal of a subsidiary		**—**	33,000
Acquisition of assets and liabilities through acquisition of a subsidiary, net of cash and cash equivalents acquired	29	**—**	92
NET CASH USED IN INVESTING ACTIVITIES		**(550,539)**	(234,726)
FINANCING ACTIVITIES			
New borrowings raised		**1,614,627**	833,527
Proceeds from subscription of shares		**638,928**	—
Capital injection by non-controlling interests		**8,558**	9,936
Proceeds from issue of shares upon exercise of share options		**77**	44,954
Repayment of borrowings		**(1,526,563)**	(743,164)
Dividends paid		**(191,751)**	(157,912)
Acquisition of additional interests in subsidiaries		**(36,101)**	—
Interest paid on borrowings		**(25,389)**	(28,871)
Transaction costs attributable to subscription of shares		**(15,453)**	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**466,933**	(41,530)
NET INCRASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**684,743**	(225,548)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**327,434**	552,925
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**9,659**	57
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**1,021,836**	327,434
Represented by:			
Bank balances and cash		**1,171,836**	327,434
Less: Short-term bank deposit	23(b)	**(150,000)**	—
		1,021,836	327,434

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider the immediate and ultimate holding company to be Star Treasure Investments Holdings Limited, a limited liability company incorporated in the British Virgin Islands (the "BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

The Company is an investment holding company. Particulars of the principal activities of its principal subsidiaries and an associate are set out in notes 37 and 17, respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Amendments to HKFRSs

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

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

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
3 Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 "Financial Instruments" (Continued)

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 "Financial Instruments" (Continued)

The directors of the Company anticipate that the application of HKFRS 9 in the future may have an impact on amounts reported in respect of the Group's available-for-sale investments. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise 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. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of the other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The provisions of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Group for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- 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; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 “Income Taxes” and HKAS 19 “Employee Benefits” respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 “Share-based Payment” at the acquisition date (see accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another HKFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the “measurement period” (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of CGUs) that is expected to benefit from the synergies of the combination.

A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investment in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of an associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's accounting policies to those of the Group. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate (Continued)

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related tax.

Revenue from the sale of goods is recognised when the goods are delivered and the titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received from customers prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

An item of property, plant and equipment is transferred to investment property when there is a change of use, as evidenced by end of owner-occupation. The cost and accumulated depreciation of that item at the date of transfer is recognised as the cost and accumulated depreciation of the investment property respectively.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

An item of investment property is transferred to property, plant and equipment when there is a change of use, as evidenced by commencement of owner-occupation. The cost and accumulated depreciation of that item at the date of transfer is recognised as the cost and accumulated depreciation of the property, plant and equipment respectively.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating lease in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables or available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a 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.

A financial asset other than a financial asset held for trading may be designated as at FVTPL 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 HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including the deposit component of the life insurance products, consideration receivable for disposal of a subsidiary, trade and other receivables, loan receivables, amounts due from related parties, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Retention amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy on impairment of financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy on impairment of financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance accounts. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in that period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

The Group's financial liabilities, including trade and other payables and borrowings, are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Derecognition

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.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 31 to the consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rate prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rate prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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 temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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.

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 rate (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 from 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.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) 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 a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The following are 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.

(i) Estimated carrying amounts of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated. This value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or there are unfavourable events and changes in facts and circumstances which result in revision of future estimated cash flows, a material impairment loss may arise. The carrying amount of goodwill of approximately RMB300.5 million (2014: RMB297.9 million) as at 31 December 2015 was allocated to the smart meter, advanced metering infrastructure and advanced distribution operations segments. Details of the recoverable amount calculation are disclosed in note 16(a).

(ii) Estimated impairment of other intangible assets

The Group tests whether other intangible assets have suffered any impairment in accordance with its accounting policy whenever there is any indication that the assets may have been impaired. The recoverable amounts of other intangible assets have been determined based on discounted cash flows method. The directors consider that the recoverable amount exceeded the carrying amount of the other intangible assets and no impairment was recognised during the year. Where the actual future cash flows is different from the original estimate, an impairment loss may arise. As at 31 December 2015, the carrying amount of other intangible assets is approximately RMB296.2 million (2014: RMB241.5 million).

(iii) Estimated impairment of trade and bills receivables, retentions held by trade customers, loan receivables and amounts due from related parties

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss 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 been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2015, the carrying amounts of (a) trade and bills receivables is approximately RMB2,297.8 million (2014: RMB1,904.0 million), net of allowance for doubtful debts of approximately RMB19.7 million (2014: RMB19.7 million), (b) retentions held by trade customers is approximately RMB215.5 million (2014: RMB201.6 million), (c) loan receivables is approximately RMB205.0 million (2014: RMB205.0 million) and (d) amounts due from related parties are approximately RMB21.0 million (2014: RMB21.0 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

5. REVENUE AND SEGMENT INFORMATION

Information reported to the Group's Chief Executive Officer, being the chief operating decision maker (the "CODM"), for the purposes of resources allocation and assessment of segment performance focuses on business lines of the Group. Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

(a) Smart meter segment, which engages in the development, manufacture and sale of standardised smart meter products to power grids in China;

(b) Advanced metering infrastructure segment, which engages in the development, manufacture and sale of non-standardised smart meter products and providing system solution and communication terminals solution services; and

(c) Advanced distribution operations segment, which engages in the manufacture and sale of smart power distribution devices and providing smart power distribution solution and energy efficiency solution services.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the year ended 31 December 2015

	Smart meter RMB'000	Advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Consolidated RMB'000
Segment revenue	**853,518**	**1,688,903**	**426,612**	**2,969,033**
Segment profit	**75,363**	**329,084**	**111,880**	**516,327**
Unallocated income and gains/losses				**27,323**
Share of results of an associate				**(3,108)**
Central administration costs				**(45,478)**
Finance costs				**(25,389)**
Profit before taxation				**469,675**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2014

	Smart meter RMB'000	Advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Consolidated RMB'000
Segment revenue	824,477	1,677,035	310,359	2,811,871
Segment profit	71,394	419,404	49,830	540,628
Unallocated income and gains/losses				64,779
Share of results of an associate				(4,051)
Central administration costs				(30,936)
Finance costs				(28,871)
Profit before taxation				541,549

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit attributable to each segment without allocation of certain other income, other gains and losses, share of results of an associate, central administration costs, directors' salaries, finance costs and taxation. This is the measure reported to the Group's CODM for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	2015 RMB'000	2014 RMB'000
SEGMENT ASSETS		
Smart meter	1,054,885	986,341
Advanced metering infrastructure	2,778,161	2,603,912
Advanced distribution operations	1,145,366	667,244
Total segment assets	4,978,412	4,257,497
Unallocated assets	2,244,682	1,361,053
Consolidated assets	7,223,094	5,618,550
SEGMENT LIABILITIES		
Smart meter	388,002	261,139
Advanced metering infrastructure	1,346,299	953,283
Advanced distribution operations	334,441	211,642
Total segment liabilities	2,068,742	1,426,064
Unallocated liabilities	1,014,780	886,245
Consolidated liabilities	3,083,522	2,312,309

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than certain property, plant and equipment, prepaid lease payments, investment properties, investment in an associate, available-for-sale investments, life insurance products, loan receivables, other receivables, amounts due from related parties, pledged bank deposits and bank balances and cash; and

- all liabilities are allocated to operating segments other than certain other payables, tax liabilities, borrowings and deferred tax liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

5. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

Amounts included in the measure of segment profit or segment assets and liabilities:

For the year ended 31 December 2015

	Smart meter RMB'000	Advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Segment total RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to non-current assets (Note)	**24,962**	**66,028**	**322,013**	**413,003**	**11,080**	**424,083**
Depreciation and amortisation of property, plant and equipment and intangible assets	**19,217**	**44,248**	**15,845**	**79,310**	**10,671**	**89,981**
Release of prepaid lease payments	**243**	**553**	**30**	**826**	**5,378**	**6,204**
Gain on disposal of property, plant and equipment	**(24)**	**(73)**	**(4)**	**(101)**	**—**	**(101)**

For the year ended 31 December 2014

	Smart meter RMB'000	Advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Segment total RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to non-current assets (Note)	17,452	46,044	266,625	330,121	357,808	687,929
Depreciation and amortisation of property, plant and equipment and intangible assets	18,939	46,889	10,804	76,632	10,284	86,916
Release of prepaid lease payments	243	553	30	826	648	1,474
Loss on disposal of property, plant and equipment	53	88	5	146	—	146

Note: Non-current assets exclude financial instruments.

Revenue from major customers

The directors are not aware of any customer that individually contributing over 10% of the consolidated revenue from external customers in any of the two years ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

5. REVENUE AND SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are mainly located in the PRC.

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods, and information about its non-current assets by geographical location of the assets.

	Revenue from external customers Year ended 31 December		Non-current assets (Note)	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**2,665,771**	2,688,723	**2,325,634**	2,002,070
Overseas	**303,262**	123,148	**—**	—
	2,969,033	2,811,871	**2,325,634**	2,002,070

Note: Non-current assets exclude financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

6. OTHER INCOME

	2015 RMB'000	2014 RMB'000
Other income comprises:		
Bank interest income	**6,513**	8,567
Change in fair value of financial assets classified as held for trading	**3,304**	—
Dividend income from available-for-sale investments	**3,485**	—
Gain on disposal of available-for-sale investments	**—**	15,896
Government grants (Note i)	**78,924**	14,754
Interest income from available-for-sale investments	**3,003**	—
Interest income from consideration receivable for disposal of a subsidiary	**1,344**	1,344
Interest income from consideration receivable for disposal of assets	**—**	4,809
Interest income from loan receivables (Note ii)	**24,536**	36,848
Refund of value-added tax ("VAT") (Note iii)	**20,879**	17,633
Rental income from investment properties	**1,235**	1,089
Others	**1,966**	3,664
	145,189	104,604

Notes:

(i) Government grants mainly comprise financial subsidies from the PRC governments for the continuous technological advancements of the Group in its products with no future related costs or obligations.

(ii) The amount represents the interest income from short-term loans advanced by the Group to certain independent third parties under entrusted loan contracts. Details of the loans are disclosed in note 22.

(iii) Pursuant to the relevant regulations in the PRC, certain subsidiaries of the Group operating in the PRC are entitled to refunds of certain percentage of VAT on the sale of specified high technology products. The amount represents such VAT refund which recognised upon the approval by the relevant tax authorities.

7. OTHER GAINS AND LOSSES

	2015 RMB'000	2014 RMB'000
Other (losses) gains comprises:		
Net foreign exchange loss	**(18,439)**	(6,839)
Net gain (loss) on disposal of property, plant and equipment	**101**	(146)
Impairment loss recognised on other receivables	**—**	(155)
	(18,338)	(7,140)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

8. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on borrowings	**32,204**	28,871
Less: amounts capitalised in the cost of qualifying assets	**(6,815)**	—
	25,389	28,871

For the year ended 31 December 2015, the borrowing costs capitalised of RMB6,815,000 (2014: nil) arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.2% (2014: nil) to expenditures on qualifying assets.

9. PROFIT BEFORE TAXATION

	2015 RMB'000	2014 RMB'000
Profit before taxation has been arrived at after charging:		
Staff costs (including directors' emoluments):		
Salaries and benefits	**250,956**	253,164
Retirement benefit scheme contributions	**16,822**	16,423
Share-based payment expenses	**11,461**	9,881
	279,239	279,468
Auditor's remuneration	**2,829**	2,794
Depreciation of property, plant and equipment	**45,215**	43,897
Depreciation of investment properties	**230**	230
Release of prepaid lease payments	**6,204**	1,474
Amortisation of intangible assets (included in selling expenses, administrative expenses and research and development expenses)	**44,766**	43,019
Cost of inventories recognised as expense	**2,072,834**	1,849,184

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

10. INCOME TAX EXPENSE

	2015 RMB'000	2014 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
— Current year	**67,892**	66,051
— Overprovision in prior years	**(18,372)**	(9,282)
	49,520	56,769
Deferred taxation (note 27)		
— Current year	**(1,664)**	(1,394)
	47,856	55,375

Notes:

(i) Hong Kong

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income that was subject to Hong Kong Profits Tax during both years.

(ii) PRC

PRC EIT was calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except that certain PRC subsidiaries which are approved as enterprises that satisfied the condition as high technology development enterprises and obtained the Certificate of High New Technology Enterprise continue to enjoy the preferential tax rate of 15% for a consecutive three years from year 2013 to 2015, year 2014 to 2016 or year 2015 to 2017.

According to the notice of "Preferential Policies on Enterprise Income Tax" (Cai Shui [2008] No. 1) issued by the State Administration of Taxation, the preferential treatment set out above continues under the implementation of the EIT Law.

(iii) Other jurisdictions

Taxation arising in other jurisdictions was calculated at the rates prevailing in the respective jurisdictions. Under the Decree Law No. 58/99/M, Chapter 2, Article 12, dated 18 October 1999, a Macao company incorporated under that Law ("58/99/M Company") is exempted from Macao Complementary Tax as long as the 58/99/M Company does not sell its products to a Macao resident company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

10. INCOME TAX EXPENSE (Continued)

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2015 RMB'000	2014 RMB'000
Profit before taxation	**469,675**	541,549
Tax at the income tax rate of 25%	**117,419**	135,387
Tax effect of expenses not deductible for tax purpose	**23,771**	8,187
Tax effect of income not taxable for tax purpose	**(4,634)**	(4,051)
Tax effect of share of results of an associate	**777**	1,013
Tax effect of tax losses not recognised	**4,273**	3,444
Utilisation of tax losses previously not recognised	**(1,732)**	(6,106)
Effect of tax concessions/exemption granted to PRC and Macao subsidiaries	**(73,646)**	(73,217)
Overprovision in prior years	**(18,372)**	(9,282)
Tax charge for the year	**47,856**	55,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and employees' emoluments

Details of emoluments paid or payable to each of the twelve (2014: twelve) directors are set out as follows:

For the year ended 31 December 2015

	Directors' fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonuses RMB'000 (Note i)	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:					
Ji Wei	–	488	–	14	502
Cao Zhao Hui (Note ii)	–	544	50	24	618
Zeng Xin	–	522	–	20	542
Zheng Xiao Ping	–	542	–	24	566
Wang Xue Xin	–	544	–	24	568
Li Hong	–	364	–	24	388
Non-executive director:					
Kat Chit (Note iii)	–	244	–	–	244
Independent non-executive directors:					
Wu Jin Ming	139	–	–	–	139
Pan Yuan	139	–	–	–	139
Cheng Shi Jie (Note iii)	139	–	–	–	139
Hui Wing Kuen (Note iv)	141	–	–	–	141
Chan Cheong Tat (Note v)	82	–	–	–	82
	640	3,248	50	130	4,068

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and employees' emoluments (Continued)

For the year ended 31 December 2014

	Directors' fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonuses RMB'000 (Note i)	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:					
Ji Wei	—	473	—	12	485
Cao Zhao Hui (Note ii)	—	536	50	24	610
Zeng Xin	—	514	—	17	531
Zheng Xiao Ping	—	534	—	24	558
Wang Xue Xin	—	536	—	24	560
Li Hong	—	356	8	24	388
Non-executive director:					
Kat Chit (Note iii)	—	32	—	—	32
Independent non-executive directors:					
Wu Jin Ming	130	—	—	—	130
Pan Yuan	130	—	—	—	130
Cheng Shi Jie (Note iii)	18	—	—	—	18
Hui Wing Kuen (Note iv)	247	—	—	—	247
Chan Cheong Tat (Note v)	59	—	—	—	59
	584	2,981	58	125	3,748

Notes:

(i) Discretionary bonuses are recommended by the Remuneration Committee and is decided by the board of directors having regard to the Group's operating results, individual performance and comparable market statistics.

(ii) Ms. Cao Zhao Hui is also the Chief Executive of the Company and her emoluments disclosed above include those for services rendered by her as the Chief Executive.

(iii) Mr. Kat Chit and Mr. Cheng Shi Jie were appointed as directors of the Company on 12 August 2014.

(iv) Mr. Hui Wing Kuen retired and was re-appointed as a director of the Company on 16 May 2014 and 15 May 2015, respectively.

(v) Mr. Chan Cheong Tat was appointed and then retired as a director of the Company on 16 May 2014 and 15 May 2015, respectively.

No directors waived any emoluments for any of the two years ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' and employees' emoluments (Continued)

The executive director's emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 31 December 2015 included four (2014: four) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining one (2014: one) individual for the year are as follows:

	2015 **RMB'000**	2014 RMB'000
Salaries and other benefits	**1,415**	1,370
Retirement benefit scheme contributions	**14**	13
	1,429	1,383

The above emoluments were within the band of HK$1,500,001 to HK$2,000,000 for both years.

During both years, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

	2015 **RMB'000**	2014 RMB'000
Dividends recognised as distribution during the year:		
2014 final dividend — HK$0.24, equivalent to RMB0.194, per share (2014: 2013 final dividend — HK$0.21, equivalent to RMB0.166, per share)	**191,751**	157,912

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2015 of HK$0.24, equivalent to RMB0.201, per share (2014: final dividend in respect of the year ended 31 December 2014 of HK$0.24, equivalent to RMB0.194, per share) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

13. EARNINGS PER SHARE

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

	2015 RMB'000	2014 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	423,533	482,439

	2015	2014
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	999,432,059	944,912,226
Effect of dilutive potential ordinary shares in respect of share options	8,809,140	4,766,858
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,008,241,199	949,679,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

14. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS

(a) Property, plant and equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2014	843,988	3,903	189,697	32,055	22,873	791	1,093,307
Additions	2,077	448	20,857	4,747	3,165	91,104	122,398
Acquisition of subsidiaries (note 28)	–	–	23,299	958	237	–	24,494
Additions through acquisition of a subsidiary (note 29)	–	–	–	26	–	–	26
Transfer	50	–	98	–	–	(148)	–
Disposals/written off	–	–	(1,245)	(245)	(4,251)	–	(5,741)
Exchange realignment	–	16	–	1	7	–	24
At 31 December 2014	846,115	4,367	232,706	37,542	22,031	91,747	1,234,508
Additions	–	143	38,731	4,058	1,986	181,981	226,899
Acquisition of a subsidiary (note 28)	–	–	562	92	–	–	654
Transfer	–	–	2,157	–	–	(2,157)	–
Disposals/written off	(555)	–	(3,149)	(66)	(146)	–	(3,916)
Exchange realignment	–	118	–	59	107	–	284
At 31 December 2015	**845,560**	**4,628**	**271,007**	**41,685**	**23,978**	**271,571**	**1,458,429**
DEPRECIATION							
At 1 January 2014	46,940	3,748	104,179	25,439	14,248	–	194,554
Provided for the year	15,295	121	20,925	5,610	1,946	–	43,897
Eliminated on disposals/ written off	–	–	(1,057)	(232)	(3,557)	–	(4,846)
Exchange realignment	–	16	–	1	7	–	24
At 31 December 2014	62,235	3,885	124,047	30,818	12,644	–	233,629
Provided for the year	15,326	200	22,538	5,185	1,966	–	45,215
Eliminated on disposals/ written off	(151)	–	(2,681)	(34)	(128)	–	(2,994)
Exchange realignment	–	116	–	56	104	–	276
At 31 December 2015	**77,410**	**4,201**	**143,904**	**36,025**	**14,586**	**–**	**276,126**
CARRYING VALUES							
At 31 December 2015	**768,150**	**427**	**127,103**	**5,660**	**9,392**	**271,571**	**1,182,303**
At 31 December 2014	783,880	482	108,659	6,724	9,387	91,747	1,000,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

14. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS (Continued)

(a) Property, plant and equipment (Continued)

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis over the following periods:

Buildings	Over the remaining period of the lease terms of the relevant land on which buildings are erected, or 50 years, whichever is the shorter
Leasehold improvements	Over the remaining period of the relevant lease, or 5 years, whichever is the shorter
Plant and machinery	5 to 10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	10 years

All of the buildings are erected on land with medium-term land use rights outside Hong Kong.

(b) Prepaid lease payments

The Group's prepaid lease payments comprise leasehold land outside Hong Kong held under medium-term leases and analysed for reporting purposes as:

	2015 **RMB'000**	2014 RMB'000
Non-current assets	**400,571**	322,807
Current assets	**7,870**	6,135
	408,441	328,942

(c) Pledge of assets

The carrying amounts of buildings and leasehold land pledged to banks to secure banking facilities granted to the Group are set out as below:

	2015 **RMB'000**	2014 RMB'000
Buildings	**–**	134,692
Leasehold land	**–**	23,516
	–	158,208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

15. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2014, 31 December 2014 and 31 December 2015	17,098
DEPRECIATION	
At 1 January 2014	540
Provided for the year	230
At 31 December 2014	770
Provided for the year	230
At 31 December 2015	1,000
CARRYING VALUES	
At 31 December 2015	16,098
At 31 December 2014	16,328

The above investment properties are depreciated on a straight-line basis over the remaining period of the lease terms of the relevant land and erected on land under medium-term land use rights outside Hong Kong.

The fair values of the Group's investment properties at 31 December 2015 were RMB18,332,000 (2014: RMB18,419,000). The fair values have been arrived at based on valuations carried out by 湖南鵬程資產評估有限責任公司, independent valuers not connected with the Group.

The fair values were determined based on the direct comparison approach, which makes reference to the recent transactions for similar properties in the proximity and adjusted for a number of factors, including differences in transaction dates, building ages, floor areas, etc., between the comparable properties and the subject matters. In estimating the fair values of the properties, the highest and best use of the properties is their current use and the fair value measurements for all of the Group's properties are categorised as Level 3 (see note 3 for details). There has been no change from the valuation technique used in the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

16. GOODWILL/OTHER INTANGIBLE ASSETS

(a) Goodwill

	RMB'000
COST	
At 1 January 2014	238,379
Arising on acquisition of subsidiaries (note 28)	59,540
At 31 December 2014	297,919
Arising on acquisition of a subsidiary (note 28)	2,618
At 31 December 2015	300,537

For the purposes of impairment testing, goodwill set out above has been allocated to three (2014: three) CGUs as follows:

	2015 **RMB'000**	2014 RMB'000
Smart meter	**56,831**	56,831
Advanced metering infrastructure	**181,548**	181,548
Advanced distribution operations	**62,158**	59,540
	300,537	297,919

During each of the year ended 31 December 2014 and 2015, management of the Group determines that there is no impairment of any of the CGUs containing goodwill.

The recoverable amounts of the CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 15.00% (2014: 15.41%). The cash flows beyond the 5-year period are extrapolated using a steady growth rate. For the CGUs of smart meter segment and advanced metering infrastructure segment, a rate of 3% (2014: 3%) is used. This growth rate is based on the global economic growth rate. For the CGU of advanced distribution operations segment, a rate of 9% (2014: 9%) is used. This growth rate is based on the Directors' best estimate on the average growth rate of this specific industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of any of the CGUs to exceed the aggregate recoverable amount of the relevant CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

16. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

(b) Other intangible assets

	Development costs RMB'000	Acquired patents, copyrights and trademarks RMB'000	Acquired technology RMB'000	Customer relationship and contracts RMB'000	Premium on land RMB'000	Total RMB'000
COST						
At 1 January 2014	329,068	65,126	90,730	37,917	46,713	569,554
Additions	68,527	2,710	—	—	—	71,237
Acquisition of subsidiaries (note 28)	1,922	6,082	4,527	25,752	—	38,283
At 31 December 2014	399,517	73,918	95,257	63,669	46,713	679,074
Additions	98,036	1,461	—	—	—	99,497
At 31 December 2015	**497,553**	**75,379**	**95,257**	**63,669**	**46,713**	**778,571**
AMORTISATION						
At 1 January 2014	210,247	57,548	82,644	37,917	6,194	394,550
Provided for the year	34,340	2,315	2,653	2,777	934	43,019
At 31 December 2014	244,587	59,863	85,297	40,694	7,128	437,569
Provided for the year	34,320	2,956	2,954	3,602	934	44,766
At 31 December 2015	**278,907**	**62,819**	**88,251**	**44,296**	**8,062**	**482,335**
CARRYING VALUES						
At 31 December 2015	**218,646**	**12,560**	**7,006**	**19,373**	**38,651**	**296,236**
At 31 December 2014	154,930	14,055	9,960	22,975	39,585	241,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

16. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

(b) Other intangible assets (Continued)

Development costs represent expenses capitalised during development phase of internal projects for development of new technology and new products.

The entire balance of acquired technology, customer relationship and contracts and premium on land, and certain amounts of development costs and patents, copyrights and trademarks were acquired as part of business combinations in prior years.

The above intangible assets have finite useful lives and are amortised on a straight-line basis over the following periods:

Development costs	3 to 5 years
Acquired patents, copyrights and trademarks	3 to 10 years
Acquired technology	3 to 5 years
Customer relationship and contracts	5 years
Premium on land	Over the remaining period of the lease terms of the relevant land

17. INVESTMENT IN AN ASSOCIATE

	2015 **RMB'000**	2014 RMB'000
Cost of unlisted investment in an associate	**20,000**	20,000
Share of post-acquisition losses	**(15,639)**	(11,986)
Less: effect of elimination of gain on transfer of intangible assets from the Group to an associate to the extent of the Group's interest therein	**(4,360)**	(4,905)
	1	3,109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

17. INVESTMENT IN AN ASSOCIATE (Continued)

Details of the Group's associate at the end of the reporting period are as follows:

Name of entity	Form of entity	Country of establishment/ principal operations	Proportion of ownership interest and voting rights held by the Group		Principal activity
			2015	2014	
Smart Metering Solution (Changsha) Co., Ltd. ("Smart Metering")	Established	PRC	**40%**	40%	Research, development, manufacturing, and selling meter products, meter data management system, smart meter solution system and provide relevant consulting services

Smart Metering is co-established by the Group and an independent third party, whereby both parties will work together to complete new product design, development and production, to provide a strong support for the sustained growth of the Group's domestic and overseas business.

The Group is able to exercise influence over Smart Metering because it has power to appoint two out of five directors.

The Group's associate is accounted for using equity method in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

17. INVESTMENT IN AN ASSOCIATE (Continued)

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amount shown in the associate's financial statements prepared in accordance with HKFRSs.

	2015 RMB'000	2014 RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income		
Revenue	**73,587**	51,555
Loss and total comprehensive expense for the year	**(9,133)**	(11,488)
Loss for the year attributable to the Group	**(3,653)**	(4,595)
Reconciliation to the share of results of an associate:		
Loss for the year attributable to the Group	**(3,653)**	(4,595)
Amortisation of gain on transfer of intangible assets from the Group to the associate to the extent of the Group's interest therein	**545**	544
Share of results of an associate	**(3,108)**	(4,051)
Financial information of consolidated statement of financial position		
Intangible assets	**18,717**	25,852
Other non-current assets	**13,553**	11,227
Current assets	**35,734**	23,462
Current liabilities	**(57,103)**	(40,507)
Net assets of the associate	**10,901**	20,034
Reconciliation to the carrying amount of interest in the associate:		
Net assets attributable to the Group's ownership interests in the associate	**4,361**	8,014
Effect of elimination of gain on transfer of intangible assets from the Group to the associate to the extent of the Group's interest therein	**(4,360)**	(4,905)
Carrying amount of the Group's interest in the associate	**1**	3,109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

18. AVAILABLE-FOR-SALE INVESTMENTS

	2015 RMB'000	2014 RMB'000
Available-for-sale investments comprise:		
Unlisted equity securities, at cost less impairment (Note i)	**33,812**	29,811
Investment in trust fund, at fair value (Note ii)	**50,004**	—
	83,816	29,811

Notes:

(i) Amount represents unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

(ii) Amount represents investment in a trust fund made by the Group through a security house. The trust fund invested in ranges of debt instrument products which were generally government bonds and corporate loans.

19. OTHER NON-CURRENT ASSETS

	2015 RMB'000	2014 RMB'000
Life insurance products (Note i)	**33,808**	31,835
Consideration receivable for disposal of a subsidiary (Note ii)	**21,000**	21,000
Deposit paid for purchase of a piece of land	**13,600**	32,460
Deposit paid for purchase of certain properties	**93,703**	84,992
	162,111	170,287

Notes:

(i) In prior years, the Company entered into two life insurance policies ("Policy A" and "Policy B") with an insurance company to insure two executive directors. Under these policies, the beneficiary and policy holder is the Company. The Company is required to pay an upfront payment for each policy. The Company may request a partial surrender or full surrender of the policy at any time and receive cash back based on the value of the policy at the date of withdrawal, which is determined by the gross premium paid at inception plus accumulated guaranteed interest earned and minus insurance premium charged (the "Cash Value"). If such withdrawal is made at any time during the first to the fifteen or eighteenth policy year, as appropriates, a pre-determined specified surrender charge would be imposed on the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

19. OTHER NON-CURRENT ASSETS (Continued)

Notes: (Continued)

(i) (Continued)

At the inception dates, the upfront payment is separated into deposit placed and prepayment of life insurance premium. The prepayment of life insurance premium is amortised to profit or loss over the insured period and the deposit placed is carried at amortised cost using the effective interest method. The insurance company will pay the Company guaranteed interest rates plus a premium determined by the insurance company during the tenures of these policies. The effective interest rate on initial recognition was determined by discounting the estimated future cash receipts through the expected life of the insurance policies, excluding the financial effect of surrender charge.

Particulars of the policies are as follows:

			Guaranteed interest rates	
Policy	**Insured sum**	**Upfront payment**	**First year**	**Second year and onward**
Policy A	US$7,557,000 (equivalent to RMB49,005,000)	US$3,421,000 (equivalent to RMB21,762,000)	4.25% per annum	3% per annum
Policy B	US$10,000,000 (equivalent to RMB60,961,000)	US$1,771,000 (equivalent to RMB10,799,000)	4% per annum	2% per annum

The carrying amount of the life insurance products as at 31 December 2015 approximates the Cash Value of the insurance policies and the expected life of the policies remained unchanged from the initial recognition. The entire balance of the life insurance policies is denominated in United States Dollar ("USD"), being a currency other than the functional currency of the relevant group entities.

(ii) The balance carries fixed interest of 6.4% per annum, and is repayable in June 2018. A piece of land has been pledged to the Group until the full settlement of this balance, and the Group is not permitted to sell the asset in absence of default of the acquirer.

20. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	**162,631**	139,705
Work in progress	**72,756**	105,337
Finished goods	**98,717**	89,660
	334,104	334,702

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

21. TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade and bills receivables, gross	**2,317,539**	1,923,657
Less: Allowance for doubtful debts (Note i)	**(19,692)**	(19,692)
Trade and bills receivables, net (Note ii)	**2,297,847**	1,903,965
Retentions held by trade customers (Note iii)	**215,535**	201,588
Deposits, prepayments and other receivables (Note iv)	**286,784**	292,906
	2,800,166	2,398,459

Notes:

(i) The entire balance of the allowance for doubtful debts as at 31 December 2014 and 2015 are individually impaired trade receivables which are in severe financial difficulties. Movements in the provision for impairment of trade and bills receivables are as follows:

	RMB'000
At 1 January 2014, 31 December 2014 and 31 December 2015	19,692

(ii) Included in the Group's trade receivable is trade balance with an associate of RMB93,035,000 (2014: RMB12,024,000). Due to the nature of business, the Group generally allows credit periods ranging from 90 days to 365 days to its trade customers, except for certain customers, the credit periods may beyond 365 days. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts, presented based on the revenue recognition dates at the end of the reporting period:

	2015 RMB'000	2014 RMB'000
0–90 days	**1,675,389**	1,520,687
91–180 days	**204,873**	167,435
181–365 days	**321,461**	157,802
Over 1 year	**96,124**	58,041
	2,297,847	1,903,965

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 95% (2014: 97%) of the trade receivables that are neither past due nor impaired have good credit rating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

21. TRADE AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(ii) (Continued)

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB111,456,000 (2014: RMB65,422,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The directors consider no deterioration in credit qualities of these debtors and the settlements after the end of the reporting period from those debtors are satisfactory, the directors conclude that no provision for impairment loss is required. The Group does not hold any collateral over these balances. The average age of these receivables is approximately 401 days (2014: 462 days).

Ageing of trade receivables which are past due but not impaired is as follows:

	2015 RMB'000	2014 RMB'000
Days overdue:		
0–90 days	**59,693**	35,175
91–180 days	**16,949**	6,273
181–365 days	**6,349**	7,103
Over 1 year	**28,465**	16,871
	111,456	65,422

The Group estimates the future discounted cash flows of those receivables with whom the Group has ceased business over two years and considered such receivables are generally not recoverable based on historical experience.

The Group's trade and other receivables denominated in currencies other than functional currency of the relevant group entities are set out as follows:

	2015 RMB'000	2014 RMB'000
Hong Kong dollars ("HKD")	**124**	124
USD	**50,430**	90,214

(iii) Included in the retentions held by trade customers is an aggregate amount of RMB78,058,000 (2014: RMB85,296,000) that is expected to be realised after twelve months from the end of the reporting period.

(iv) Included in the balance is an amount of RMB9,681,000 (2014: RMB9,681,000) due from an associate arising from the transferring of certain intangible assets during the year ended 31 December 2013. The amount is unsecured, interest free and is expected to be repaid in 2016 (2014: 2015).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

22. LOAN RECEIVABLES

	2015 and 2014 RMB'000
Fixed-rate loan receivables	205,000

The amounts represent short-term loans advanced by the Group to certain independent third parties under entrusted loan contracts. During the year ended 31 December 2015, an amount of RMB105,000,000 (2014: RMB330,000,000) has been settled, and new loans of RMB105,000,000 (2014: RMB230,000,000) was arranged with the same borrowers. The maturity day of the remaining amount of RMB100,000,000 has been extended to April 2016.

These entrusted loans carry fixed interests at 12% (2014: 12%) per annum and are repayable within twelve months from the end of the reporting period.

Certain land and buildings of the borrowers have been pledged to the Group, and the Group is not permitted to sell these assets in the absence of default of the borrowers. As at 31 December 2015, the fair value of the pledged assets, which has been assessed by the management with reference to recent market prices for similar land and buildings in similar locations and conditions, is greater than the respective loan balances. The pledge will be released upon settlement of the relevant loans.

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Pledged bank deposits

The pledged bank deposits are pledged to banks to secure credit facilities granted to the Group. The deposits were pledged to secure bills payables and short-term bank borrowings and are therefore classified as current assets. The deposits carry fixed interest rate ranging from 0.35% to 2.55% (2014: 0.35% to 3.80%) per annum and will be released upon settlement of the relevant borrowings.

(b) Bank balances and cash

Bank balances and cash comprise cash held by the Group and bank balances that carry interest rates ranging from 0.01% to 1.15% (2014: 0.01% to 2.80%) per annum and have original maturity of three months or less, except for an amount of RMB150,000,000 (2014: nil) representing a short-term bank deposit with maturity of more than three months and carrying interest of market rate at 2.84% (2014: N/A) per annum.

The Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities are set out as follows:

	2015 RMB'000	2014 RMB'000
HKD	**80,000**	2,152
USD	**218,521**	13,845

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

24. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	2015 RMB'000	2014 RMB'000
Trade and bills payables		
0–90 days	**1,470,814**	816,612
91–180 days	**333,313**	404,563
181–365 days	**39,305**	26,389
Over 1 year	**37,901**	36,393
	1,881,333	1,283,957
Other payables (Note)	**245,787**	201,788
Consideration payable on acquisition of a subsidiary (note 28(i))	**6,400**	—
	2,133,520	1,485,745

Note: Included in the balance is an amount of RMB229,000 (2014: nil) due to an associate. The amount is non-trade in nature, unsecured, interest free and is repayable on demand.

The Group's trade and other payables denominated in currency other than functional currency of the relevant group entities are set out as follows:

	2015 RMB'000	2014 RMB'000
HKD	**3,704**	2,985

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

25. BORROWINGS

	2015 **RMB'000**	2014 RMB'000
Unsecured bank loans and trust receipt loans	**877,087**	750,639

The Group's borrowings are repayable based on repayment schedules as follows:

	2015			2014		
	Fixed-rate borrowings RMB'000	**Floating-rate borrowings RMB'000**	**Total RMB'000**	Fixed-rate borrowings RMB'000	Floating-rate borrowings RMB'000	Total RMB'000
Within one year	**189,960**	**110,879**	**300,839**	126,890	376,108	502,998
More than one year, but not exceeding two years	**—**	**260,368**	**260,368**	—	238,529	238,529
More than two years, but not exceeding five years	**—**	**315,880**	**315,880**	—	7,951	7,951
More than five years	**—**	**—**	**—**	—	1,161	1,161
	189,960	**687,127**	**877,087**	126,890	623,749	750,639
Less: Amounts due within one year shown under current liabilities	**(189,960)**	**(110,879)**	**(300,839)**	(126,890)	(376,108)	(502,998)
Amounts due after one year	**—**	**576,248**	**576,248**	—	247,641	247,641

The variable-rate borrowings carry interest at either the benchmark lending rate offered by the People's Bank of China or London Interbank Offered Rate plus certain percentages. The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2015	2014
Effective interest rate:		
Fixed-rate borrowings	**3.15% to 4.35% per annum**	2.38% to 6.72% per annum
Variable-rate borrowings	**1.44% to 4.00% per annum**	1.17% to 9.23% per annum

At 31 December 2015, borrowings of the Group amounting to RMB118,356,000 (2014: RMB601,155,000) were denominated in USD, being a currency other than the functional currency of the relevant group entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

25. BORROWINGS (Continued)

At the end of the reporting period, the Group has the following undrawn short-term borrowing facilities:

	2015 RMB'000	2014 RMB'000
Expiring within one year	**1,132,949**	537,040
Expiring over one year	**45,912**	56,000
	1,178,861	593,040

26. SHARE CAPITAL OF THE COMPANY

Ordinary shares of HK$0.01 each:

	Number of shares	Nominal value HK$'000
Authorised		
At 1 January 2014, 31 December 2014 and 31 December 2015	100,000,000,000	1,000,000

	Number of shares	Nominal value RMB'000
Issued and fully paid		
At 1 January 2014	931,718,675	9,429
Issue of shares upon exercise of share options (Note i)	20,133,000	159
At 31 December 2014	951,851,675	9,588
Issue of shares upon exercise of share options (Note i)	30,000	1
Issue of shares upon subscription of shares (Note ii and iii)	75,000,000	591
At 31 December 2015	1,026,881,675	10,180

Notes:

(i) During the year, 30,000 (2014: 20,133,000) ordinary shares of HK$0.01 each in the Company were issued upon the exercise of share options under the share option scheme of the Company as set out in note 31 with proceeds of approximately HK$96,000 (equivalent to approximately RMB77,000) (2014: HK$54,117,000 (equivalent to approximately RMB44,954,000)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

26. SHARE CAPITAL OF THE COMPANY (Continued)

Notes: (Continued)

(ii) On 5 May 2015, the Company entered into a subscription agreement with Star Treasure Investments Holdings Limited ("Star Treasure"), the immediate and ultimate holding company of the Company, pursuant to which Star Treasure agreed to subscribe 61,000,000 new ordinary shares of the Company at a price of HK$10.80 per share. The total subscription price of HK$658,800,000 (equivalent to RMB519,661,000) was received in May 2015. The new shares rank pari passu with the existing shares in all respects.

(iii) On 1 June 2015, the Company entered into a subscription agreement with an independent financial institution pursuant to which the financial institution agreed to subscribe 14,000,000 new ordinary shares of the Company at a price of HK$10.80 per share. The total subscription price of HK$151,200,000 (equivalent to RMB119,267,000) was received in June 2015. The new shares rank pari passu with the existing shares in all respects.

27. DEFERRED TAXATION

The following is the deferred tax liability recognised by the Group and movements thereon during the current and prior years:

	Fair value adjustments of intangible assets on business combinations RMB'000
At 1 January 2014	13,820
Acquisition of subsidiaries (note 28)	7,701
Credit to profit or loss	
— release upon amortisation of intangible assets	(1,394)
At 31 December 2014	20,127
Credit to profit or loss	
— release upon amortisation of intangible assets	(1,664)
At 31 December 2015	18,463

As at 31 December 2015, the Group had unused tax losses of RMB140,375,000 (2014: RMB120,297,000). No deferred tax asset has been recognised in respect of any of the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward for a period of five years from the respective year of assessment.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB1,612 million (2014: RMB1,408 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

There was no other significant unprovided deferred taxation for the year or at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

28. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2015

Acquisition of Hunan Lineng Technology Co., Ltd. ("Lineng Technology")

On 28 January 2015, the Group completed its acquisition of a 64% equity interest in Lineng Technology from an independent third party at a consideration of RMB6,400,000. Lineng Technology is principally engaged in manufacturing, developing and selling energy saving devices that are used in power stations and oil rigs. The Group obtained control on the date of completion of the acquisition which has been accounted for using the purchase method.

On 5 August 2015, the Group further acquired from the non-controlling interests for the remaining 36% equity interest in Lineng Technology at a consideration of RMB3,600,000. The Group accounts for changes in the ownership interests in existing subsidiaries that do not result in the Group losing control over those subsidiaries as equity transaction as detailed in Note (iv) of the consolidated statement of changes in equity.

For the year ended 31 December 2014

(I) Acquisition of a state-owned enterprise in Changsha ("Changsha entity")

On 31 May 2014, the Group completed its acquisition of a 65% equity interest in the Changsha entity, a state-owned enterprise before acquisition, from an independent third party at a consideration of RMB21,120,000. Changsha entity is principally engaged in manufacturing, developing and selling of switchgears and circuit breaker that are used in power stations and public communities. The Group obtained control on the date of completion of the acquisition which has been accounted for using the purchase method.

(II) Acquisition of a private enterprise in Wuhan ("Wuhan entity")

On 30 April 2014, the Group completed its acquisition of a 65.7143% equity interest in the Wuhan entity from an independent third party at a consideration of RMB52,900,000. Wuhan entity is principally engaged in manufacturing, developing and selling of switchgears, ring main unit ("RMU") switchgears and pole-mounted circuit breakers that are used in power stations and public communities. The Group obtained control on the date of completion of the acquisition which has been accounted for using the purchase method.

(III) Acquisition of a private enterprise in Xi'an ("Xi'an entity")

On 28 February 2014, the Group completed its acquisition of a 90% equity interest in the Xi'an entity from an independent third party at a consideration of RMB38,250,000. Xi'an entity is principally engaged in trading of RMU switchgears and cable distribution boxes that are used in power stations and public communities. The Group obtained control on the date of completion of the acquisition which has been accounted for using the purchase method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

28. ACQUISITION OF SUBSIDIARIES (Continued)

	2015		2014		
	Lineng Technology RMB'000	Changsha entity RMB'000	Wuhan entity RMB'000	Xi'an entity RMB'000	Total RMB'000
Considerations transferred:					
Cash considerations paid	**—**	21,120	52,900	38,250	112,270
Consideration payable (Note i)	**6,400**	—	—	—	—
	6,400	21,120	52,900	38,250	112,270
Fair value of assets acquired and liabilities recognised at the date of acquisitions:					
Property, plant and equipment	**654**	22,056	2,127	311	24,494
Intangible assets	**—**	13,274	20,123	4,886	38,283
Inventories	**2,050**	27,387	6,662	—	34,049
Trade and other receivables (Note ii)	**11,745**	73,427	11,831	31,582	116,840
Pledged bank deposits	**—**	11,851	—	—	11,851
Bank balances and cash	**2,468**	791	4,167	13,468	18,426
Trade and other payables	**(11,007)**	(102,300)	(15,171)	(17,158)	(134,629)
Borrowings — due within one year	**—**	(30,000)	(3,000)	—	(33,000)
Deferred tax liabilities	**—**	(2,838)	(3,641)	(1,222)	(7,701)
	5,910	13,648	23,098	31,867	68,613
Goodwill arising on acquisitions (Note iii)					
Consideration	**6,400**	21,120	52,900	38,250	112,270
Plus: non-controlling interests (Note iv)	**2,128**	4,776	7,920	3,187	15,883
Less: net assets acquired	**(5,910)**	(13,648)	(23,098)	(31,867)	(68,613)
	2,618	12,248	37,722	9,570	59,540
Net cash outflows (inflows) arising from the acquisition					
Cash consideration paid	**—**	21,120	52,900	38,250	112,270
Less: bank balances and cash acquired	**(2,468)**	(791)	(4,167)	(13,468)	(18,426)
	(2,468)	20,329	48,733	24,782	93,844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

28. ACQUISITION OF SUBSIDIARIES (Continued)

Notes:

(i) The consideration payable is included in other payables and will be settled in June 2016.

(ii) The fair values of trade and other receivables at the respective date of acquisitions are the same as their gross contractual amounts at the same date.

(iii) Goodwill mainly attributable to the difference between the fair values of the considerations plus non-controlling interests and the underlying assets and liabilities acquired, because the considerations paid for the combination effectively included amounts in relation to the benefit of expected synergies arising from revenue growth and future market development of the targets. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

(iv) The non-controlling interest recognised at the respective acquisition dates were measured with reference to the non-controlling interests' proportionate share of fair values of the net assets at that date.

(v) The aggregate acquisition-related costs amounting to RMB246,000 (2015: nil) have been excluded from the considerations transferred and have been recognised as an expense during the year ended 31 December 2014, within the administrative expenses line item in the consolidated statement of profit or loss and other comprehensive income.

(vi) Included in the profit for the year ended 31 December 2014 was revenue of RMB85,489,000 and profit of RMB5,844,000 attributable to the additional business generated by the Changsha entity.

Had the acquisition of the Changsha entity been completed on 1 January 2014, total group revenue for the year ended 31 December 2014 would have been RMB2,821,177,000 and profit for the year would have been RMB471,106,000. The pro forma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor was it intended to be a projection of future results.

The directors of the Company are of the opinion that the subsidiary acquired during the year ended 31 December 2015 and the other two subsidiaries acquired during the year ended 31 December 2014 had no significant contribution to the Group's revenue or results for the year ended 31 December 2015 and 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

29. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF A SUBSIDIARY

In November 2014, the Group acquired 76.92% equity interest in a limited liability company established in the PRC by way of capital injection of RMB100,000,000 in this entity. This entity merely holds a piece of land in the PRC and does not constitute running a business under HKFRS 3. This acquisition was therefore accounted for as acquisition of prepaid lease payments (see note 14(b)).

	RMB'000
Consideration transferred	
Cash	100,000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Prepaid lease payments	268,498
Property, plant and equipment	26
Bank balance and cash	100,092
Other payables	(135,411)
Loan payables to the Group	(103,200)
	130,005
Less: non-controlling interests	(30,005)
	100,000
Net cash inflow arising from the acquisition	
Cash consideration paid	100,000
Less: bank balances and cash acquired	(100,092)
	(92)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

30. RELATED PARTY DISCLOSURES

(a) Transaction

Relationship	Transaction	2015 RMB'000	2014 RMB'000
An associate	Sales of goods by the Group	**96,283**	22,421
	Consultancy fee paid by the Group	**9,381**	—
	Rental income received by the Group	**549**	410

(b) Balances

Particulars of amounts due from related parties other than an associate were as follows:

	2015 RMB'000	2014 RMB'000
Companies beneficially owned and controlled by certain directors of the Company	**20,956**	20,956

The amounts are unsecured, interest-free and expected to be recovered after twelve months from the end of the reporting period.

The balances with an associate as at 31 December 2015 and 2014 are set out in notes 21 and 24.

(c) The remuneration of key management (including the directors) during the year were as follows:

	2015 RMB'000	2014 RMB'000
Short-term benefits	**5,353**	4,697
Retirement benefit scheme contributions	**144**	138
	5,497	4,835

The remuneration of key management is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

31. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The Company's share option scheme (the "Scheme") was adopted for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity"). Eligible participants of the Scheme include directors and employees of the Company, its subsidiaries or any Invested Entity, suppliers and customers of the Group or any Invested Entity, any person or entity that provides research, development or other technological support to the Group or any Invested Entity, and any shareholder of any members of the Group or any Invested Entity or any holder of any securities issued by any members of the Group or any Invested Entity. The Scheme became effective on 26 November 2005 and, unless otherwise terminated or amended, will remain in force for 10 years.

The total number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Group must not in aggregate exceed 10% of the Company's shares in issue as at the first date of listing. The limit may be increased to 10% of the then issued share capital of the Company from time to time upon shareholders' approval at a general meeting of the shareholders. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Group shall not exceed such number of Company's shares as equal to 30% of the issued share capital of the Company from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time unless prior approval has been obtained from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. There is no minimum period for which an option must be held before the exercise of the subscription right attaching hereto except otherwise imposed by the board of directors. The exercise price is specified in the rules governing the share option scheme and shall not be lower than the highest of the official closing price of the ordinary shares of the Company on the Stock Exchange on the date of the offer of grant of options, the average of the official closing price of the ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options and the nominal value of an ordinary share of the Company.

As at 31 December 2015, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,000,000 (2014: 18,030,000), representing approximately 1.8% (2014: 1.9%) of the then issued share capital of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (Continued)

The following table discloses movements of the Company's share options held by directors, employees and consultants during the current and prior year under the Scheme:

Category	Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.1.2014	Reclassified during the year	Granted during the year	Exercised during the year	Outstanding at 31.12.2014	Exercise during the year	Outstanding at 31.12.2015
Directors	23.2.2006	23.2.2008 to 22.2.2016	2.225	5,550,000	(50,000)	–	(5,500,000)	–	–	–
Employees/ Consultants	23.2.2006	23.2.2008 to 22.2.2016	2.225	5,023,000	50,000	–	(5,073,000)	–	–	–
	7.2.2007	7.2.2009 to 6.2.2017	3.200	2,890,000	–	–	(2,860,000)	30,000	(30,000)	–
	7.2.2007	7.2.2010 to 6.2.2017	3.200	6,700,000	–	–	(6,700,000)	–	–	–
	10.2.2014	10.2.2016 to 9.2.2024	4.680	–	–	9,000,000	–	9,000,000	–	9,000,000
	10.2.2014	10.2.2017 to 9.2.2024	4.680	–	–	9,000,000	–	9,000,000	–	9,000,000
				14,613,000	50,000	18,000,000	(14,633,000)	18,030,000	(30,000)	18,000,000
Total				20,163,000	–	18,000,000	(20,133,000)	18,030,000	(30,000)	18,000,000
Exercisable at year end				20,163,000				30,000		–
Weighted average exercise price (HK$)				2.688	2.225	4.680	2.688	4.680	3.200	4.680

For the year ended 31 December 2015, the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$11.98 (2014: HK$5.41).

Share-based payment expenses amounted to RMB11,461,000 (2014: RMB9,881,000) has been recognised in profit or loss for the year ended 31 December 2015.

On 10 February 2014, 9,000,000 options and 9,000,000 options were granted and the estimated fair values of the options granted were HK$16,617,000 and HK$17,344,000, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (Continued)

The fair values were calculated using the Binomial model with the following inputs:

Spot price	HK$4.68
Exercise price	HK$4.68
Vesting period	3 to 4 years
Expected life	10 years
Expected volatility	52.13%
Risk-free rate	2.2315%
Expected dividend yield	3.3%

The variables and assumptions used in the Binomial model in computing the fair value of the share options were based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 8.2 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The number of share options granted and which are expected to vest has been reduced to reflect historical forfeiture rate of 7.92% prior to completion of vesting period and accordingly the share-based payment expense has been adjusted. At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit and loss over the remaining vesting period, with a corresponding adjustment to the share option reserve.

32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 25 and equity attributable to owners of the Company, comprising issued share capital, various reserves and retained profits as disclosed in the consolidated statement of changes in equity.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2015 RMB'000	2014 RMB'000
Financial assets		
Loans and receivables:		
Amounts due from related parties	**20,956**	20,956
Other non-current assets	**53,144**	51,266
Trade and other receivables	**2,588,044**	2,188,451
Loan receivables	**205,000**	205,000
Pledged bank deposits	**391,489**	243,219
Bank balances and cash	**1,021,836**	327,434
	4,280,469	3,036,326
Available-for-sale financial assets:		
Available-for-sale investments	**83,816**	29,811
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	**1,964,125**	1,358,537
Borrowings	**877,087**	750,639
	2,841,212	2,109,176

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, the deposit component of the life insurance products, consideration receivable for disposal of a subsidiary, loan receivables, trade and other receivables, amounts due from related parties, pledged bank deposits, bank balances and cash, trade and other payables and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. There has been no change to the policies on how to mitigate these risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in RMB, the functional currency of the relevant group entities. Certain entities in the Group have foreign currencies transactions, trade and other receivables, life insurance products, bank balances and cash, trade and other payables and borrowings which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**80,124**	2,276	**3,704**	127,959
USD	**297,461**	131,058	**118,356**	601,155
	377,585	133,334	**122,060**	729,114

One of the Group's subsidiaries, Gam Sheng Macao Commercial Offshore Limited, of which its functional currency is USD, has an aggregate amount of intra-group balances of RMB49,397,000 (2014: RMB35,521,000) which are denominated in RMB as at 31 December 2015.

Sensitivity analysis

The Group's foreign currency risk is mainly concentrated on the fluctuation of HKD and USD.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A (negative) positive number below indicates a (decrease) increase in profit where RMB strengthen 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis (Continued)

	HKD		USD	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
(Decrease) increase in profit for the year	**(3,821)**	6,284	**(6,717)**	23,505

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 23(b)) and floating-rate borrowings (see note 25). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to fair value interest rate risk in relation to consideration receivable for disposal of a subsidiary (see note 19), fixed-rate loan receivables (see note 22), pledged bank deposits (see note 23(a)) and fixed-rate borrowings (see note 25).

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the benchmark lending rate offered by the People's Bank of China and London Interbank Offered Rate arising from the Group's bank balances, RMB borrowings and USD borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates of bank balances and borrowings. The analysis is prepared assuming the amount of the outstanding at the end of the reporting period was outstanding for the whole year. A 10 basis points (2014: 10 basis points) increase or decrease for bank balances and 50 basis points (2014: 50 basis points) for borrowings are used and represent management's assessment of the reasonably possible change in interest rates for the year ended 31 December 2015.

If interest rates had been 10 or 50 basis points higher/lower, as appropriate, and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2015 would decrease/increase by RMB1,768,000 (2014: RMB2,099,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and floating-rate borrowings.

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Equity price risk

The Group is exposed to equity price risk through its investment in trust fund, which is accounted for as available-for-sale investments (see note 18). The Group's equity price risk is mainly concentrated in the underlying debt securities of the trust fund. The management is closely monitoring the equity price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analyses

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. For the year ended 31 December 2015, if the prices of the unlisted trust fund had been 5% higher/lower, investment revaluation reserve would increase/decrease by RMB2,500,000 (2014: Nil) as a result of the changes in fair value of the unlisted trust fund held by the Group. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk as the year end exposure does not reflect the exposure during the year.

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk on liquid funds, which are deposited with several banks with good reputation. The Group also has concentration of credit risk on amounts due from related parties as the amounts are due from a limited number of related parties. The loan receivables disclosed in note 22 and consideration receivable for disposal of a subsidiary in note 19 are also concentrated in certain independent third parties, and the directors consider the credit risk is significantly reduced as the amounts are pledged by certain assets of the borrowers. Other than the above, the Group does not have any other significant concentration of credit risk.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 98% (2014: 96%) of the total trade receivables at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

The Group has net current assets amounting to RMB2,271,654,000 as at 31 December 2015 (2014: RMB1,470,408,000). The Group has sufficient funds to finance its current working capital requirements taking into account of the existing banking facilities and cash flows from operations.

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table for non-derivative financial liabilities has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity risk tables

	Weighted average interest rate	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	1 to 2 years RMB'000	2 to 4 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2015 RMB'000
2015									
Non-derivative financial liabilities									
Trade and other payables	–	1,553,605	333,313	39,305	37,902	–	–	1,964,125	1,964,125
Borrowings	2.89%	193,898	1,009	110,823	274,724	342,363	–	922,817	877,087
		1,747,503	334,322	150,128	312,626	342,363	–	2,886,942	2,841,212

	Weighted average interest rate	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2014 RMB'000
2014									
Non-derivative financial liabilities									
Trade and other payables	–	943,890	305,144	51,430	58,073	–	–	1,358,537	1,358,537
Borrowings	4.85%	229,605	150,088	130,412	263,968	9,257	1,496	784,826	750,639
		1,173,495	455,232	181,842	322,041	9,257	1,496	2,143,363	2,109,176

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

33. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments

(i) Fair value of financial instruments that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3 as set out in note 3) based on the degree to which the inputs to the fair value measurements is observable.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. In the level 2 fair value measurements, the Group derived the inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly or indirectly with reference to the market information.

Set out below is the information about how the fair values of the Group's financial instruments that are measured at fair value are determined, including the valuation techniques and inputs used:

	Fair value as at 31 December		Fair value hierarchy
	2015	2014	
	RMB'000	RMB'000	
Financial asset			
Available-for-sale investments:			
investment in trust fund, at fair value (note 18)	**50,004**	—	Level 2

The fair value of the trust fund was based on the redemption price provided by the fund manager, which was based on net assets value of the fund.

(ii) There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets or any reclassification of financial assets in the year.

(iii) Fair value of financial instruments that are recorded at amortised cost

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period, except for the available-for-sale investments measured at cost less impairment, of which the directors of the Company are of the opinion that the fair value cannot be measured reliably because the range of reasonable fair value estimates is so significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

34. CAPITAL COMMITMENTS

	2015 RMB'000	2014 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
— acquisition of property, plant and equipment	**69,704**	125,093
— additions of construction in progress	**930**	1,390
	70,634	126,483

35. OPERATING LEASES

(a) The Group as lessee

	2015 RMB'000	2014 RMB'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	**8,715**	5,068

At the end of the reporting period, the Group has commitments for future minimum lease payments for rented premises under non-cancellable operating leases which fall due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	**5,269**	8,116
In the second to fifth year inclusive	**512**	2,887
	5,781	11,003

Operating lease payments represent rentals payable by the Group for certain of its premises. Leases are negotiated for a term ranging from one to five years with fixed rentals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

35. OPERATING LEASES (Continued)

(b) The Group as lessor

Property rental income earned during the year was RMB1,235,000 (2014: RMB1,089,000). The property is expected to generate rental yields of 7.7% (2014: 6.7%) on an ongoing basis. Certain properties held have committed tenants for the next three years (2014: one year).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2015 RMB'000	2014 RMB'000
Within one year	**474**	395
In the second to fifth year inclusive	**869**	—
	1,343	395

36. RETIREMENT BENEFIT PLANS

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

The Group also operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Schemes are held separately from those of the Group, in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rate specified in the rules.

The total cost of RMB16,822,000 (2014: RMB16,423,000) charged to profit or loss represents contribution paid or payable to the above retirement benefit plans by the Group for the year.

At the end of the reporting period, the Group had no significant obligation apart from the contribution as stated above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

37. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2015 and 2014 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up/ issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company Directly 2015	Directly 2014	Indirectly 2015	Indirectly 2014	Principal activities
Oceanbase Group Limited	BVI/ Hong Kong	US$1,000,000	**100%**	100%	**–**	–	Investment holding
Power Well Creation Limited	Hong Kong	HK$2	**100%**	100%	**–**	–	Investment holding
Weisheng Energy Industrial Technology Co., Ltd. ("Weisheng Energy") (Note i)	The PRC	RMB50,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of energy saving products
Changsha Weisheng Import and Export Trading Company Limited ("Weisheng Import and Export") (Note ii)	The PRC	RMB10,000,000	**–**	–	**100%**	100%	Trading of power meters
Changsha Weisheng Information Technology Company Limited ("Weisheng Information") (Note i)	The PRC	RMB270,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of power meters, data collection terminals and related services
Changsha Vitae Plastic Technology Co., Ltd ("Vitae") (Note iii)	The PRC	RMB20,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of parts of power meters, data collection terminals and related services
Gam Sheng Macao Commercial Offshore Limited	Macao	MOP1,000,000	**–**	–	**100%**	100%	Trading of electronic components
Hunan Weike Power Meters Company Limited ("Hunan Weike") (Note i)	The PRC	HK$100,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of power meters
Hunan Weiming Technology Co., Ltd. ("Hunan Weiming") (Note i)	The PRC	RMB50,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of water, gas and heat meters
Wasion Electric Limited ("Wasion Electric") (Note iii)	The PRC	RMB200,000,000 (2014: RMB100,000,000)	**–**	–	**100%**	100%	Development, manufacturing and sale of smart distribution devices
Wasion Group Limited ("Changsha Weisheng") (Note iii)	The PRC	RMB600,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of power meters
Wasion Technology Shenzhen Company Limited ("Wasion Shenzhen") (Note ii)	The PRC	RMB10,000,000	**–**	–	**100%**	100%	Trading of power meters
Hunan Switchgear Co. Ltd. ("Changsha entity") (Notes ii and iv)	The PRC	RMB100,000,000 (2014: RMB84,119,666)	**–**	–	**65%**	65%	Development, manufacturing and sale of switchgears

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

37. PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(i) Weisheng Energy, Weisheng Information, Hunan Weike and Hunan Weiming are sino-foreign enterprises.

(ii) Weisheng Import and Export, Wasion Shenzhen and Changsha entity are limited liability companies established in the PRC.

(iii) Vitae, Wasion Electric and Changsha Weisheng are wholly foreign owned enterprises established in the PRC.

(iv) Changsha entity was acquired by the Group during the year ended 31 December 2014 as set out in note 28.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the reporting period.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by non-controlling interest		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	**2015 RMB'000**	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
Changsha entity	The PRC	**35%**	35%	**329**	2,046	**22,646**	16,758
湖南嘉樂房地產開發有限公司 ("湖南嘉樂")	The PRC	**– (Note)**	23.08%	**(748)**	(3)	**–**	30,003
Individually immaterial subsidiaries with non-controlling interests				**(1,295)**	1,692	**15,766**	13,971
				(1,714)	3,735	**38,412**	60,732

Note: During the year ended 31 December 2015, the Group acquired the remaining 23.08% equity interest of 湖南嘉樂 at consideration of RMB32,500,000 as detailed in Note (iv) of the consolidated statement of changes in equity.

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2015

37. PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

	Changsha entity		湖南嘉樂	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current assets	**131,724**	133,097	**194**	—
Non-current assets	**44,913**	38,564	**264,700**	269,318
Current liabilities	**(109,640)**	(124,402)	**(139,961)**	(27,650)
Non-current liabilities	**(2,114)**	—	**(621)**	(111,784)
Revenue	**102,615**	85,489	**—**	—
Profit (loss) for the year	**1,743**	5,844	**(5,061)**	(12)
Other comprehensive income (expense) for the year	**—**	—	**—**	—
Total comprehensive income (expense) for the year	**1,743**	5,844	**(5,061)**	(12)
Profit (loss) attributable to the non-controlling interests	**329**	2,046	**(748)**	(3)
Total comprehensive income (expense) attributable to the non-controlling interests	**329**	2,046	**(748)**	(3)
Dividends paid to non-controlling interests	**—**	—	**—**	—
Net cash inflow (outflow) from operating activities	**2,001**	(16,173)	**119**	(7,041)
Net cash (outflow) inflow from investing activities	**(571)**	298	**—**	1
Net cash (outflow) inflow from financing activities	**(3,538)**	20,746	**—**	7,023
Net cash (outflow) inflow	**(2,108)**	4,871	**119**	(17)

INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information of the statement of financial position of the Company as at 31 December 2015 and 2014:

	2015 RMB'000	2014 RMB'000
Investments in subsidiaries	**197,262**	195,630
Amounts due from subsidiaries	**2,142,114**	1,466,256
Other assets	**346,672**	43,374
	2,686,048	1,705,260
Total liabilities	**(631,791)**	(347,539)
	2,054,257	1,357,721
Share capital	**10,180**	9,588
Reserves	**2,044,077**	1,348,133
	2,054,257	1,357,721

The movements in reserves are as follows:

	RMB'000
At 1 January 2014	1,230,177
Profit and total comprehensive income for the year	221,192
Issue of shares upon exercise of share options	44,795
Recognition of equity-settled share-based payment	9,881
Dividend recognised as distribution	(157,912)
At 31 December 2014	1,348,133
Profit and total comprehensive income for the year	253,274
Subscription of shares	638,337
Transaction costs attributable to subscription of shares	(15,453)
Issue of shares upon exercise of share options	76
Recognition of equity-settled share-based payment	11,461
Dividend recognised as distribution	(191,751)
At 31 December 2015	2,044,077

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015 RMB'000**
Revenue	1,968,676	2,452,297	2,412,343	2,811,871	**2,969,033**
Profit (loss) for the year attributable to:					
Owners of the Company	247,486	323,149	401,125	482,439	**423,533**
Non-controlling interests	—	—	—	3,735	**(1,714)**
	247,486	323,149	401,125	486,174	**421,819**

ASSETS AND LIABILITIES

	As at 31 December				
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	**2015 RMB'000**
Total assets	4,445,028	4,265,893	4,741,215	5,618,550	**7,223,094**
Total liabilities	(2,059,951)	(1,669,216)	(1,868,015)	(2,312,309)	**(3,083,522)**
	2,385,077	2,596,677	2,873,200	3,306,241	**4,139,572**
Equity attributable to:					
Owners of the Company	2,384,677	2,596,277	2,872,800	3,245,509	**4,101,160**
Non-controlling interests	400	400	400	60,732	**38,412**
	2,385,077	2,596,677	2,873,200	3,306,241	**4,139,572**

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