Sun.King Power Electronics Group Limited
賽晶電力電子集團有限公司

(incorporated in the Cayman Islands with limited liability)

**Stock Code:580**

# Annual Report 2014

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# CORPORATE INFORMATION

## Executive Directors
Mr. Xiang Jie *(chairman of the Board)*
Mr. Gong Renyuan *(chief executive officer)*
Mr. Yue Zhoumin
Mr. Huang Xiangqian (resigned on 5 December 2014)
Mr. Jin Jiafeng (appointed on 5 December 2014)

## Non-executive Directors
Mr. Ye Weigang Greg
Mr. Wong Kun Kau

## Independent non-executive Directors
Mr. Wang Yi
Mr. Li Fengling
Mr. Chen Shimin

## Authorised representatives
Mr. Yue Zhoumin
Ms. Ma Sau Kuen Gloria (resigned on 24 February 2014)
Mr. Lau Lap Kwan (appointed on 24 February 2014)

## Audit committee
Mr. Chen Shimin *(chairman of the audit committee)*
Mr. Wang Yi
Mr. Ye Weigang Greg

## Remuneration committee
Mr. Wang Yi *(chairman of the remuneration committee)*
Mr. Wong Kun Kau
Mr. Li Fengling

## Nomination committee
Mr. Li Fengling *(chairman of the nomination committee)*
Mr. Gong Renyuan
Mr. Chen Shimin

## Investment committee
Mr. Li Fengling *(chairman of the investment committee)*
Mr. Xiang Jie
Mr. Ye Weigang Greg
Mr. Wong Kun Kau
Mr. Chen Shimin

## Secretary
Ms. Ma Sau Kuen Gloria (resigned on 24 February 2014)
Mr. Lau Lap Kwan

## Legal advisers
Pang & Co. in association with Loeb & Loeb LLP

## Auditors
Ernst & Young

## Registered office
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## Headquarters
Building 9-A
KongGangRongHuiYuan
Yuhua Road
Tianzhu Airport Industrial Zone B
Shunyi District
Beijing
People's Republic of China (the "**PRC**")

## Principal place of business in Hong Kong
36th Floor, Tower Two
Times Square
1 Matheson Street
Causeway Bay
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
**Tricor Investor Services Limited**
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## Principal banks
Bank of China Limited, Jiashan branch
China Construction Bank Corporation, Jiashan branch
China Construction Bank Corporation, Wuxi Xishan sub-branch

## Listing exchange information
Place of listing: Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")
Stock code: 580

## Website
www.speg.hk

Dear shareholders,

I am pleased to present on behalf of the Board (the "**Board**") of directors (the "**Directors**") of Sun.King Power Electronics Group Limited (the "**Company**") the annual report of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2014.

In 2014, in order to achieve our vision of becoming a leading electric power system solution integrator, the Group continued strengthening our capability in independent research and development and product innovation, enhancing our operational efficiency and providing diversified and quality products. However, due to the postponement of execution of orders for the rail transportation sector, the sluggish progress of our power transmission projects, the bearish sentiment of investment in industrial catalogues and other factors, the revenue and net profit of the Group for the year ended 31 December 2014 decreased substantially as compared to those of the year ended 31 December 2013.

The revenue of the Group decreased by approximately 30.1% from approximately RMB739.9 million for the year ended 31 December 2013 to approximately RMB517.3 million for the year ended 31 December 2014. The Group recorded a net loss of approximately RMB38.6 million for the year ended 31 December 2014, as compared to a net profit of approximately RMB41.9 million for the year ended 31 December 2013.

Despite the many difficulties in 2014, the Group made significant progress by our devotion in developing our business in each of our target markets. In respect of the power transmission sector, the Group won bids in the centralised tender projects for the supply of high-voltage power capacitors from State Grid Corporation of China and China Southern Power Grid, recording an increase of more than 100% in the number of orders as compared to that in 2013. Moreover, the Group won our first bid for an ultra-high-voltage direct current (the "**UHVDC**") project, marking the successful entrance of our high-voltage power capacitors products into the rapidly developing high-voltage direct current project market. Our anode saturation resistors which are the only anode saturation resistors made in the PRC continued their strong momentum and were used in several UHVDC projects of State Grid Corporation of China and China Southern Power Grid.

In respect of the rail transportation sector, the Group continued our development strategy of product diversification. The Group continued to corporate with China CNR Corporation Limited ("**CNR**"). In 2014, the Group won our first bid and completed our first metro vehicle equipment maintenance project, and won several bids for electrified rail substation power quality management projects.

In respect of the industrial sector, harnessing our technology and product innovation related to our high power rectifiers and power quality management, the Group assisted our client to complete the first isolated operation project (孤網運行) of aluminum-coal integration of the electrolytic aluminum industry in the PRC. With its outstanding cost and technical advantages, isolated operation defines the direction and sets a successful model for the enhancement of industries related to electro-metallurgy such as aluminum electrolysis and electrochemistry.

Pondering on the year of 2015, the PRC government and its branches and enterprises have clearly laid down an investment plan for the power transmission sector, in which high-voltage direct current transmission has a dominant position, and significantly accelerated its implementation in the fourth quarter of 2014. The rail transportation sector in the PRC will maintain its high standards, and with the continuously increasing demand for metro vehicles and power supply equipment resulted from the continuous growth of the electrified rail transportation sector, and the increasing demand of cargo vehicles included by the changing landscape of the cargo industry, the Group is confident in its performance in 2015.

In order to realise a rapid growth, the Group will continue to strengthen the research and development of its products and technologies and enhance its operational efficiency, product quality and product diversification. The management of the Group is committed to dedicating its efforts to lead the entire team to promote the Group's development in order to maximise the benefits for the shareholders of the Company (the "**Shareholders**"). On behalf of the Board, I would like to take this opportunity to thank the members of the Board and our dedicated staff for their hard work and contributions as well as our business partners for their supports in 2014.

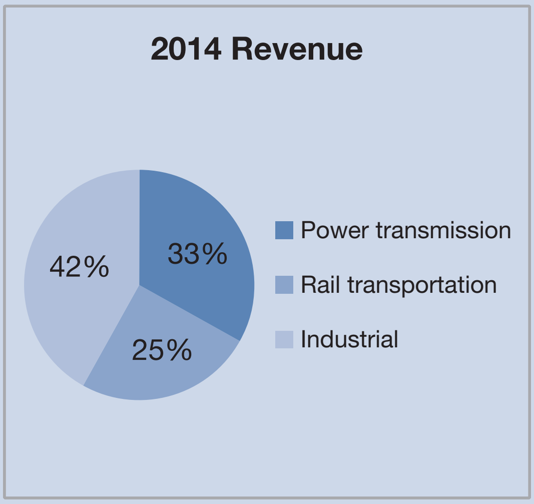
**Xiang Jie**
*Chairman*

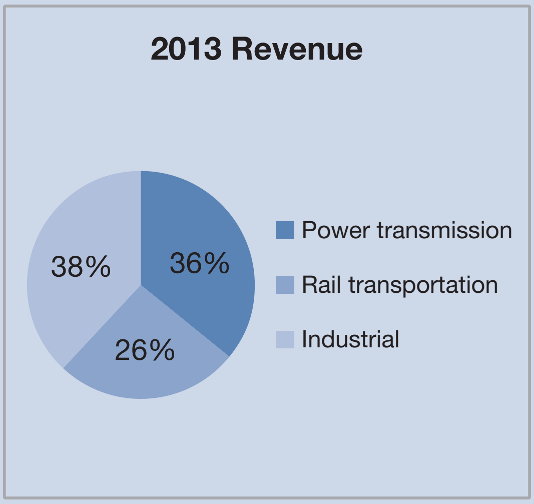
Hong Kong, 17 March 2015

## BUSINESS REVIEW

The products offered by the Group are categorised into three main applied industries, namely, power transmission sector, rail transportation sector and industrial sector.

| | **2014** | | 2013 | |
|---|---|---|---|---|
| Applied industries | **Revenue RMB'000** | **Gross profit margin %** | Revenue RMB'000 | Gross profit margin % |
| Power transmission | **172.1** | **40** | 269.33 | 35 |
| Rail transportation | **128.1** | **23** | 191.22 | 27 |
| Industrial | **217.1** | **27** | 279.32 | 28 |
| Total | **517.3** | **Average 31** | 739.87 | Average 30 |




### Power transmission sector

The revenue generated by the power transmission sector decreased by approximately 36.1% from approximately RMB269.3 million for the year ended 31 December 2013 to approximately RMB172.1 million for the year ended 31 December 2014. The gross profit margin increased from approximately 35.0% for the year ended 31 December 2013 to approximately 40.0% for the year ended 31 December 2014.

In 2014, the execution of orders for high-voltage direct current ("**HVDC**") light power transmission projects fell significantly behind our expectation, resulting in a sharp decrease in revenue as compared to that in 2013. However, due to the increase in investment by the two major power grid operators in the end of 2014, the Group obtained several orders for HVDC projects for the two major power grid operators.

After winning the bid for the Zhoushan flexible direct current transmission projects in 2013, the Group won the bid for the Xiamen flexible direct current transmission project. Nevertheless, under the influence of several factors including the scale and slow progress of projects, the revenue of the Group generated from flexible direct current transmission projects in 2014 decreased significantly as compared to that in 2013.

The number of orders and sales of the Group of high-voltage power capacitors increased significantly in 2014 as a result of winning five bids of the State Grid Corporation of China centralised procurement tenders and two bids of China Southern Power Grid centralised procurement tenders, representing a growth of more than 100% in the number of orders as compared to that in 2013. Furthermore, our high-voltage power capacitors were procured for the Lingzhou-Shaoxing ultra-high voltage direct current transmission project of State Grid Corporation of China for the first time. As the order execution cycle usually takes six to 12 months, most of the orders are expected to be completed in 2015.

## Rail transportation sector

The revenue generated by the rail transportation sector decreased by approximately 33.0% from approximately RMB191.2 million for the year ended 31 December 2013 to approximately RMB128.1 million for the year ended 31 December 2014. The gross profit margin also decreased from approximately 27.0% for the year ended 31 December 2013 to approximately 23.0% for the year ended 31 December 2014.

The Group continued to corporate with CNR and its subsidiaries, supplying products including insulated gate bipolar transistors components for its high power locomotives and laminated busbars. However, due to the postponement in the execution of CNR's orders and other factors, the revenue of the rail transportation sector decreased substantially in 2014 as compared to that in 2013.

In 2014, the Group won the bids for the power quality management projects for electrified rails for, among others, Chengdu Railway Bureau (成都鐵路局), Lanzhou Railway Bureau (蘭州鐵路局), Tianping Railway Company Limited (天平鐵路有限公司) and Zhongchuan Railway Company Limited (中川鐵路有限公司). In particular, the inspection of completion of the reactive-load compensation equipment we had supplied to Chengdu Railway Bureau was completed with all performance indexes showing positive results.

Marking our successful entrance into the metro vehicle equipment maintenance market, the Group won the bids and completed the maintenance project of power modules of traction inverters of metro vehicles for Nanjing Metro Line 1 (南京地鐵1號線) for the first time.

## Industrial sector

The revenue generated by the industrial sector decreased by approximately 22.0% from approximately RMB279.3 million for the year ended 31 December 2013 to approximately RMB217.1 million for the year ended 31 December 2014. The gross profit margin also decreased from approximately 28.0% for the year ended 31 December 2013 to approximately 27.0% for the year ended 31 December 2014.

The Group maintained our position as the market leader of high power rectifier products for the electrolytic aluminum industry in terms of market share. However, impacted by the relatively excessive productivity and reduction in scale in investment of industrial catalogues, in particular the electro-metallurgy industry, sales of the industrial sector of the Group in 2014 decreased significantly as compared to that in 2013.

In 2014, the Group completed the first isolated operation project (孤網運行) of aluminum-coal integration of the electrolytic aluminum industry in the PRC. Such project effectively assures the safety and stability of the electricity application of the isolated operation project and significantly lowers the production cost, thereby optimising the competitive advantage and profitability of the electrolytic aluminum industry. The management of the Group believes that isolated operation will define the direction of the development of industries related to electro-metallurgy such as aluminum electrolysis and electrochemistry, representing enormous development potential.

The Group has continued to be the world's largest agent of ABB semiconductor products.

## FINANCIAL REVIEW

### Revenue

The revenue decreased by approximately 30.1% from approximately RMB739.9 million for the year ended 31 December 2013 to approximately RMB517.3 million for the year ended 31 December 2014 primarily due to the postponement of certain projects and delay in delivery of goods.

### Cost of sales

The cost of sales decreased by approximately 30.8% from approximately RMB517.7 million for the year ended 31 December 2013 to approximately RMB358.2 million for the year ended 31 December 2014 primarily due to the substantial decrease in sales revenue for the year ended 31 December 2014.

### Gross profit and gross profit margin

The gross profit decreased by approximately 28.4% from approximately RMB222.2 million for the year ended 31 December 2013 to approximately RMB159.1 million for the year ended 31 December 2014 primarily due to the substantial decrease in revenue for the year ended 31 December 2014.

The gross profit margin increased slightly from approximately 30.0% for the year ended 31 December 2013 to approximately 30.8% for the year ended 31 December 2014.

### Selling and distribution expenses

The selling and distribution expenses increased by approximately 6.3% from approximately RMB64.4 million for the year ended 31 December 2013 to approximately RMB68.5 million for the year ended 31 December 2014 primarily due to the increase in selling expenses for the market development of certain products.

### Administrative expenses

The administrative expenses increased by approximately 6.4% from approximately RMB69.9 million for the year ended 31 December 2013 to approximately RMB74.4 million for the year ended 31 December 2014 primarily as a result of the relocation of our plant and office which resulted in an increase in fixed assets depreciation.

### Other expenses

The other expenses increased by approximately 87.9% from approximately RMB27.5 million for the year ended 31 December 2013 to approximately RMB51.7 million for the year ended 31 December 2014 primarily due to the increase in expenses related to impairment of trade and other receivables, fair value loss on foreign currency forward contracts and research and development of new products.

### Interest on bank loans wholly repayable within five years

The interest on bank loans wholly repayable within five years decreased slightly by approximately 5.7% from approximately RMB17.0 million for the year ended 31 December 2013 to approximately RMB16.0 million for the year ended 31 December 2014.

### Loss before tax

The profit before tax turned into the loss before tax from approximately RMB56.8 million for the year ended 31 December 2013 to approximately RMB32.2 million for the year ended 31 December 2014 primarily due to the significant decrease in sales revenue for the year ended 31 December 2014.

## Income tax expenses

The income tax expenses decreased by approximately 57.4% from approximately RMB14.9 million for the year ended 31 December 2013 to approximately RMB6.4 million for the year ended 31 December 2014 primarily due to the significant decrease in revenue for the year ended 31 December 2014.

## Loss and total comprehensive loss for the year attributable to owners of the parent

The profit and total comprehensive income for the year attributable to owners of the parent turned into a loss from approximately RMB42.9 million for the year ended 31 December 2013 to approximately RMB32.1 million for the year ended 31 December 2014.

The net gain margin, which is calculated as gain attributable to owners of the parent for the year divided by revenue, decreased from approximately 5.8% for the year ended 31 December 2013 to the net loss margin of approximately 6.4% for the year ended 31 December 2014.

## Inventories

The inventories increased by approximately 45.8% from approximately RMB91.9 million as at 31 December 2013 to approximately RMB134.0 million as at 31 December 2014 primarily due to the delay and postponement in delivery of goods.

The average inventory turnover days increased from approximately 87.0 days for the year ended 31 December 2013 to approximately 129.0 days for the year ended 31 December 2014 primarily due to the delay and postponement in delivery of goods.

## Trade receivables

The trade receivables decreased significantly by approximately 14.7% from approximately RMB466.2 million as at 31 December 2013 to approximately RMB397.8 million as at 31 December 2014 primarily due to the decrease in revenue for the year ended 31 December 2014.

The average trade receivables turnover days increased from approximately 196.0 days for the year ended 31 December 2013 to approximately 320.0 days for the year ended 31 December 2014 primarily due to the decrease in revenue for the year ended 31 December 2014 which lowered the turnover of trade receivables.

## Trade and other payables

The trade and other payables increased by approximately 10.9% from approximately RMB214.1 million as at 31 December 2013 to approximately RMB237.3 million as at 31 December 2014.

The average trade and other payables turnover days increased from approximately 150.0 days for the year ended 31 December 2013 to approximately 227.0 days for the year ended 31 December 2014 primarily due to the enhancement in our procurement management and the benefits from the increase in our procurement from suppliers.

## Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from sales of our products and bank borrowings. The current ratio (current assets divided by current liabilities) decreased slightly from approximately 1.6 as at 31 December 2013 to approximately 1.5 as at 31 December 2014. The cash and cash equivalents decreased from approximately 153.9 million as at 31 December 2013 to approximately 113.6 million as at 31 December 2014. The interest-bearing bank borrowings decreased from approximately 299.0 million as at 31 December 2013 to 229.0 million as at 31 December 2014. The gearing ratio measured on the basis of total interest-bearing bank borrowings to total equity decreased from approximately 34.0% as at 31 December 2013 to approximately 27.5% as at 31 December 2014.

As at 31 December 2014, the Group's bank loans were mainly denominated in Renminbi ("**RMB**"), and had contractual maturity within one year from the end of the reporting year. The effective interest rate on bank borrowing as at 31 December 2014, which were also equal to the weighted average contracted interest rate, remained the same as that as at 31 December 2013 at 6.1%. During the year under review, there was no material change to the Group's funding and treasury policy.

The Group continues to implement prudent financial management policies and monitor our capital structure based on the ratio of total liabilities to total assets.

## Foreign currency exposure

As most of the principal subsidiaries of the Company operate in the PRC, their functional currency is RMB. The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to manage our exchange rate exposure.

The carrying amount of the outstanding foreign currency forward contracts decreased from approximately RMB0.7 million as at 31 December 2013 to approximately RMB-6.9 million as at 31 December 2014.

## Contingent liabilities

As at 31 December 2014, the Group had no significant contingent liabilities.

## Charges on group assets

As at 31 December 2014, certain of the Group's bank loans were secured by pledge of certain of our trade and bills receivables amounting to approximately RMB50.1 million (as at 31 December 2013: approximately RMB40.3 million). At 31 December 2014, certain of the Group's bills receivables of approximately RMB29.3 million (as at 31 December 2013: RMB64.5 million) were pledged to secure certain of our bills payables.

## EXECUTIVE DIRECTORS

**Mr. Xiang Jie**, aged 41, is the founder, the chairman of the Board and an executive Director. Mr. Xiang is primarily responsible for the overall corporate strategy, planning and business development of the Group. After graduating from Shanghai Maritime University (上海海事大學) in the PRC in international shipping management in 1995, Mr. Xiang obtained a master's degree in business administration from Maastricht School of Management in the Netherlands in 1999. Mr. Xiang has over 10 years of experience in the trading and power electronic sectors.

**Mr. Gong Renyuan**, aged 44, is an executive Director, the president of the Group and the chief executive officer of the Company. Mr. Gong joined the Group in 2002, primarily responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Before joining the Group, Mr. Gong has accumulated over eight years of experience in business operations. In 1993, Mr. Gong completed the programme in business English (外貿英語專科) organised by the Beijing University of Technology (北京工業大學) in the PRC. Mr. Gong is the spouse of Ms. Ren Jie, a member of the senior management of the Company.

**Mr. Yue Zhoumin**, aged 44, is an executive Director and a vice president of the Group. Mr. Yue joined the Group in 2009. Mr. Yue is primarily responsible for the strategic planning and development of the Group. Mr. Yue graduated from the Shanghai Maritime University (上海海事大學) in the PRC with a bachelor's degree in economics in 1994. Mr. Yue has extensive experience in corporate project management and fund raising in the capital market. Mr. Yue is highly experienced in strategic management and has worked in the strategy division of China COSCO Holdings Company Limited, a company listed on the Stock Exchange (stock code: 1919).

**Mr. Jin Jiafeng**, aged 42, is an executive Director of the Company and the chief financial officer of the Group. Mr. Jin joined the Group in 2008 and was appointed as an executive Director on 5 December 2014. Mr. Jin is primarily responsible for overseeing the financial affairs of the Group. In 1994, Mr. Jin completed the programme in finance and accounting (財務會計專科) organised by the College of International Business and Management of Shanghai University (上海大學國際商業及管理學院) in the PRC. In 2013, Mr. Jin received an executive master's degree in business administration (高級管理人員工商管理碩士) from Fudan University (復旦大學) in the PRC. Before joining the Group, Mr. Jin worked at KPMG as a supervisor. Mr. Jin also worked at NewMargin Venture Capital as an investment adviser until December 2003. Mr. Jin was designated as a senior international finance manager by the International Financial Management Association in 2009 and has extensive experience in finance and mergers and acquisitions in a number of sectors.

## NON-EXECUTIVE DIRECTORS

**Mr. Ye Weigang Greg**, aged 45, joined the Group as a non-executive Director in May 2010. Mr. Ye obtained a bachelor's degree in electronic engineering from the Shanghai Jiao Tong University (上海交通大學) in 1990, a master's degree in accountancy from the Northeast Missouri State University in the United States in 1993 and a master's degree in business administration from the Harvard Business School in the United States in 2001. Mr. Ye has worked for PricewaterhouseCoopers in the United States and was a product marketing group director of Cadence Design Systems, Inc., a leading electronic design automation technology and engineering service company. Mr. Ye was a managing partner of NewMargin Ventures. Mr. Ye was also a director of Daqo New Energy Corp., a company listed on the New York Stock Exchange. Mr. Ye is a founding partner of Delta Capital (達泰資本).

**Mr. Wong Kun Kau**, aged 54, joined the Group as a non-executive Director in May 2010. Mr. Wong obtained a bachelor's degree in social science from the University of Hong Kong in 1982. Mr. Wong has more than 25 years of experience in fund management, securities brokering and corporate finance and has involved in securities origination, underwriting and placing of equities and equity-linked products, mergers and acquisitions, corporate restructuring and reorganisations and other general corporate advisory activities. Mr. Wong is the managing partner of Bull Capital Partners Ltd., a fund management company specialising in direct investment in the Greater China region. Prior to joining Bull Capital Partners Ltd., Mr. Wong held senior management positions with several multinational financial institutions including BNP Paribas Capital (Asia Pacific) Limited and Peregrine Securities Limited. Mr. Wong is an independent non-executive director of West China Cement Limited, being a company listed on the Stock Exchange (stock code: 2233), Lifestyle Properties Development Limited, being a company listed on the Stock Exchange (stock code: 2183), China Shengmu Organic Milk Limited, being a company listed on the Stock Exchange (stock code: 1432), Auhui Conch Cement Company Limited, being a company listed on the Stock Exchange (stock code: 0914) and the Shanghai Stock Exchange (stock code: 600585).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Wang Yi**, aged 72, joined the Group as an independent non-executive Director in July 2010. Mr. Wang graduated from the Beihang University (北京航空航天大學) in the PRC. Mr. Wang was the president of China Technology and Economy Investment Consulting Co., Ltd. (中技經投資顧問股份有限公司). Mr. Wang was the deputy director (副司長) of the Department of Foreign Economic Cooperation of the Office of the Economic and Trade of the State Council (國務院經濟貿易辦公室對外經濟合作司) and was also a director general (正司級巡視員) of the Department of Investment and Planning of the State Economic and Trade Commission of the PRC (國家經濟貿易委員會投資與規劃司). Mr. Wang was a general vice director (常務副主任委員) of the Enterprise Technology Improvement Working Committee of the China Enterprise Confederation (中國企業聯合會企業技術進步工作委員會). Mr. Wang has substantial working experience in the PRC government authorities including experience in policy planning and project approval.

**Mr. Li Fengling**, aged 66, joined the Group as an independent non-executive Director in July 2010. In 1975, Mr. Li completed the programme in power engineering (電力工程) organised by Tsinghua University (清華大學) in the PRC. Mr. Li subsequently obtained a master's degree in power system and automation (電力系統及自動化) from Tsinghua University in 1986. Mr. Li is currently the director (主任) of the management committee of the Xiushi Charity Foundation of the China Social Entrepreneur Foundation (中國友成企業家扶貧基金會修實公益基金管理委員會), and an independent director of Beijing Kalends Science & Technology Company Limited (北京昆侖萬維科技股份有限公司). Mr. Li has profound knowledge in the area of power engineering. Mr. Li was the chairman of Beijing Energy Investment (Holding) Co., Ltd. (北京能源投資(集團)有限公司), a company established by the Beijing People's Government and engages in the electricity and energy saving related business in Beijing. Mr. Li held a number of positions with various companies prior to joining the Company. Mr. Li was previously the president of Beijing International Power Development Investment Corporation (北京國際電力開發投資公司), the director of the management committee of the Beijing Economic and Technological Development Area (北京經濟技 術開發區管理委員會) and the general manager of Beijing Economic and Technological Investment & Development Corporation (北京經濟技術投資開發總公司). Mr. Li was also the deputy district mayor (副區長) of the Haidian District of Beijing, the district mayor (區長) of the Chaoyang District of Beijing and a member of the Standing Committee of the People's Political Consultative Conference of China in Beijing (北京市政協常委).

**Mr. Chen Shimin**, aged 56, joined the Group as an independent non-executive Director in August 2010. Mr. Chen is a certified management accountant registered in the United States, a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. Mr. Chen graduated from the Shanghai University of Finance and Economics (上海財經大學) in the PRC with a bachelor's degree and a master's degree in economics in 1983 and 1985, respectively. Mr. Chen then obtained a doctoral degree in philosophy from the University of Georgia in the United States in 1992. Mr. Chen is a professor of accounting, a director (主任) of the master's degree programme of business administration and a deputy registrar (副教務長) at China Europe International Business School (中歐國際工商學院) in the PRC. Mr. Chen has extensive research experience in domestic and overseas financial and management accounting, and teaching experience in numerous well-known universities. Mr. Chen is an independent non-executive director of China High Speed Transmission Equipment Group Co., Ltd., (中國高速傳動設備集團有限公司), being a company listed on the Stock Exchange (stock code: 658), Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠(集團)股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600832), Huafa Industrial Co., Ltd. Zhuhai (珠海華發實業股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600325), Zhejiang Wolwo Bio-Pharmaceutical Co., Ltd. (浙江我武生物科技股份有限公司), being a company listed on the Shenzhen Stock Exchange (stock code: 300357), Hangzhou Shunwang Technology Co., Ltd. (杭州順網科技股份有限公司), being a company listed on the Shenzhen Stock Exchange (stock code: 300113), and an external supervisor of Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600000).

## SECRETARY*

**Mr. Lau Lap Kwan**, aged 66, joined the Group as a joint company secretary to the Company in February 2011 and became the company secretary to the Company in February 2014. Mr. Lau graduated from Northeast Heavy Machinery Institute (東北重型機械學院) (now known as Yanshan University (燕山大學)) in the PRC, majoring in heavy machinery, in 1975. Mr. Lau has accumulated over 35 years of experience in corporate management, administration and corporate finance both in the PRC and Hong Kong.

* *Ms. Ma Sau Kuen Gloria was a joint company secretary to the Company and tendered her resignation with effect from 24 February 2014.*

## SENIOR MANAGEMENT

**Ms. Ren Jie**, aged 38, joined the Group in 2002 as a sales manager of the Group's subsidiary, Beijing Sunking Electronic Technology Co., Ltd. (北京華瑞賽晶電子科技有限公司) and was promoted to its chief operating officer in 2004. Ms. Ren has been a vice president of the Group since 2008 and is responsible for human resources management. In 1998, Ms. Ren completed the programme in English language (英語專業大學專科) organised by Xi'an International Studies University (西安外國語學院) in the PRC. Ms. Ren Jie is the spouse of Mr. Gong Renyuan, an executive Director and the chief executive officer of the Company.

**Ms. Bai Xing**, aged 34, joined the Group in 2002. Ms. Bai is a vice president of the Group and is responsible for the Group's overall procurement process and daily operations of the procurement department. Ms. Bai graduated from University of International Business and Economics (對外經濟貿易大學) in the PRC with a bachelor's degree in international business and trade in 2007 and has over eight years of experience in procurement. Ms. Bai is a national registered certified purchasing professional recognised by the China Federation of Logistics and Purchasing (中國物流與採購聯合會).

**Mr. Li Jinyan**, aged 37, joined the Group after graduating from University of Science and Technology Beijing (北京科技大學) in the PRC with a bachelor's degree in automation in 2004. Mr. Li is a vice president of the Group and is responsible for sales and marketing of the Group's products.

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. It is believed that a high standard of corporate governance provides a framework and solid foundation for the promotion of high standards of accountability, transparency and responsibility to the Shareholders.

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with the aim of maintaining and improving the standard of corporate governance practices. Throughout the year of 2014, the Company complied with all principles and code provisions of the Corporate Governance Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 as the required standard against which the Directors must measure their conduct regarding transactions in securities of the Company. The Company confirms that, having made specific enquiry with all the Directors, the Directors have complied with the required standards as set out in the Model Code during the year of 2014.

## BOARD

### Responsibilities

The Board is responsible for leading and controlling the Company and overseeing the Group's businesses, strategic decisions and financial performances. The chairman of the Board is responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer is responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Major corporate matters which are specifically delegated by the Board to the senior management include preparation of interim and annual reports and announcements, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures and compliance with relevant laws, rules and regulations.

### Composition

The composition of the Board reflects the necessary balance of skills and experience required for effective leadership and independence in the decision making of the Company. The Board currently comprises four executive Directors, namely Mr. Xiang Jie, Mr. Gong Renyuan, Mr. Yue Zhoumin and Mr. Jin Jiafeng; two non-executive Directors, namely Mr. Ye Weigang Greg and Mr. Wong Kun Kau; and three independent non- executive Directors, namely Mr. Wang Yi, Mr. Li Fengling and Mr. Chen Shimin. The biographies of the Directors are set out under the section headed "Biographies of Directors and Senior Management" in this annual report.

During the year ended 31 December 2014, the Board at all times complied with the requirements relating to the respective retirement and re-election of one-third of the members of the board of listed companies. The Company appointed three independent non-executive Directors representing one-third of the Board members, including one independent non-executive Directors who possesses appropriate professional qualifications, accounting and related financial management expertise. Therefore, the requirements under the Listing Rules were fully complied with.

The Directors are required to declare their underlying interests regularly and assess other Directors' personal interests in the Company to ensure that the members of the Board have no financial, business, family or other material/relevant relationship with each other, and to ensure that the independence of the independent non-executive Directors have fully complied with the requirements regarding the independence of an independent non- executive director as set out in Rule 3.13 of the Listing Rules.

Save as disclosed above and under the section headed "Biographies of Directors and Senior Management" in this annual report, there are no financial, business, family or other material/relevant relationships between the members of the Board and between the chairman of the Board and the chief executive officer of the Company.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

All the Directors, including the independent non-executive Directors, are appointed for a term of three years and subject to retirement by rotation and eligible for re-election in accordance with the Company's articles of association and the Listing Rules. At each annual general meeting, not less than one-third of the Directors then in office shall retire and every Director is subject to retirement by rotation at least once every three years.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Chairman of the Board is mainly responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer of the Company is mainly responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Currently, Mr. Xiang Jie is the chairman of the Board, and Mr. Gong Renyuan is the chief executive officer of the Company. During the year of 2014, one meeting without the executive Directors was held between the chairman of the Board and the non-executive Directors (including the independent non-executive Directors).

## NON-EXECUTIVE DIRECTORS

The non-executive Directors (including the independent non-executive Directors) bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking lead in management issues involving potential conflict of interests and serving the committees of the Board as committee members, all non-executive Directors (including the independent non-executive Directors) make various contributions to the effective development direction of the Company. The term of appointments of the non-executive Directors is set out under the section "Directors' Service Contracts" in this annual report.

## MEETINGS

The Board holds meetings regularly to discuss the overall strategies, and operational and financial performance of the Group. The Directors can attend meetings in person or via electronic medium. During the year of 2014, a total of four meetings of Directors were held to review and approve the financial and operational results of the Group. The attendance record of the Directors at the Board meetings and Shareholders meetings during the year ended 31 December 2014 is set out below:

| | | **Attended/ Eligible to attend** |
|---|---|---|
| **Executive Directors** | Board Meeting | Shareholders Meeting |
| Mr. Xiang Jie | 4/4 | 1/1 |
| Mr. Gong Renyuan | 4/4 | 1/1 |
| Mr. Yue Zhoumin | 4/4 | 1/1 |
| Mr. Huang Xiangqian (resigned on 5 December 2014) | 3/3 | 1/1 |
| Mr. Jin Jiafeng (appointed on 5 December 2014) | 1/1 | 1/1 |
| **Non-executive Directors** | | |
| Mr. Ye Weigang Greg | 4/4 | 1/1 |
| Mr. Wong Kun Kau | 4/4 | 1/1 |
| **Independent non-executive Directors** | | |
| Mr. Wang Yi | 4/4 | 1/1 |
| Mr. Li Fengling | 4/4 | 1/1 |
| Mr. Chen Shimin | 4/4 | 1/1 |

In addition, four written resolutions were passed during the year of 2014.

At least 14 days' notice of convening the regular Board meeting is given to all the Directors to invite them to participate in the course of discussion. All the Directors are provided with relevant information on the matters to be discussed at the meeting no less than three days before the holding of the meeting, so as to guarantee that there is sufficient time for the Directors to review the information. The Directors have independent access to meet the senior management and the company secretary to the Company at any time, and are entitled to seek independent professional advice at the Company's expenses. Material matters or matters which may lead to conflicts of interests will be dealt with during Board meetings instead of via circulation of written resolutions or by the Board committees.

## BOARD COMMITTEES

The Board has established four committees, namely the audit committee, the remuneration committee, the nomination committee and the investment committee, to supervise various matters of the Group. To establish effective communication channels between each of the committees and the management of the Group, the Company has established an internal coordination and support team to facilitate access to more independent and objective information for the Directors.

### (a) Audit committee

The audit committee was established on 19 August 2010 with written terms of reference in compliance with the Listing Rules. The audit committee is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any issues regarding the resignation or dismissal of that auditors; monitoring the integrity of financial statements, annual reports and accounts, interim reports and, (if prepared for publication) quarterly reports, and reviewing material financial reporting judgments therein; and reviewing the systems of financial control, internal control and risk management. The written terms of reference of the committee is in line with the Corporate Government Code and is published on the websites of the Company and the Stock Exchange.

The audit committee comprises two independent non-executive Directors, being Mr. Chen Shimin and Mr. Wang Yi, and one non-executive Director, being Mr. Ye Weigang Greg. The audit committee is chaired by Mr. Chen Shimin, who possesses the appropriate professional qualifications and extensive experience in and knowledge of finance and accounting as required under Rule 3.10 of the Listing Rules. All members of the audit committee hold the relevant industry and financial experience necessary to advise the Board on strategies and other related matters. None of the members of the audit committee is a former partner of or connected with the Company's existing external auditors.

The audit committee held five meetings during the year of 2014. During such meetings, the audit committee confirmed the appointment of Ernst & Young and fixed its remuneration, and reviewed the procedures of internal control of the Group. The committee also reviewed the interim and annual results of the Group for the year of 2014 and the auditors' report prepared by the external auditors in relation to accounting matters and any material findings during the audit. The audit committee was of the opinion that such financial statements and report complied with the applicable accounting policy standards and requirements and that adequate disclosures have been made. Please refer to the table below for the attendance record of the meetings of the audit committee during the year of 2014:

| **Directors** | **Attended/ Eligible to attend** |
|---|---|
| Mr. Chen Shimin *(Chairman of the audit committee)* | 5/5 |
| Mr. Wang Yi | 5/5 |
| Mr. Ye Weigang Greg | 5/5 |

### (b) Remuneration committee

The remuneration committee was established on 19 August 2010 with written terms of reference in accordance with the Listing Rules. The roles and functions of the remuneration committee are, among other things, to make recommendations on the remuneration package of the Directors and senior management, the execution of which is subject to the approval of the Board. In addition, the remuneration committee evaluates the performance of the senior management of the Company and determines the remuneration structure of the Company. The written terms of reference of the remuneration committee is in line with the Corporate Governance Code and is published on the websites of the Company and the Stock Exchange.

The remuneration committee comprises two independent non-executive Directors, being Mr. Wang Yi and Mr. Li Fengling, and one non-executive Director, being Mr. Wong Kun Kau. The remuneration committee is chaired by Mr. Wang Yi.

The remuneration committee held four meetings during the year of 2014. During such meetings, the remuneration committee determined the option incentive scheme, and made recommendation on the Directors' allowances, the remuneration of the senior management and assessment system, as well as the remuneration of the employees and employee reward scheme. Please refer to the table below for the attendance record of the meetings of the remuneration committee during the year of 2014:

| **Directors** | **Attended/ Eligible to attend** |
|---|---|
| Mr. Wang Yi *(Chairman of the remuneration committee)* | 4/4 |
| Mr. Wong Kun Kau | 4/4 |
| Mr. Li Feng Lin | 4/4 |

Remuneration payable to senior management of the Company (excluding Directors) for the year of 2014 is within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2014** | 2013 |
| RMB200,000 – RMB300,000 | **0** | 0 |
| RMB300,001 – RMB400,000 | **1** | 2 |
| RMB400,001 – RMB500,000 | **3** | 2 |

## (c) Nomination committee

The nomination committee was established on 19 August 2010. The roles and functions of the nomination committee are, among other things, to formulate the policies for the nomination of Directors for the Board's consideration and to implement the Director nomination policies approved by the Board, including the review of Board composition annually, identification of eligible persons for the position of Director, monitoring of the Directors' succession plans and assessment of the independence of the independent non-executive Directors. The written terms of reference of the nomination committee is in line with the Corporate Governance Code and is published on the websites of the Company and the Stock Exchange.

The nomination committee comprises two independent non-executive Directors, being Mr. Li Fengling and Mr. Chen Shimin and one executive Director, being Mr. Gong Renyuan. The nomination committee is chaired by Mr. Li Fengling.

The nomination committee held four meetings during 2014. During such meetings, the nomination committee proposed to the Board to re-elect retiring Directors and re-appointed Mr. Xiang Jie and Mr. Jin Jiafeng as executive Directors and Mr. Wang Yi as independent non-executive Director. The nomination committee reviewed the independence of the independent non-executive Directors, composition of the Board and Board diversity policy. Please refer to the table below for the attendance record of the meetings of the nomination committee during the year of 2014:

| **Directors** | **Attended/ Eligible to attend** |
|---|---|
| Mr. Li Fengling *(Chairman of the nomination committee)* | 4/4 |
| Mr. Chen Shimin | 4/4 |
| Mr. Gong Renyuan | 4/4 |

### (d) Investment committee

The investment committee was established on 28 June 2011 and is responsible for advising the Board on investment of fixed assets (both tangible and intangible), equity, debt, financial securities, restructuring and joint ventures.

The investment committee comprises two independent non-executive Directors, being Mr. Li Fengling (Chairman) and Mr. Chen Shimin; two non-executive Directors, being Mr. Ye Weigang Greg and Mr. Wong Kun Kau; and one executive Director, being Mr. Xiang Jie.

The investment committee held four meetings during the year of 2014. During such meetings, the investment committee discussed the progress of important projects and the development prospect of major acquisition and joint venture. Please refer to the table below for the attendance record of the investment committee during the year of 2014:

| Directors | Attended/ Eligible to attend |
|---|---|
| Mr. Li Fengling *(Chairman of the investment committee)* | 4/4 |
| Mr. Chen Shimin | 4/4 |
| Mr. Ye Weigang Greg | 4/4 |
| Mr. Wong Kun Kau | 4/4 |
| Mr. Xiang Jie | 4/4 |

## CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

On 5 December 2014, the Board accepted the resignation of Mr. Huang Xiangqian and appointed Mr. Jin Jiafeng as the executive Director. Save as disclosed herein, for the year ended 31 December 2014 and up to the date of this annual report, there were no changes to information required to be disclosed regarding the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

## INTERNAL CONTROL

The audit department of the Company conducted comprehensive audit on the internal control system of the Group and submitted the "2014 Annual Report on Internal Control" for the Board's review. The Board is responsible for reviewing the effectiveness of the internal control system, which covers all material controls including financial, operational and compliance controls and risk management functions, for the purpose of preventing unauthorised use or sale of assets and ensuring the proper filing of accounting records and provision of reliable financial information for internal use or for release, and ensuring that the applicable laws, rules and regulations are complied with. The procedure reasonably ensures the non-occurrence of significant error, loss or fraud. In the year of 2014, in addition to adhering to the existing stringent internal control, the Company made additional improvement as follows:

### (a) Internal control measure in relation to account receivables

Through communication and liaison between the sales department, the legal department and other departments, the Company has minimised its loss by legal resorts such as sending demand letters and commencing litigations to and against customers with poor credit worthiness or who refuse to settle their accounts. Accordingly, the Group will maintain such internal control measure in a long run in light of its proven effectiveness.

### (b) Optimisation of the centralised raw materials procurement procedures

In light of the growth in the scale of the Group, our demand for raw materials increased continuously, which in turn render us stronger bargaining power in the course of procurement and give us an opportunity to optimise our centralised procurement procedures for raw materials and enabling us to adopt more effective centralised procurement methods. For example, the average cost of raw materials such as main components and frames of our high power capacitors decreased by 5-10% in the year of 2014, thus demonstrating the effectiveness of our centralised procurement procedures.

### (c) Emphasis on the environmental and social governance report

The management of the Group understands the importance of environmental and social governance as an essential part of the internal control system. Therefore, in the year of 2014, the Company conducted systematic and quantitative evaluations on various aspects such as working environment of our employees, environmental protection, operation management and community involvement by liaising and coordinating different departments of the Group.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for fulfilling corporate governance duties and responsibilities including:

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

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

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

(d) to review the Company's compliance with the code and disclosure in this corporate governance report.

In order to comply with the requirements of the code provision A.6.5 of the Corporate Governance Code, all the Directors have participated in training in relation to continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remains informed and relevant. To summarise, the Directors received trainings on the following areas to update and develop their skills and knowledge during the year of 2014:

| | Training area | |
|---|---|---|
| | **Companies Ordinance** | **Listing Rules** |
| **Executive Directors** | | |
| Mr. Xiang Jie | √ | √ |
| Mr. Gong Renyuan | √ | √ |
| Mr. Yue Zhoumin | √ | √ |
| Mr. Huang Xiangqian (resigned on 5 December 2014) | √ | √ |
| Mr. Jin Jiafeng (appointed on 5 December 2014) | √ | √ |
| **Non-executive Directors** | | |
| Mr. Ye Weigang Greg | √ | √ |
| Mr. Wong Kun Kau | √ | √ |
| **Independent non-executive Directors** | | |
| Mr. Wang Yi | √ | √ |
| Mr. Chen Shimin | √ | √ |
| Mr. Li Fengling | √ | √ |

## DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2014 and of the Group's profit and cash flows for the year then ended and ensuring that such statements are prepared in accordance with the statutory requirements and applicable accounting standards.

## AUDITORS' REMUNERATION

Ernest & Young has been appointed as auditors of the Company since 2012. In 2014, the Company accepted the annual audit fee of RMB1.65 million proposed by Ernst & Young. The relevant selection, appointment and resignation procedures of accounting firms have been reviewed and approved by the audit committee and the Board.

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on page 30 in this annual report. During the year ended 31 December 2014, other than the audit fee, RMB0.55 million was paid to Ernst & Young for its performance of interim review.

## SECRETARY*

Mr. Lau Lap Kwan was appointed as a joint company secretary to the Company in February 2011 and redesignated as the company secretary to the Company in February 2014. Mr. Lau is an employee of the Company and reports to the chairman of the Board and is responsible for advising the Board on corporate governance matters. Mr. Lau has confirmed that he had taken not less than 15 hours on relevant professional training during the year of 2014.

* *Ms. Ma Sau Kuen Gloria was a joint company secretary of the Company and tendered her resignation with effect from 24 February 2014.*

## CONSTITUTIONAL DOCUMENTS

There were no changes in the Company's constitutional documents during the year of 2014.

## SHAREHOLDER'S RIGHTS

Pursuant to the articles of association of the Company, any Shareholder holding one-tenth or more of the paid up capital of the Company as at the date of putting forward requisition has rights to call for extraordinary general meeting to address any issues as set out in the relevant requisition by sending to the Board or the company secretary to the Company at the address of Building 9-A, KongGangRongHuiYuan, Yuhua Road, Tianzhu Airport Industrial Zone B, Shunyi District, Beijing, PRC a written requisition any time and the extraordinary general meeting shall be held within two months of the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/itself (themselves) may convene such meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to hold such meeting shall be reimbursed to the requisitionist(s) by the Company.

## MAKING ENQUIRIES TO THE BOARD

Shareholders who would like to make enquiries regarding the Company may send such enquiries by email to: ir@sunking-tech.com.

## INVESTOR RELATIONSHIP

The Company encourages two-way communications with its institutional and private investors. Extensive information about the Group's business is provided in the annual report and the interim report sent to the Shareholders. The Company will meet with investors after the announcement of financial results to explain the business, performance and future plan of the Company in order to strengthen the public's understanding of the Company. The annual general meetings provide a platform for direct communication between the Board and the Shareholders. The Company communicates with the media regularly, discloses financial and other information of the Group and its operation to the public to promote effective communication.

## CORPORATE CULTURE AND SOCIAL RESPONSIBILITY

The Company is fully aware of the benefits of establishing a sound corporate culture which is the soul of development for any company. A sound corporate culture not only is conducive to the management, but also brings a sense of belonging to employees and shareholders. The Company holds group activities from time to time to promote team cohesion. The Company publishes Sun.King Bimonthly (賽晶雙月刊) passing the news of daily activities and the core value of the Company to all employees. Apart from increasing the employee satisfaction, the Company also vigorously organises various community activities to contribute to the society.

### (a) Green energy

Challenged by increasingly acute environmental problems in the PRC in recent years, the Company actively responds to the call of the PRC government in relation to energy conservation and emission reduction and has been dedicated to the research and development and manufacturing of products which are more efficient in energy conservation and emission reduction. The Company has achieved satisfactory results in all product lines concerning green energy. The high-power rail transportation is the most environmental friendly way of travelling around and greatly reduces the pollution caused by vehicle emissions. Our products significantly ease the problems in respect of harmonics, voltage fluctuations, flickers and negative sequences, therefore reducing the grid load of industrial power distribution system to improve the energy saving effect, security and reliability of power supply and life cycle of various equipment.

### (b) Environmental protection

In respect of production and operations, the Group is dedicated to producing pollution-free products by improving design and technology. In respect of work style, the Group vigorously advocates a low carbon workplace with less consumption in paper, electricity and water. For instance, the Company's annual reports are printed on environmental friendly paper, and the adoption of a reasonable typesetting also reduces the total pages of annual reports.

### (c) Workplace environment

The Group always upholds the people-oriented management philosophy, and hopes that the employees grow together with the Group. In the year of 2014, the Group made major improvement in the workplace environment, such as relocating the offices of the Group. Other benefits offered include comprehensive medical benefits, nutritious workplace lunches and organising training courses on business know-how. The Group endeavours to satisfy reasonable demands from the employees, create a comfortable workplace environment and foster employees' development.

# REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report of the Company and the audited consolidated financial statements of the Group for the year ended 31 December 2014.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are trading and manufacture of power electronic components.

Details of the principal activities of the Company's principal subsidiaries are set out in note 18 to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2014 and its financial position as at that date are set out in the consolidated financial statements from pages 31 to 99 in this annual report.

The Board does not recommend the payment of any final dividend for the twelve months ended 31 December 2014 (corresponding period in 2013: HK1 cent per ordinary share).

## USE OF PROCEEDS FROM LISTING

Net proceeds of approximately HK$593.0 million were raised from the listing of the Company's shares on the Stock Exchange in October 2010 (the "**Listing**").

As at 31 December 2014, the total net proceeds from the Listing had been fully utilised for repayment of bank borrowings, land acquisition and construction of buildings for expansion of production capacity, building construction for research and development and working capital and general corporate expenses.

## FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 100 in this annual report. This summary does not form part of the audited consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year of 2014 are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the Company's issued share capital during the year of 2014 are set out in note 31 to the consolidated financial statements.

Prior to the Listing, the Company conditionally adopted a share option scheme (the "**Share Option Scheme**") on 23 September 2010 which became effective and unconditional upon the Listing. The purpose of the Share Option Scheme is to enable the Group to grant options to the Eligible Participants (as defined in the section headed "Share Option Scheme" in the prospectus of the Company dated 30 September 2010) as rewards or incentives for their contributions to the Group.

The Board may, at its absolute discretion, offer an option to Eligible Participants to subscribe for the shares of the Company at an exercise price and subject to the terms of the Share Option Scheme. The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 136,604,000 shares of the Company, being 10% of the total number of shares in issue at the time of the Listing.

The total number of shares of the Company issued and to be issued upon exercise of the options granted to or to be granted to each Eligible Participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares in issue. The Share Option Scheme will remain in force for a period of 10 years. Under the Share Option Scheme, each option has a 10-year exercise period unless otherwise determined by the Board.

Details of movements in the share options under the Share Option Scheme for the year ended 31 December 2014 and share options outstanding as at the beginning and the end of the year are set out below:

| | | Number of share options | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name of grantees | Date of grant | As at 1 January 2014 | Granted during the year | Exercised during the year | Lapsed during the year | Cancelled/ Forfeited during the year | As at 31 December 2014 | Exercise price per share *(HK$)* | Share price immediately before the grant date *(HK$ per share)* | Fair value of share options *(HK$ per share)* | Exercisable period |
| Mr. Xiang Jie *(Chairman of the Board, executive Director and substantial shareholder of the Company)* | 26 April 2012 | 12,000,000 | – | – | – | – | 12,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 to 25 April 2018 |
| | 28 May 2013 | 1,350,000 | – | – | – | – | 1,350,000 | 0.68 | 0.64 | 0.27 | 28 May 2014 to 27 May 2019 |
| | 28 August 2014* | – | 20,000,000 | – | – | – | 20,000,000 | 0.69 | 0.61 | 0.33 | 28 August 2015 to 27 August 2020 |
| Mr. Gong Renyuan *(Chief executive officer and executive Director)* | 27 April 2011 | 1,350,000 | – | – | – | – | 1,350,000 | 1.83 | 1.79 | 0.83 | 27 April 2012 to 26 April 2017 |
| | 26 April 2012 | 6,000,000 | – | – | – | – | 6,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 to 25 April 2018 |
| | 28 May 2013 | 1,000,000 | – | – | – | – | 1,000,000 | 0.68 | 0.64 | 0.27 | 28 May 2014 to 27 May 2019 |
| | 28 August 2014 | – | 10,000,000 | – | – | – | 10,000,000 | 0.69 | 0.61 | 0.33 | 28 August 2015 to 27 August 2020 |
| Mr. Yue Zhoumin *(Executive Director)* | 27 April 2011 | 420,000 | – | – | – | – | 420,000 | 1.83 | 1.79 | 0.83 | 27 April 2012 to 26 April 2017 |
| | 26 April 2012 | 1,000,000 | – | – | – | – | 1,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 to 25 April 2018 |
| | 28 May 2013 | 600,000 | – | – | – | – | 600,000 | 0.68 | 0.64 | 0.27 | 28 May 2014 to 27 May 2019 |
| | 28 August 2014 | – | 2,000,000 | – | – | – | 2,000,000 | 0.69 | 0.61 | 0.33 | 28 August 2015 to 27 August 2020 |
| Mr. Huang Xiangqian *(Executive Director, resigned on 5 December 2014)* | 27 April 2011 | 700,000 | – | – | – | – | 700,000 | 1.83 | 1.79 | 0.83 | 27 April 2012 to 26 April 2017 |
| | 26 April 2012 | 1,000,000 | – | – | – | – | 1,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 to 25 April 2018 |
| | 28 May 2013 | 600,000 | – | – | – | – | 600,000 | 0.68 | 0.64 | 0.27 | 28 May 2014 to 27 May 2019 |
| | 28 August 2014 | – | 1,200,000 | – | – | – | 1,200,000 | 0.69 | 0.61 | 0.33 | 28 August 2015 to 27 August 2020 |
| Mr. Jin Jiafeng *(Executive Director, appointed on 5 December 2014)* | 27 April 2011 | 700,000 | – | – | – | – | 700,000 | 1.83 | 1.79 | 0.83 | 27 April 2012 to 26 April 2017 |
| | 26 April 2012 | 1,000,000 | – | – | – | – | 1,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 to 25 April 2018 |
| | 28 May 2013 | 600,000 | – | – | – | – | 600,000 | 0.68 | 0.64 | 0.27 | 28 May 2014 to 27 May 2019 |
| | 28 August 2014 | – | 1,200,000 | – | – | – | 1,200,000 | 0.69 | 0.61 | 0.33 | 28 August 2015 to 27 August 2020 |

| Name of grantees | Date of grant | As at 1 January 2014 | Granted during the year | Exercised during the year | Lapsed during the year | Cancelled/ Forfeited during the year | As at 31 December 2014 | Exercise price per share *(HK$)* | Share price immediately before the grant date *(HK$ per share)* | Fair value of share options *(HK$ per share)* | Exercisable period |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Number of share options | | | | | | | | | |
| Ms. Ren Jie *(senior management and the spouse of Mr. Gong Renyuan)* | 27 April 2011 | 420,000 | - | - | - | - | 420,000 | 1.83 | 1.79 | 0.81 | 27 April 2012 to 26 April 2017 |
| | 26 April 2012 | 1,000,000 | - | - | - | - | 1,000,000 | 0.55 | 0.47 | 0.23 | 26 April 2013 to 25 April 2018 |
| | 28 May 2013 | 600,000 | - | - | - | - | 600,000 | 0.68 | 0.64 | 0.27 | 28 May 2014 to 27 May 2019 |
| | 28 August 2014 | - | 1,200,000 | - | - | - | 1,200,000 | 0.69 | 0.61 | 0.33 | 28 August 2015 to 27 August 2020 |
| | | 30,340,000 | 35,600,000 | - | - | - | 65,940,000 | | | | |
| Employees in aggregates | 27 April 2011 | 4,970,000 | - | - | - | (310,000) | 4,660,000 | 1.83 | 1.79 | 0.79 | 27 April 2012 to 26 April 2017 |
| | 26 April 2012 | 16,016,000 | - | (150,000) | - | (2,002,000) | 13,864,000 | 0.55 | 0.47 | 0.20 | 26 April 2013 to 25 April 2018 |
| | 28 May 2013 | 12,800,000 | - | - | - | (1,450,000) | 11,350,000 | 0.68 | 0.64 | 0.26 | 28 May 2014 to 27 May 2019 |
| | 28 August 2014 | - | 20,310,000 | - | - | (800,000) | 19,510,000 | 0.69 | 0.64 | 0.31 | 28 August 2015 to 27 August 2020 |
| Other grantees | 27 April 2011 | 4,000,000 | - | - | - | - | 4,000,000 | 1.83 | 1.79 | 0.83 | 27 April 2012 to 26 April 2017 |
| Total | | 68,126,000 | 55,910,000 | (150,000) | - | (4,562,000) | 119,324,000 | | | | |

* *Such grant of option is subject to approval by the Shareholders in the forthcoming annual general meeting.*

Further details of the Share Option Scheme are disclosed in note 32 to the consolidated financial statements.

## RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 34 in this annual report.

## DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands (the "**Companies Law**"), amounted to approximately RMB401.0 million (2013: RMB415.0 million), of which final dividend has not been proposed for the year ended 31 December 2014. In addition, under the Companies Law, the share premium account of the Company of approximately RMB400.2 million as at 31 December 2014 (2013: RMB400.1 million) was distributable to the Shareholders (subject to the provisions of the memorandum and articles of association of the Company), provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend, if any, is proposed to be paid. The Company's share premium account may be distributed in the form of fully paid bonus shares.

## DIRECTORS

The Directors during the year of 2014 and up to the date of this annual report were:

***Executive Directors***
Mr. Xiang Jie
Mr. Gong Renyuan
Mr. Yue Zhoumin
Mr. Huang Xiangqian (resigned on 5 December 2014)
Mr. Jin Jiafeng (appointed on 5 December 2014)

***Non-executive Directors***
Mr. Ye Weigang Greg
Mr. Wong Kun Kau

***Independent Non-executive Directors***
Mr. Wang Yi
Mr. Li Fengling
Mr. Chen Shimin

In accordance with Articles 83(3) and 84(1) of the articles of association of the Company, Mr. Xiang Jie, Mr. Jin Jiafeng and Mr. Wang Yi will retire by rotation and be eligible to offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each independent non-executive Director an annual confirmation of his independence from the Group, and as at the date of this annual report, the Company still considers them to be independent pursuant to Rule 3.13 of the Listing Rules.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Company are set out under the section headed "Biographies of Directors and Senior Management" in this annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has first been appointed for a term of three years commencing on the date of the Listing. Subsequently, each of Mr. Xiang Jie and Mr. Huang Xiangqian entered into a supplemental service agreement dated 1 June 2012 under which their terms of office would be three years from the date of the said supplemental agreement. Since Mr. Huang Xiangqian resigned on 5 December 2014 as the executive Director, his service agreement ceased to be effective on the same day. On 1 June 2013, Mr. Gong Renyuan entered into a supplemental service agreement for a term of three years commencing on 1 June 2013. Mr. Jin Jiafeng entered into a service agreement on 5 December 2014 for a term of three years commencing on 5 December 2014.

Each of the non-executive Directors has been appointed for a term of three years commencing on the date of the Listing. Subsequently, Mr. Ye Weigang Greg entered into a supplemental letter of appointment for a term of three years commencing on 1 June 2013. On 28 May 2014, Mr. Wong Kun Kau entered into a supplemental letter of appointment for a term of three years commencing on 28 May 2014.

The independent non-executive Directors, namely Mr. Wang Yi, Mr. Li Fengling and Mr. Chen Shimin, have first been appointed for a term of three years commencing on 1 July 2010, 1 July 2010 and 19 August 2010, respectively. Subsequently, Mr. Wang Yi entered into a supplemental letter of appointment for a term of three years commencing on 1 June 2012. On 28 May 2013, Mr. Li Fengling entered into a supplemental letter of appointment for a term of three years commencing on 1 June 2013. On 28 May 2014, Mr. Chen Shimin entered into a supplemental letter of appointment for a term of three years commencing on 28 May 2014.

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

## DIRECTORS' REMUNERATION

The Board has the general power of determining the Directors' remuneration, subject to authorisation of the Shareholders at the annual general meeting each year. The remuneration of the executive Directors is subject to review by the remuneration committee, and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group. As for the non-executive Directors and the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the remuneration committee. Details of the emoluments of the Directors are set out in note 8 and the five highest paid individuals are set out in note 9 to the consolidated financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS

During the year of 2014, no Director had material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which any member of the Group was a party.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2014, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "**SFO**"), as recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

| Name of Director | Nature of interest | Number of ordinary shares | Number of underlying shares held under equity derivatives *(Note 5)* | Total | Approximate percentage of interests in the Company *(Note 4)* |
|---|---|---|---|---|---|
| Mr. Xiang Jie | Beneficial owner and interest in controlled corporation | 421,182,347 *(Note 1)* | 33,350,000 *(Note 2)* | 454,532,347 | 33.35% |
| Mr. Gong Renyuan | Beneficial owner and the interest of spouse | 19,560,000 *(Note 3)* | 21,570,000 *(Note 4)* | 41,130,000 | 3.02% |
| Mr. Yue Zhoumin | Beneficial owner | 4,000,000 | 4,020,000 | 8,020,000 | 0.59% |
| Mr. Huang Xiangqian (resigned on 5 December 2014) | Beneficial owner | 4,450,000 | 3,500,000 | 7,950,000 | 0.58% |
| Mr. Jin Jiafeng (appointed on 5 December 2014) | Beneficial owner | 4,000,000 | 3,500,000 | 7,500,000 | 0.55% |

*Notes:*

1. As at 31 December 2014, among the 421,182,347 shares, 4,854,000 shares were directly held by Mr. Xiang Jie and the remaining 416,328,347 shares were directly held by Max Vision Holdings Limited. As at 31 December 2014, Max Vision Holdings Limited was wholly owned by Jiekun Limited, which was wholly owned by BNP Paribas Corporate Services Pte Ltd. As at 31 December 2014, BNP Paribas Corporate Services Pte Ltd. was wholly owned by BNP Paribas Singapore Trust Corporation Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries. Ms. Meng Fankun, being the spouse of Mr. Xiang Jie, is deemed under the SFO to be interested in the 454,532,347 shares in which Mr. Xiang Jie was interested.

2. Among the 33,350,000 shares which may be issued upon the exercise of the share options, 20,000,000 shares represented the shares which may be issued upon the exercise of the share option the grant of which shall be subject to approval by the Shareholders in the forthcoming annual general meeting.

3. As at 31 December 2014, among the 19,560,000 shares, 18,060,000 shares were held by Mr. Gong Renyuan and the remaining 1,500,000 shares were held by Ms. Ren Jie, the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan was deemed under the SFO to be interested in the 1,500,000 shares held by Ms. Ren Jie.

4. Among the 21,570,000 shares which may be issued upon the exercise of the share options, 18,350,000 shares represented the shares which may be issued upon the exercise of the share options granted to Mr. Gong Renyuan and the remaining 3,220,000 shares represented the shares which may be issued upon the exercise of the share options granted to Ms. Ren Jie, being the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan was deemed under the SFO to be interested in the 3,220,000 shares which may be issued upon the exercise of the share options granted to Ms. Ren Jie.

5. Such interests represented the interests in underlying shares in respect of share options granted by the Company to the relevant Directors as beneficial owners, the details of which are set out in the paragraph headed "Share Capital and Share Option Scheme" above.

6. There were 1,363,078,000 shares in issue as at 31 December 2014.

### (b) Short position in the shares, underlying shares and debentures of the Company

None of the Directors or the chief executives of the Company had short positions in the shares, underlying shares and debentures of the Company or its associated corporations as at 31 December 2014.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year of 2014 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was any member of the Group a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2014, to the best knowledge of the Directors, the records of interests (being 5% or more of the issued share capital of the Company, other than the Directors or the chief executive of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

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

| Name of substantial Shareholder | Nature of interest | Total number of shares held | Approximate percentage of interests in the Company (Note 5) |
|---|---|---|---|
| Max Vision Holdings Limited | Beneficial owner | 416,328,347 (Note 1) | 30.55% |
| Jiekun Limited | Interest in controlled corporation | 416,328,347 (Note 1) | 30.55% |
| BNP Paribas Corporate Service Pte Ltd. | Interest in controlled corporation | 416,328,347 (Note 1) | 30.55% |
| BNP Paribas Singapore Trust Corporation Limited | Interest in controlled corporation | 416,328,347 (Note 1) | 30.55% |
| Meng Fankun | Interest of spouse | 454,532,347 (Notes 1 and 2) | 33.35% |
| NewMargin Growth Fund L.P. | Beneficial owner | 200,000,000 | 14.67% |
| Common Goal Holdings Limited | Beneficial owner | 89,570,000 | 6.57% |
| Peregrine Greater China Capital Appreciation Fund, L.P. | Interest in controlled corporation | 89,570,000 (Note 3) | 6.57% |
| Bull Capital Partners GP Limited | Interest in controlled corporation | 89,570,000 (Note 4) | 6.57% |

*Notes:*

1. As at 31 December 2014, Max Vision Holdings Limited was wholly owned by Jiekun Limited, which was wholly owned by BNP Paribas Corporate Services Pte Ltd. As at 31 December 2014, BNP Paribas Corporate Services Pte Ltd. was wholly owned by BNP Paribas Singapore Trust Corporation Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries. As such, Jiekun Limited, BNP Paribas Corporate Service Pte Ltd. and BNP Paribas Singapore Trust Corporation Limited were deemed under the SFO to be interested in the 416,328,347 shares held by Max Vision Holdings Limited.

2. Ms. Meng Fankun, being the spouse of Mr. Xiang Jie, is deemed under the SFO to be interested in the 454,532,347 shares in which Mr. Xiang Jie was interested.

3. Peregrine Greater China held 100% equity interest in Common Goal Holdings Limited. As such, it is deemed under the SFO to be interested in the 89,570,000 shares held by Common Goal Holdings Limited.

4. Bull Capital Partners GP Limited was the general partner of Peregrine Greater China Capital Appreciation Fund, L.P. and held approximately 6.49% of its equity interests. As such, Bull Capital Partners GP Limited is deemed under the SFO to be interested in the 89,570,000 shares held indirectly by Peregrine Greater China Capital Appreciation Fund, L.P. in Common Goal Holdings Limited.

5. There were 1,363,078,000 Shares in issue as at 31 December 2014.

### (b) Short position in the shares and underlying shares of the Company:

Save as disclosed above, as at 31 December 2014, the Company had not been notified of any interest or short position in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company under section 336 of the SFO.

## NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling Shareholders, being Mr. Xiang and Max Vision Holdings Limited, in respect of their compliance with the non-competition undertaking. The independent non-executive Directors have reviewed the aforesaid undertaking and are of the view that Mr. Xiang and Max Vision Holdings Limited had complied with the non-competition undertaking during the year of 2014.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were 1,363,078,000 shares of the Company in issue as at 31 December 2014.

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year of 2014.

## PRE-EMPTIVE RIGHTS

Unless otherwise required by the Stock Exchange, there were no provisions under the articles of association of the Company or the laws of the Cayman Islands (being the jurisdiction in which the Company is incorporated) which would oblige the Company to offer any pre-emptive right of new shares on a pro-rata basis to the Shareholders.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company are set out in note 37 to the consolidated financial statements.

## HUMAN RESOURCES

As at 31 December 2014, the Group employed 587 employees. Key components of the Group's remuneration packages included basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The Group conducts periodic reviews on the performance of our employees and their salaries and bonuses are performance-based. The Group did not experience any significant problem with our employees or disruption to our operations due to labour disputes, nor did the Group experience any difficulty in the recruitment and retention of experienced employees. The Group continues to maintain a good relationship with our employees.

## FOREIGN CURRENCY EXPOSURE

Details of the foreign currency exposure for the year of 2014 are set out on page 8 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

According to information publicly available to the Company and to the knowledge of the Directors, as at the date of this annual report, at least 25% of the Company's total issued share capital was held by the public.

## SHARE CAPITAL

Details of the movements in the share capital of the Company for the year of 2014 are set out in note 31 to the consolidated financial statements.

## DONATIONS

During the year of 2014, the Group did not make any charitable donation (2013: RMB100,000).

## MAJOR SUPPLIERS AND CUSTOMERS

In the year of 2014, the Group's largest supplier accounted for approximately 36.9% (2013: 43.6%) of the Group's total purchases. The Group's five largest suppliers accounted for approximately 46.5% (2013: 54.5%) of the Group's total purchases.

In the year under review, the Group's sales to its five largest customers accounted for approximately 43.2% (2013: 65.5%) of the Group's total sales. The Group's largest customer accounted for approximately 25.4% (2013: 25.4%) of the Group's total sales.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (who, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers or five largest suppliers.

## AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The audit committee was established on 19 August 2010 with written terms of reference in compliance with the Listing Rules. The audit committee is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any issues regarding the resignation or dismissal of that auditors; monitoring the integrity of financial statements, annual reports and accounts, interim reports and, (if prepared for publication) quarterly reports, and reviewing material financial reporting judgments therein; and reviewing the systems of financial control, internal control and risk management.

The audit committee has reviewed with the management of the Group the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2014. The consolidated financial statements for the year ended 31 December 2014 have been audited by the Company's external auditors, Ernst & Young.

## CORPORATE GOVERNANCE

The Company has published its corporate governance report, which is set out from pages 12 to 19 in this annual report.

## PROSPECTS

Looking forward into 2015, the Group will continue to adhere to the target of being the industry-leading electric power system solution integrator. The Group will also continue to strengthen its independent research and development in technology and product innovation, improve product quality, reinforce personnel training and talents introduction, develop diversified products and improve operational efficiency, in order to realise the sustainable and rapid development of the Group.

In 2014, the PRC government promulgated the “Plan for Strengthening the Prevention and Control of Atmospheric Pollution in Energy Industry” (能源行業加強大氣污染防治工作方案) which clearly set out the goal of completing the construction of 12 anti-smog transregional transmission lines including eight HVDC transmission lines. Additionally, according to the “Record Investment Plans for 2015” (二零一五年投資計劃) of State Grid Corporation of China, it is planned that five alternating current and eight direct current (五交八直) ultra-high voltage transmission lines coming to a total of 13 ultra-high voltage transmission lines will be constructed, and together with the construction of another five vertical and five horizontal transmission lines (五縱五橫), a total of 27 ultra-high voltage transmission lines will be built by the end of the year of 2020. Accordingly, the year of 2015 and the five years onwards will be the new heights of the demand for ultra-high voltage transmission project related procurement. Furthermore, flexible direct current transmission projects, with their unique advantage of compatibility with new energy and island supply, together with the development and maturity of technology, are expected to be a milestone for grid construction in general in the coming few years. Therefore, the Group is confident about our business development within the abovementioned areas.

In line with our development strategy, the Group will continue to reinforce our product diversification in the rail transportation sector. In the year of 2015, the Group will maintain our long term cooperation with CNR. At the same time, the Group will strengthen our sales and maintenance services of power modules of traction inverters of metro vehicles and develop the market of products for electrified rail substation power quality management. Furthermore, effort will be devoted in the research and development of new products such as electrified railway rectifier devices, in order to achieve product diversification and increase in our business scale in the rail transportation sector.

In 2015, under the favourable condition for energy saving-related modifications and power efficiency enhancement of industrial catalogues in the PRC, the Group will continue to promote our power-related electrical components and equipment with high effectiveness and efficiency, and leverage the research and development of new technologies such as the isolated operation project, in order to assist our industrial customers to realise safe and efficient power usage.

The Group will seize opportunities for growth in terms of market share and revenue through various channels such as strategic alliance with strategic partners, mergers and acquisitions and formation of long term business collaboration with large customers and will gradually explore both regional and overseas markets.

## CHANGE OF ADDRESS OF HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

The address of the Hong Kong branch share registrar and transfer office of the Company, Tricor Investor Services Limited, has been changed to Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, as announced in the announcement of the Company dated 7 March 2014.

## CLOSURE OF REGISTER

In order to establish the identity of the Shareholders who are entitled to attend and vote at the forthcoming annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 4 May 2015. The register of members of the Company will be closed from Tuesday, 5 May 2015 to Thursday, 7 May 2015, both dates inclusive, during which period no transfer of shares will be registered.

## AUDITORS

Ernst & Young retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Xiang Jie**
*Chairman*

Hong Kong, 17 March 2015

安永

**To the shareholders of Sun.King Power Electronics Group Limited**
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sun.King Power Electronics Group Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 31 to 99, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

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

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
17 March 2015

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| REVENUE | *5* | **517,301** | 739,865 |
| Cost of sales | | **(358,209)** | (517,698) |
| Gross profit | | **159,092** | 222,167 |
| Other income and gains | *5* | **23,797** | 14,842 |
| Selling and distribution expenses | | **(68,450)** | (64,382) |
| Administrative expenses | | **(74,394)** | (69,898) |
| Other expenses and losses | | **(51,663)** | (27,491) |
| Finance costs | *7* | **(15,995)** | (16,969) |
| Share of losses of: | | | |
| Joint ventures | | **(1,398)** | (1,143) |
| An associate | | **(3,232)** | (310) |
| PROFIT/(LOSS) BEFORE TAX | *6* | **(32,243)** | 56,816 |
| Income tax expense | *10* | **(6,357)** | (14,913) |
| PROFIT/(LOSS) AND TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | **(38,600)** | 41,903 |
| Attributable to: | | | |
| Owners of the parent | *11* | **(32,138)** | 42,917 |
| Non-controlling interests | | **(6,462)** | (1,014) |
| | | **(38,600)** | 41,903 |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | *13* | | |
| Basic | | **RMB(2.36) cents** | RMB3.15 cents |
| Diluted | | **RMB(2.36) cents** | RMB3.14 cents |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

| | *Notes* | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | *14* | **374,715** | 342,280 |
| Prepaid land lease payments | *15* | **59,333** | 60,734 |
| Deposits for purchase of items of property, plant and equipment | | **156** | 1,315 |
| Goodwill | *16* | **34,159** | 37,159 |
| Other intangible assets | *17* | **24,053** | 24,950 |
| Club memberships | | **2,534** | 2,534 |
| Investments in joint ventures | *19* | **16,507** | 2,205 |
| Investment in an associate | *20* | **20,958** | 24,190 |
| Available-for-sale investment | *21* | **16,800** | 16,800 |
| Trade receivables | *23* | **82,467** | 93,994 |
| Deferred tax assets | *30* | **10,838** | 6,960 |
| Total non-current assets | | **642,520** | 613,121 |
| CURRENT ASSETS | | | |
| Inventories | *22* | **134,009** | 91,920 |
| Trade and bills receivables | *23* | **420,395** | 524,579 |
| Prepayments, deposits and other receivables | *24* | **48,694** | 36,597 |
| Prepaid land lease payments | *15* | **1,401** | 1,401 |
| Derivative financial instruments | *28* | **–** | 743 |
| Pledged deposits | *25* | **1,597** | 17,375 |
| Cash and cash equivalents | *25* | **113,558** | 153,860 |
| Total current assets | | **719,654** | 826,475 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | *26* | **161,474** | 142,477 |
| Other payables and accruals | *27* | **75,848** | 71,575 |
| Derivative financial instruments | *28* | **6,922** | – |
| Interest-bearing bank borrowings | *29* | **229,000** | 299,000 |
| Tax payable | | **22,829** | 18,091 |
| Total current liabilities | | **496,073** | 531,143 |
| NET CURRENT ASSETS | | **223,581** | 295,332 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **866,101** | 908,453 |

*(continued)*

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **866,101** | 908,453 |
| NON-CURRENT LIABILITIES | | | |
| Deferred income | | **21,746** | 16,297 |
| Deferred tax liabilities | *30* | **12,351** | 13,429 |
| Total non-current liabilities | | **34,097** | 29,726 |
| Net assets | | **832,004** | 878,727 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | *31* | **117,168** | 117,156 |
| Reserves | *33(a)* | **677,376** | 703,703 |
| Proposed final dividend | *12* | **–** | 11,716 |
| | | **794,544** | 832,575 |
| **Non-controlling interests** | | **37,460** | 46,152 |
| Total equity | | **832,004** | 878,727 |

**Xiang Jie**
*Director*

**Yue Zhoumin**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

| | | Attributable to owners of the parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Notes* | Share capital | Share premium account# | Employee share-based compensation reserve | Capital redemption reserve | Deemed contribution reserve | Other reserve | Retained profits/ (accumulated losses) | Proposed final dividend | Total | Non-controlling interests | Total equity |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (*note a*) | RMB'000 (*note b*) | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2013 | | 117,137 | 399,888 | 9,032 | 288 | 14,765 | 248,697 | (4,451) | – | 785,356 | 47,166 | 832,522 |
| Profit and total comprehensive income/(loss) for the year | | – | – | – | – | – | – | 42,917 | – | 42,917 | (1,014) | 41,903 |
| Exercise of share options | 32 | 19 | 231 | (147) | – | – | – | – | – | 103 | – | 103 |
| Share-based payments | 32 | – | – | 4,199 | – | – | – | – | – | 4,199 | – | 4,199 |
| Proposed final 2013 dividend | 12 | – | – | – | – | – | – | (11,716) | 11,716 | – | – | – |
| **At 31 December 2013 and at 1 January 2014** | | **117,156** | **400,119*** | **13,084*** | **288*** | **14,765*** | **248,697*** | **26,750*** | **11,716** | **832,575** | **46,152** | **878,727** |
| Loss and total comprehensive loss for the year | | **-** | **-** | **-** | **-** | **-** | **-** | **(32,138)** | **-** | **(32,138)** | **(6,462)** | **(38,600)** |
| Acquisition of non-controlling interests | | **-** | **-** | **-** | **-** | **-** | **2,079** | **-** | **-** | **2,079** | **(2,230)** | **(151)** |
| Exercise of share options | 32 | **12** | **77** | **(24)** | **-** | **-** | **-** | **-** | **-** | **65** | **-** | **65** |
| Share-based payments | 32 | **-** | **-** | **2,783** | **-** | **-** | **-** | **-** | **-** | **2,783** | **-** | **2,783** |
| Final 2013 dividend paid | | **-** | **-** | **-** | **-** | **-** | **-** | **896** | **(11,716)** | **(10,820)** | **-** | **(10,820)** |
| At 31 December 2014 | | **117,168** | **400,196*** | **15,843*** | **288*** | **14,765*** | **250,776*** | **(4,492)*** | **-** | **794,544** | **37,460** | **832,004** |

*Notes:*

(a) Deemed contribution reserve represents share-based payment expense incurred and recognised by the Group as settled by issue of shares of Sun.King Group Limited (賽晶集團有限公司) ("**Sunking BVI**"), a former shareholder of the Company.

(b) Other reserve mainly represents a certain waiver of loans and/or advances by Sunking BVI to the Group in prior years and the reserve arose from acquisition of non-controlling interests.

* *These reserve accounts comprise the consolidated reserves of RMB677,376,000 (2013: RMB703,703,000) in the consolidated statement of financial position.*

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit/(loss) before tax | | **(32,243)** | 56,816 |
| Adjustments for: | | | |
| Finance costs | 7 | **15,995** | 16,969 |
| Share of losses of joint ventures and an associate | | **4,630** | 1,453 |
| Interest income | 5 | **(2,182)** | (1,352) |
| Gain on disposal of items of property, plant and equipment | 5 | **(11,865)** | (183) |
| Depreciation | 6 | **19,134** | 16,956 |
| Amortisation of other intangible assets | 6 | **1,184** | 1,371 |
| Impairment of trade and other receivables | 6 | **16,644** | 4,424 |
| Fair value losses on foreign currency forward contracts, net | 6 | **11,983** | 4,062 |
| Amortisation of prepaid land lease payments | 6 | **1,401** | 1,401 |
| Impairment of goodwill | 6 | **3,000** | 3,198 |
| Impairment of items of property, plant and equipment | 6 | **–** | 196 |
| Amortisation of deferred income | | **(6,090)** | (2,085) |
| Write-down of inventories to net realisable value | 6 | **3,802** | 942 |
| Share-based payment expense | 6 | **2,783** | 4,199 |
| | | **28,176** | 108,367 |
| Decrease/(increase) in inventories | | **(45,891)** | 36,776 |
| Decrease/(increase) in trade and bills receivables | | **99,361** | (103,362) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **(12,391)** | 28,459 |
| Increase/(decrease) in trade and bills payables | | **18,997** | (18,626) |
| Increase in other payables and accruals | | **4,273** | 17,715 |
| Increase in derivative financial instruments | | **(4,318)** | (3,429) |
| Decrease in an advance to a director | | **–** | 180 |
| Cash generated from operations | | **88,207** | 66,080 |
| Interest paid | | **(15,995)** | (16,969) |
| Income taxes paid | | **(6,575)** | (14,628) |
| Net cash flows from operating activities | | **65,637** | 34,483 |

*(continued)*

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| Net cash flows from operating activities | | **65,637** | 34,483 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **2,182** | 868 |
| Purchases of items of property, plant and equipment | | **(80,280)** | (57,227) |
| Proceeds from disposal of items of property, plant and equipment | | **40,576** | 497 |
| Decrease/(increase) in deposits for purchase of items of property, plant and equipment | | **1,159** | (208) |
| Additions to other intangible assets | *17* | **(287)** | (1,212) |
| Decrease in pledged deposits | | **15,778** | 558 |
| Investment in a joint venture | | **(15,700)** | – |
| Investment in an associate | | **–** | (24,500) |
| Purchase of an available-for-sale investment | | **–** | (16,800) |
| Receipt of government grants | | **11,539** | – |
| Net cash flows used in investing activities | | **(25,033)** | (98,024) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from exercise of share options | *31* | **65** | 103 |
| New bank loans | | **490,800** | 516,702 |
| Repayment of bank loans | | **(560,800)** | (486,064) |
| Acquisition of non-controlling interests | | **(151)** | – |
| Dividends paid | | **(10,820)** | – |
| Net cash flows from/(used in) financing activities | | **(80,906)** | 30,741 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(40,302)** | (32,800) |
| Cash and cash equivalents at beginning of year | | **153,860** | 186,660 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **113,558** | 153,860 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | *25* | **113,558** | 153,860 |

# STATEMENT OF FINANCIAL POSITION

31 December 2014

| | Notes | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investments in subsidiaries | *18* | **515,632** | 515,461 |
| Total non-current assets | | **515,632** | 515,461 |
| CURRENT ASSETS | | | |
| Deposits and other receivables | *24* | **42** | 42 |
| Due from a subsidiary | *18* | **66,797** | 77,900 |
| Cash and cash equivalents | *25* | **772** | 870 |
| Total current assets | | **67,611** | 78,812 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | *27* | **29** | 43 |
| Total current liabilities | | **29** | 43 |
| NET CURRENT ASSETS | | **67,582** | 78,769 |
| Net assets | | **583,214** | 594,230 |
| EQUITY | | | |
| Issued capital | *31* | **117,168** | 117,156 |
| Reserves | *33(b)* | **466,046** | 465,358 |
| Proposed final dividend | *12* | **–** | 11,716 |
| Total equity | | **583,214** | 594,230 |

**Xiang Jie**
*Director*

**Yue Zhoumin**
*Director*

## 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 19 March 2010. The ordinary shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with effect from 13 October 2010. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. The Group was principally engaged in the trading and manufacturing of power electronic components during the year.

In the opinion of the directors of the Company, the Company's immediate holding company is Max Vision Holdings Limited, which is ultimately controlled by Mr. Xiang Jie, the founder and a director of the Company.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) promulgated by the International Accounting Standards Board (the "**IASB**") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) | *Investment Entities* |
| Amendments to IAS 32 | *Offsetting Financial Assets and Financial Liabilities* |
| Amendments to IAS 36 | *Recoverable Amount Disclosures for Non-Financial Assets* |
| Amendments to IAS 39 | *Novation of Derivatives and Continuation of Hedge Accounting* |
| International Financial Reporting Interpretations Committee ("**IFRIC**") 21 | *Levies* |
| Amendment to IFRS 2 included in *Annual Improvements 2010-2012 Cycle* | *Definition of Vesting Condition*[1] |
| Amendment to IFRS 3 included in *Annual Improvements 2010-2012 Cycle* | *Accounting for Contingent Consideration in a Business Combination*[1] |
| Amendment to IFRS 13 included in *Annual Improvements 2010-2012 Cycle* | *Short-term Receivables and Payables* |
| Amendment to IFRS 1 included in *Annual Improvements 2011-2013 Cycle* | *Meaning of Effective IFRSs* |

[1] *Effective from 1 July 2014*

Except for the amendment to IFRS 1 which is only relevant to an entity's first IFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

(a) Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (2011). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in IFRS 10.

(b) The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments have had no impact on the Group as the Group does not have any offsetting arrangement.

(c) The IAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(d) IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets which are consistent with the requirements of IFRIC 21.

(e) The IFRS 2 Amendment clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including (i) a performance condition must contain a service condition; (ii) a performance target must be met while the counterparty is rendering service; (iii) a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; (iv) a performance condition may be a market or non-market condition; and (v) if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied. The amendment has had no impact on the Group.

(f) The IFRS 3 Amendment clarifies that contingent consideration arrangements arising from a business combination that are not classified as equity should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 or IAS 39. The amendment has had no impact on the Group.

(g) The IFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

## 2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

| | |
|---|---|
| IFRS 9 | *Financial Instruments*[4] |
| Amendments to IFRS 10 and IAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2] |
| Amendments to IFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations*[2] |
| IFRS 14 | *Regulatory Deferral Accounts*[5] |
| IFRS 15 | *Revenue from Contracts with Customers*[3] |
| Amendments to IAS 16 and IAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation*[2] |
| Amendments to IAS 16 and IAS 41 | *Agriculture: Bearer Plants*[2] |
| Amendments to IAS 19 | *Defined Benefit Plans: Employee Contributions*[1] |
| Amendments to IAS 27 (2011) | *Equity Method in Separate Financial Statements*[2] |
| *Annual Improvements 2010-2012 Cycle* | Amendments to a number of IFRSs[1] |
| *Annual Improvements 2011-2013 Cycle* | Amendments to a number of IFRSs[1] |
| *Annual Improvements 2012-2014 Cycle* | Amendments to a number of IFRSs[2] |

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

## 2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED *(continued)*

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

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

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

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

The *Annual Improvements to IFRSs 2010-2012 Cycle* issued in December 2013 sets out amendments to a number of IFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

## 2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED *(continued)*

IFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

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

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss and other comprehensive income to the extent of dividends received and receivable.

### Investments in an associate and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in an associate and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of the associate and the joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associate or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate or joint ventures is included as part of the Group's investments in the associate or joint ventures.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments in an associate and joint ventures *(continued)*

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Business combinations and goodwill *(continued)*

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposal of and the portion of the cash-generating unit retained.

### Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

### Impairment of non-financial assets

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of non-financial assets *(continued)*

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

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

### Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

| | |
|---|---|
| Buildings | 2.1% to 21.1% |
| Leasehold improvements | Over the shorter of the lease term and 20% |
| Plant and machinery | 4.8% to 31.0% |
| Furniture and fixtures | 10% to 33.3% |
| Motor vehicles | 10.0% to 23.8% |

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

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

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

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

***Trademark***

Trademarks with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. These intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Intangible assets (other than goodwill) *(continued)*

***Patents and computer software***

Patents and computer software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding ten years.

***Research and development costs***

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

### Operating leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

### Investments and other financial assets

***Initial recognition and measurement***

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

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

***Subsequent measurement***

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets *(continued)*

***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

***Loans and receivables***

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

***Available-for-sale financial investments***

Available-for-sale financial investments are non-derivative financial assets in listed or unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, an available-for-sale financial investment is subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss and other comprehensive income in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss and other comprehensive income as other income in accordance with the policies set out for "Revenue recognition" below.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets *(continued)*

***Available-for-sale financial investments*** *(continued)*

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

### Derecognition of financial assets

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

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

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

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

### Impairment of financial assets

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of financial assets *(continued)*

***Financial assets carried at amortised cost***

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

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

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

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

***Assets carried at cost***

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

***Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss– is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial liabilities

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate.

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

The Group's financial liabilities include trade and bills payables, other payables and accruals, derivative financial instruments and interest-bearing bank borrowings.

***Subsequent measurement***

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

***Financial liabilities at fair value through profit or loss***

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

***Loans and borrowings***

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

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

### Derecognition of financial liabilities

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

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

### Offsetting of financial instruments

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Derivative financial instruments

***Initial recognition and subsequent measurement***

The Group uses derivative financial instruments, such as foreign currency forward contracts, to hedge its foreign currency risk. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

The fair value of foreign currency forward contracts is determined using the rates quoted by the Group's bankers to terminate the contracts at the end of the reporting period.

### Inventories

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

### Cash and cash equivalents

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

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

### Provisions

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

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

### Income tax

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax *(continued)*

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, in the period in which the services are recorded;

(c) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

### Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes-Merton option pricing model, further details of which are given in note 32 to the financial statements.

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

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Other employee benefits

***Pension schemes***

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

### Borrowing costs

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

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

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

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Judgement

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

***Withholding tax arising from the distribution of dividends***

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the distribution plan of dividends.

### Estimation uncertainty

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

***Impairment of goodwill***

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of good will at 31 December 2014 was RMB34,159,000 (2013: RMB37,159,000). Further details are given in note 16.

***Impairment of non-financial assets (other than goodwill)***

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

***Deferred tax assets***

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets (2013: RMB479,000) relating to tax losses was recognised at 31 December 2014. The amount of unrecognised tax losses at 31 December 2014 was RMB140,115,000 (2013: RMB105,532,000). Further details are contained in note 30 to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

### Estimation uncertainty *(continued)*

***Impairment of available-for-sale financial assets***

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in profit or loss. At 31 December 2014, there was no impairment loss recognised for available-for-sale asset (2013: Nil). The carrying amount of available-for-sale investment was RMB16,800,000 (2013: RMB16,800,000).

***Impairment of receivables***

Impairment of receivables is made based on an assessment of the recoverability of trade and other receivables and the timing of their recovery. The identification of impairment of receivables requires management judgement and estimation. Where the actual outcome or expectation in future is different from the original estimates, the differences will impact on the carrying value of trade and other receivables and the amount of impairment/write-back of impairment in the periods in which the estimates have been changed. At 31 December 2014, the carrying amount of trade and bills receivables and other receivables were RMB502,862,000 (2013: RMB618,573,000) and RMB39,777,000 (2013: RMB29,606,000), respectively.

***Write-down of inventories to net realisable value***

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which the estimate has been changed. At 31 December 2014, the carrying amount of inventories was RMB134,009,000 (2013: RMB91,920,000).

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has one reportable operating segment which is principally engaged in the manufacturing and trading of power electronic components.

### Geographical information

As the Group's major operations, customers and non-current assets are located in the People's Republic of China (the "**PRC**"), no further geographical segment information is provided.

### Information about major customers

Revenue from major customers that individually accounted for 10% or more of the Group's revenue is as follows:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Customer A | **115,799** | 187,924 |
| Customer B * | **–** | 95,182 |
| Total | **115,799** | 283,106 |

* *The sales to customer B were less than 10% of the Group's revenue for the year ended 31 December 2014.*

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold after allowances for returns and trade discounts during the year.

An analysis of revenue, other income and gains is as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| **Revenue** | | |
| Sale of goods | **517,301** | 739,865 |
| **Other income** | | |
| Government grants* | **6,090** | 10,555 |
| Interest income | **2,182** | 1,352 |
| Sale of scrap materials | **1,643** | 1,059 |
| Commission income | **–** | 846 |
| Others | **2,017** | 343 |
| | **11,932** | 14,155 |
| **Gains** | | |
| Gain on disposal of items of property, plant and equipment, net | **11,865** | 183 |
| Foreign exchange differences, net | **–** | 504 |
| | **11,865** | 687 |
| | **23,797** | 14,842 |

* *Various government grants have been received for investments in certain provinces in Mainland China in which the Company's subsidiaries operate. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these government grants.*

## 6. PROFIT/(LOSS) BEFORE TAX

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

| | Notes | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **354,407** | 516,756 |
| Write-down of inventories to net realisable value | | **3,802** | 942 |
| Cost of sales | | **358,209** | 517,698 |
| Auditors' remuneration | | **1,650** | 1,650 |
| Depreciation | *14* | **19,134** | 16,956 |
| Amortisation of other intangible assets | *17* | **1,184** | 1,371 |
| Amortisation of land lease payments | *15* | **1,401** | 1,401 |
| Impairment of goodwill* | *16* | **3,000** | 3,198 |
| Minimum lease payments under operating leases for land and buildings | | **2,945** | 2,148 |
| Impairment of items of property, plant and equipment* | *14* | **–** | 196 |
| Impairment of trade and other receivables* | | **16,644** | 4,424 |
| Fair value losses on foreign currency forward contracts, net* | | **11,983** | 4,062 |
| Fair value losses on derivative financial instruments* | | **–** | 734 |
| Foreign exchange differences, net* | | **539** | (504) |
| Research and development costs* | | **19,497** | 14,877 |
| Employee benefit expense (including directors' and chief executive's remuneration (note 8)): | | | |
| Wages and salaries | | **23,785** | 30,707 |
| Share-based payment expense | | **2,783** | 4,199 |
| Pension scheme contributions** | | **6,206** | 4,830 |
| | | **32,774** | 39,736 |

* *The impairment of goodwill, impairment of items of property, plant and equipment, impairment of trade and other receivables, net fair value losses on foreign currency forward contracts, fair value losses of derivative financial instruments, net foreign exchange losses and research and development costs are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.*

** *At 31 December 2014, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2013: Nil).*

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | **Group** | |
|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 |
| Interest on bank loans wholly repayable within five years | **15,995** | 16,969 |

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Fees | **851** | 876 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **2,152** | 1,730 |
| Share-based payment expense | **1,706** | 1,455 |
| Pension scheme contributions | **141** | 164 |
| | **3,999** | 3,349 |
| | **4,850** | 4,225 |

During the year and in the prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of these options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

### (a) Independent non-executive directors

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

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Mr. Wang Yi | **126** | 130 |
| Mr. Li Fengling | **126** | 130 |
| Mr. Chen Shimin | **126** | 130 |
| | **378** | 390 |

There were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

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

| | **Fees RMB'000** | **Salaries, allowances and benefits in kind RMB'000** | **Share-based payment expense RMB'000** | **Pension scheme contributions RMB'000** | **Total remuneration RMB'000** |
|---|---|---|---|---|---|
| 2014 | | | | | |
| Executive directors: | | | | | |
| Mr. Xiang Jie | **79** | **736** | **936** | **37** | **1,788** |
| Mr. Gong Renyuan* | **79** | **600** | **535** | **37** | **1,251** |
| Mr. Yue Zhoumin | **79** | **420** | **126** | **29** | **654** |
| Mr. Huang Xiangqian** | **79** | **396** | **108** | **38** | **621** |
| Mr. Jin Jiafeng*** | **–** | **420** | **108** | **39** | **567** |
| | **316** | **2,572** | **1,813** | **180** | **4,881** |
| Non-executive directors: | | | | | |
| Mr. Ye Weigang Greg | **79** | **–** | **–** | **–** | **79** |
| Mr. Wong Kun Kau | **79** | **–** | **–** | **–** | **79** |
| | **158** | **–** | **–** | **–** | **158** |
| | **474** | **2,572** | **1,813** | **180** | **5,039** |

* *Mr. Gong Renyuan is also the chief executive of the Company.*

** *Mr. Huang Xiangqian resigned as an executive director of the Company on 5 December 2014.*

*** *Mr. Jin Jiafeng was appointed as an executive director of the Company on 5 December 2014.*

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Share-based payment expense RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| 2013 | | | | | |
| Executive directors: | | | | | |
| Mr. Xiang Jie | 81 | 600 | 725 | 39 | 1,445 |
| Mr. Gong Renyuan* | 81 | 500 | 485 | 39 | 1,105 |
| Mr. Yue Zhoumin | 81 | 300 | 111 | 39 | 531 |
| Mr. Huang Xiangqian | 81 | 330 | 134 | 47 | 592 |
| | 324 | 1,730 | 1,455 | 164 | 3,673 |
| Non-executive directors: | | | | | |
| Mr. Ye Weigang Greg | 81 | – | – | – | 81 |
| Mr. Wong Kun Kau | 81 | – | – | – | 81 |
| | 162 | – | – | – | 162 |
| | 486 | 1,730 | 1,455 | 164 | 3,835 |

* *Mr. Gong Renyuan is also the chief executive of the Company.*

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors which included the chief executive (2013: three directors which included the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2013: two) highest paid employee who is neither a director nor chief executive of the Company are as follows:

| | **Group** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **500** | 800 |
| Share-based payment expense | **152** | 304 |
| Pension scheme contributions | **37** | 78 |
| | **689** | 1,182 |

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

| | **Number of employees** | |
|---|---|---|
| | **2014** | 2013 |
| Nil to HK$1,000,000 | **1** | 2 |

During the year and in the prior years, share options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 32 to the financial statements. The fair value of these options, which has been recognised in the profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employee's remuneration disclosures.

## 10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to corporate income tax ("**CIT**") at a rate of 25%.

Wuxi Zhuofeng Information Technology Co., Ltd.* (無錫卓峰信息科技有限公司), a subsidiary of the Company, was recognised as a wholly-foreign-owned enterprise and was entitled to tax exemption from CIT for two years commencing from the first profit making year in 2012, followed by a 50% tax rate reduction for CIT for the subsequent three years.

Jiashan Sunking Power Equipment Technology Co., Ltd.* (嘉善華瑞賽晶電氣設備科技有限公司), a subsidiary of the Company, was registered as a new and high technology enterprise, and is subject to CIT at a rate of 15% for the three years ending 31 December 2015.

Jiujiang Jiuzheng Rectifier Co., Ltd.* ("**Jiujiang Rectifier**") (九江九整整流器有限公司) and Wuhan Langde Electrics Co., Ltd.* (武漢朗德電氣有限公司), subsidiaries of the Company, were registered as new and high technology enterprises, and are subject to CIT at a rate of 15% for the three years ending 31 December 2016.

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | **861** | 378 |
| Current – Mainland China | | |
| Charge for the year | **10,963** | 10,358 |
| Underprovision/(overprovision) in prior years | **(511)** | 771 |
| Deferred (note 30) | **(4,956)** | 3,406 |
| Total tax charge for the year | **6,357** | 14,913 |

* *For identification purposes only*

## 10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

**Group – 2014**

| | Hong Kong | | Mainland China | | Total | |
|---|---|---|---|---|---|---|
| | **RMB'000** | **%** | **RMB'000** | **%** | **RMB'000** | **%** |
| Profit/(loss) before tax | **(6,333)** | | **(25,910)** | | **(32,243)** | |
| Tax at the statutory tax rate | **(1,045)** | **16.5** | **(6,477)** | **25.0** | **(7,522)** | **23.3** |
| Lower tax rates for specific provinces or enacted by local authority | **–** | **–** | **(22)** | **0.1** | **(22)** | **0.1** |
| Losses attributable to joint ventures | **–** | **–** | **349** | **(1.3)** | **349** | **(1.1)** |
| Loss attributable to an associate | **–** | **–** | **808** | **(3.1)** | **808** | **(2.5)** |
| Expenses not deductible for tax | **–** | **–** | **5,902** | **(22.8)** | **5,902** | **(18.3)** |
| Tax losses not recognised | **1,150** | **(18.2)** | **6,203** | **(24.0)** | **7,353** | **(22.8)** |
| Adjustments in respect of current tax of previous periods | **–** | **–** | **(511)** | **2.0** | **(511)** | **1.6** |
| Tax charge at the Group's effective rate | **105** | **(1.7)** | **6,252** | **(24.1)** | **6,357** | **(19.7)** |

Group – 2013

| | Hong Kong | | Mainland China | | Total | |
|---|---|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Profit/(loss) before tax | (2,129) | | 58,945 | | 56,816 | |
| Tax at the statutory tax rate | (351) | 16.5 | 14,736 | 25.0 | 14,385 | 25.3 |
| Lower tax rates for specific provinces or enacted by local authority | – | – | (12,222) | (20.7) | (12,222) | (21.5) |
| Effect on opening deferred tax of decrease in rates | – | – | 2,338 | 4.0 | 2,338 | 4.1 |
| Tax losses utilised from previous periods | – | – | (1,989) | (3.4) | (1,989) | (3.5) |
| Loss attributable to a joint venture | – | – | 286 | 0.5 | 286 | 0.5 |
| Loss attributable to an associate | – | – | 77 | 0.1 | 77 | 0.1 |
| Expenses not deductible for tax | – | – | 4,371 | 7.4 | 4,371 | 7.7 |
| Tax losses not recognised | 778 | (36.5) | 6,118 | 10.4 | 6,896 | 12.1 |
| Adjustments in respect of current tax of previous periods | – | – | 771 | 1.3 | 771 | 1.4 |
| Tax charge at the Group's effective rate | 427 | (20.0) | 14,486 | 24.6 | 14,913 | 26.2 |

## 11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated loss attributable to owners of the parent for the year ended 31 December 2014 includes a loss of RMB4,125,000, which has been dealt with in the financial statements of the Company (note 33(b)).

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of RMB4,759,000, which was arrived at after deducting dividend income received from a subsidiary of RMB77,900,000 from the Company's profit of RMB73,141,000, which has been dealt with in the financial statements of the Company (note 33(b)).

## 12. DIVIDENDS

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Proposed final – Nil (2013: HK1 cent) per ordinary share | **–** | 11,716 |

## 13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share (2013: earnings per share) amount is based on the loss for the year attributable to ordinary equity holders of the parent of RMB32,138,000 (2013: profit of RMB42,917,000), and the weighted average number of ordinary shares of 1,362,940,740 (2013: 1,362,758,751) in issue during the year.

The calculation of the diluted earnings/loss per share amount is based on the profit/loss for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

## 13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT *(continued)*

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2014 in respect of a dilution as the impact of the options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

The calculations of basic and diluted earnings per share are based on:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| **Earnings/(loss)** | | |
| Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings/(loss) per share calculation | **(32,138)** | 42,917 |

| | **Number of shares**<br>**2014** | 2013 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation | **1,362,940,740** | 1,362,758,751 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | **5,483,492** | 2,095,576 |
| | **1,368,424,232** | 1,364,854,327 |

## 14. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings RMB'000 | Leasehold improve – ments RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| 31 December 2014 | | | | | | | |
| At 31 December 2013 and at 1 January 2014: | | | | | | | |
| Cost | 158,676 | 1,440 | 68,879 | 17,913 | 14,642 | 129,499 | 391,049 |
| Accumulated depreciation and impairment | (13,644) | (623) | (17,021) | (10,153) | (7,328) | – | (48,769) |
| Net carrying amount | 145,032 | 817 | 51,858 | 7,760 | 7,314 | 129,499 | 342,280 |
| At 1 January 2014, net of accumulated depreciation and impairment | 145,032 | 817 | 51,858 | 7,760 | 7,314 | 129,499 | 342,280 |
| Additions | 25,138 | 739 | 2,991 | 3,029 | 3,389 | 44,994 | 80,280 |
| Depreciation provided during the year | (6,105) | (502) | (6,585) | (3,294) | (2,648) | – | (19,134) |
| Transfers | 97,040 | – | 8,275 | 411 | – | (105,726) | – |
| Disposals | (24,928) | (537) | (720) | (1,256) | (1,270) | – | (28,711) |
| At 31 December 2014, net of accumulated depreciation and impairment | 236,177 | 517 | 55,819 | 6,650 | 6,785 | 68,767 | 374,715 |
| At 31 December 2014: | | | | | | | |
| Cost | 253,380 | 1,023 | 78,713 | 19,855 | 12,227 | 68,767 | 433,965 |
| Accumulated depreciation and impairment | (17,203) | (506) | (22,894) | (13,205) | (5,442) | – | (59,250) |
| Net carrying amount | 236,177 | 517 | 55,819 | 6,650 | 6,785 | 68,767 | 374,715 |

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

### Group

| | Buildings RMB'000 | Leasehold improve – ments RMB'000 | Plant and machinery RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| 31 December 2013 | | | | | | | |
| At 1 January 2013: | | | | | | | |
| Cost | 121,382 | 1,124 | 65,579 | 16,212 | 13,438 | 116,368 | 334,103 |
| Accumulated depreciation | (8,891) | (394) | (12,415) | (6,918) | (5,652) | – | (34,270) |
| Net carrying amount | 112,491 | 730 | 53,164 | 9,294 | 7,786 | 116,368 | 299,833 |
| At 1 January 2013, net of accumulated depreciation | 112,491 | 730 | 53,164 | 9,294 | 7,786 | 116,368 | 299,833 |
| Additions | 333 | 316 | 2,359 | 2,239 | 2,351 | 52,315 | 59,913 |
| Depreciation provided during the year | (4,753) | (229) | (6,159) | (3,240) | (2,575) | – | (16,956) |
| Impairment | – | – | (168) | (28) | – | – | (196) |
| Transfers | 36,961 | – | 2,728 | (505) | – | (39,184) | – |
| Disposals | – | – | (66) | – | (248) | – | (314) |
| At 31 December 2013, net of accumulated depreciation and impairment | 145,032 | 817 | 51,858 | 7,760 | 7,314 | 129,499 | 342,280 |
| At 31 December 2013: | | | | | | | |
| Cost | 158,676 | 1,440 | 68,879 | 17,913 | 14,642 | 129,499 | 391,049 |
| Accumulated depreciation and impairment | (13,644) | (623) | (17,021) | (10,153) | (7,328) | – | (48,769) |
| Net carrying amount | 145,032 | 817 | 51,858 | 7,760 | 7,314 | 129,499 | 342,280 |

All of the Group's buildings are situated outside Hong Kong.

At 31 December 2014, certificates of ownership in respect of certain buildings of the Group in Mainland China with an aggregate net carrying amount of RMB76,398,000 (2013: Nil) had not been issued by the relevant PRC authorities.

## 15. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|---|---|
| | **2014 RMB'000** | 2013 RMB'000 |
| Carrying amount at 1 January | **62,135** | 63,536 |
| Recognised during the year | **(1,401)** | (1,401) |
| Carrying amount at 31 December | **60,734** | 62,135 |
| Current portion | **(1,401)** | (1,401) |
| Non-current portion | **59,333** | 60,734 |

The leasehold land is situated in Mainland China and is held under medium term leases.

## 16. GOODWILL

| | Group 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| At 1 January: | | |
| Cost | **40,357** | 40,357 |
| Accumulated impairment | **(3,198)** | – |
| Net carrying amount | **37,159** | 40,357 |
| Cost at 1 January, net of accumulated impairment | **37,159** | 40,357 |
| Impairment during the year | **(3,000)** | (3,198) |
| Cost at 31 December, net of accumulated impairment | **34,159** | 37,159 |
| At 31 December: | | |
| Cost | **40,357** | 40,357 |
| Accumulated impairment | **(6,198)** | (3,198) |
| Net carrying amount | **34,159** | 37,159 |

### Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to Jiujiang Rectifier, which is a subsidiary principally engaged in the manufacture and sale of rectifiers and a cash-generating unit, for impairment testing. Its recoverable amount has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15%. The growth rate used to extrapolate the cash flows of Jiujiang Rectifier cash-generating unit beyond the five-year period is 3%.

Assumptions were used in the value in use calculation of Jiujiang Rectifier cash-generating unit for 31 December 2014 and 31 December 2013. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

During the year ended 31 December 2014, due to continuous losses incurred by Jiujiang Rectifier, by discounting the future cash flows generated from Jiujiang Rectifier at the discount rate applied to cash flow projections of 15%, the directors of the Company considered that goodwill of approximately RMB3,000,000 was impaired.

## 17. OTHER INTANGIBLE ASSETS

**Group**

| | Patents RMB'000 | Trademark RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2014** | | | | |
| At 31 December 2013 and at 1 January 2014: | | | | |
| Cost | **6,353** | **19,185** | **3,205** | **28,743** |
| Accumulated amortisation | **(2,188)** | **–** | **(1,605)** | **(3,793)** |
| Net carrying amount | **4,165** | **19,185** | **1,600** | **24,950** |
| Cost at 1 January 2014, net of accumulated amortisation | **4,165** | **19,185** | **1,600** | **24,950** |
| Additions | **–** | **–** | **287** | **287** |
| Amortisation provided during the year | **(847)** | **–** | **(337)** | **(1,184)** |
| Cost at 31 December 2014, net of accumulated amortisation | **3,318** | **19,185** | **1,550** | **24,053** |
| At 31 December 2014: | | | | |
| Cost | **6,353** | **19,185** | **3,492** | **29,030** |
| Accumulated amortisation | **(3,035)** | **–** | **(1,942)** | **(4,977)** |
| Net carrying amount | **3,318** | **19,185** | **1,550** | **24,053** |

**Group**

| | Patents RMB'000 | Trademark RMB'000 | Computer software RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| 31 December 2013 | | | | |
| At 1 January 2013: | | | | |
| Cost | 6,353 | 19,185 | 1,993 | 27,531 |
| Accumulated amortisation | (1,341) | – | (1,081) | (2,422) |
| Net carrying amount | 5,012 | 19,185 | 912 | 25,109 |
| Cost at 1 January 2013, net of accumulated amortisation | 5,012 | 19,185 | 912 | 25,109 |
| Additions | – | – | 1,212 | 1,212 |
| Amortisation provided during the year | (847) | – | (524) | (1,371) |
| Cost at 31 December 2013, net of accumulated amortisation | 4,165 | 19,185 | 1,600 | 24,950 |
| At 31 December 2013: | | | | |
| Cost | 6,353 | 19,185 | 3,205 | 28,743 |
| Accumulated amortisation | (2,188) | – | (1,605) | (3,793) |
| Net carrying amount | 4,165 | 19,185 | 1,600 | 24,950 |

## 18. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Unlisted shares, at cost | **48,505** | 48,505 |
| Due from subsidiaries | **467,127** | 466,956 |
| | **515,632** | 515,461 |

The amount due from a subsidiary included in the Company's current assets of RMB66,797,000 (2013: RMB77,900,000) is unsecured, interest-free and is repayable on demand.

The amounts due from the subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayments. In the opinion of the Company's directors, these loans are considered as part of the Company's investments in its subsidiaries.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued and paid-up capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| Sunking Pacific Limited 賽晶亞太有限公司 | Hong Kong | HK$1 | 100% | Investment holding |
| Beijing Sunking Electronic Technology Co., Ltd.* 北京華瑞賽晶電子科技有限公司 | The PRC/ Mainland China | RMB1,000,000 | 100% | Trading agent for various products and technologies |
| Jiashan Sunking Power Equipment Technology Co., Ltd.* 嘉善華瑞賽晶電氣設備科技有限公司 | The PRC/ Mainland China | US$76,500,000 | 100% | Sale, research and development, after sales service and production of electrical/ electronic components and installation, including integrated gate bipolar transistors |
| Tianjin Sunking Xinglu Water Technology Co., Ltd.* 天津市華瑞賽晶興路水科技有限公司 | The PRC/ Mainland China | RMB5,000,000 | 100% | Environmental machinery, electronic facilities, new type of purification and water facilities, technology advisory, technology transfer, technology service, sale and distribution of environmental machinery |
| Wuxi Sunking Power Capacitor Co., Ltd.* 無錫賽晶電力電容器有限公司 | The PRC/ Mainland China | US$28,000,000 | 100% | Production of electrical capacitors and its complete device, amorphous alloy transformer, DC current anode saturable dry-type reactors, FM voltage AC traction device; trading agent of various products and technologies |

## 18. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

| Name | Place of incorporation/ registration and business | Issued and paid-up capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| Jiashan Sunking Converter Technology Co., Ltd.** 嘉善華瑞賽晶變流技術有限公司 | The PRC/ Mainland China | RMB16,000,000 | 87.5% | Manufacture and sale of transformers, capacitors and their ancillary equipment, electricity switch control equipment, power electronic components, and other power transmission and distribution and control equipment, and research and development of the aforesaid products |
| Wuxi Zhuofeng Information Technology Co., Ltd.** 無錫卓峰信息科技有限公司 | The PRC/ Mainland China | RMB5,000,000 | 100% | Manufacture and sale of computer software and hardware, research and development of network technology, technology advisory, technology transfer, technology service, computer system service, sale of electronic product, computer auxiliary equipment and office supplies, technology research and service of electronic product, enterprise management advisory, business advisory |
| Sudian Power Electronic Technology Co., Ltd.* 蘇電電力電子技術（無錫）有限公司 | The PRC/ Mainland China | US$6,000,500 | 100% | Technology research, technology transfer, technology advisory and technology detection service of power electronic equipment, computer software and hardware, high voltage electrical capacitors, high voltage power networks reactive–load compensation equipment |
| Wuhan Langde Electrics Co., Ltd.* 武漢朗德電氣有限公司 | The PRC/ Mainland China | RMB5,000,000 | 61% | On-line smart grid monitoring system |
| Jiujiang Jiuzheng Rectifier Co., Ltd.** 九江九整整流器有限公司 | The PRC/ Mainland China | RMB70,793,900 | 61% | Manufacture and sale of rectifiers |
| Zhejiang Saiying Power Technology Co., Ltd.** 浙江賽英電力科技有限公司 | The PRC/ Mainland China | RMB15,000,000 | 76% | Research, development, production and sale of power electronics components power transmission and distribution equipment |

## 18. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows: *(continued)*

| Name | Place of incorporation/ registration and business | Issued and paid-up capital | Percentage of equity attributable to the Company | Principal activities |
|---|---|---|---|---|
| Zhejiang Jiashan Keneng Power Equipment Co., Ltd.** 浙江嘉善科能電力設備有限公司 | The PRC/ Mainland China | RMB37,500,000 | 72% | Production and sale, research and development of power equipment reactive power compensation devices |
| Beijing Sunking Power Electronic Technology Co., Ltd.* 北京賽晶電力電子科技有限公司 | The PRC/ Mainland China | RMB5,000,000 | 100% | Technology research for electronic power device railway equipment, sale and distribution of power electronic components, import and export of goods and technologies |

| Name | Place of incorporation/ registration and business | Issued and paid-up capital | Percentage of equity attributable to the Company Direct | Percentage of equity attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Wuhan Angnai Information Co., Ltd.** 武漢昂耐信息有限公司 | The PRC/ Mainland China | RMB2,000,000 | – | 61% | Manufacture and sale of computer software and hardware, webpage design, graphic design, sale of high and low voltage electrical equipment |

* *Registered as wholly-foreign-owned enterprises under PRC law.*

** *Registered as limited liability companies under PRC law.*

All the above investments in subsidiaries are indirectly held by the Company.

Except for Sunking Pacific Limited, the English names of all the above companies are direct translations of their Chinese registered names.

The statutory financial statements of the above subsidiaries are not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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

## 18. INVESTMENTS IN SUBSIDIARIES *(continued)*

Details of Jiujiang Rectifier, a subsidiary of the Group, which has material non-controlling interests are set out below:

| | **2014** | 2013 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests | **39%** | 39% |

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Profit/(loss) for the year allocated to non-controlling interests | **(25)** | 4,254 |
| Accumulated balances of non-controlling interests at the reporting dates | **28,957** | 28,982 |

The following tables illustrate the summarised financial information of Jiujiang Rectifier. The amounts disclosed are before any inter-company eliminations:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Revenue | **98,081** | 166,276 |
| Total expenses | **(98,146)** | (155,368) |
| Profit/(loss) and total comprehensive income/(loss) for the year | **(65)** | 10,908 |
| Current assets | **159,777** | 161,684 |
| Non-current assets | **107,339** | 98,391 |
| Current liabilities | **(177,852)** | (178,985) |
| Non-current liabilities | **(15,015)** | (6,776) |
| Net cash flows from operating activities | **14,433** | 28,978 |
| Net cash flows used in investing activities | **(2,494)** | (20,339) |
| Net cash flows used in financing activities | **–** | (10,000) |
| Net increase/(decrease) in cash and cash equivalents | **11,939** | (1,361) |

## 19. INVESTMENTS IN JOINT VENTURES

| | Group 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Share of net assets | **15,807** | 2,205 |
| Loans to joint ventures | **700** | – |
| | **16,507** | 2,205 |

The loans to the joint ventures are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these loans are considered as part of the Company's investments in the joint ventures.

The Group's other receivables balances due from joint ventures are disclosed in note 24 to the financial statements.

Particulars of the Group's joint ventures are as follows:

| Name | Particulars of issued shares held | Place of registration and business | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| Zhejiang Sunking Trainelec Traintic Electric Co., Ltd. ("**Zhejiang Sunking Trainelec**")* 浙江賽晶強安易電氣有限公司 | Registered capital of RMB1 each | The PRC/ Mainland China | 70% | 70% | 70% | Manufacture and sale of electronic systems for railroad and metro vehicles |
| Beijing Yaoting Tengyi LLP* ("**Yaoting Tengyi**")* 北京曜廷騰逸投資合夥企業(有限合夥) | Registered capital of RMB1 each | The PRC/ Mainland China | 99% | 50% | 99% | Investment holding |

Pursuant to the articles of association of Zhejiang Sunking Trainelec, decisions about the relevant activities require an unanimous consent of the parties sharing control.

Pursuant to the partnership agreement of Yaoting Tengyi, decisions about the relevant activities require an unanimous consent of the parties sharing control.

* *For identification purposes only*

All of the above investments in joint ventures are indirectly held by the Company.

Zhejiang Sunking Trainelec, which is considered a material joint venture of the Group, acts as the Group's distributor of electronic systems for railroad and metro vehicles in Mainland China and is accounted for using the equity method.

## 19. INVESTMENTS IN JOINT VENTURES *(continued)*

The following table illustrates the summarised financial information in respect of Zhejiang Sunking Trainelec adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

| | **2014** **RMB'000** | 2013 RMB'000 |
|---|---|---|
| Cash and cash equivalents | **2,796** | 3,744 |
| Other current assets | **127** | 42 |
| Current assets | **2,923** | 3,786 |
| Non-current assets | **54** | 57 |
| Financial liabilities, excluding trade and other payables | **(28)** | (35) |
| Other current liabilities | **(1,725)** | (658) |
| Current liabilities | **(1,753)** | (693) |
| Net assets | **1,224** | 3,150 |
| Reconciliation to the Group's interest in the joint venture: | | |
| Proportion of the Group's ownership | **70%** | 70% |
| Group's share of net assets of the joint venture and carrying amount of the investment | **857** | 2,205 |
| Revenue | **–** | – |
| Interest income | **6** | 29 |
| Loss and total comprehensive loss for the year | **(1,926)** | (1,633) |

The following table illustrate the financial information of Yaoting Tengyi, another material joint venture of the Group, which is an investment holding company operating in Mainland China and is accounted for using the equity method:

| | **2014** **RMB'000** |
|---|---|
| Non-current assets | **15,000** |
| Cash and cash equivalents | **27** |
| Other current assets | **623** |
| Current assets | **650** |
| Net assets | **15,650** |
| Reconciliation to the Group's interest in the joint venture: | |
| Proportion of the Group's ownership | **99%** |
| Group's share of net assets of the joint venture and carrying amount of the investment | **15,650** |
| Revenue | – |
| Loss and total comprehensive loss for the year | 50 |

## 20. INVESTMENT IN AN ASSOCIATE

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Share of net assets | **20,958** | 24,190 |

The Group's other receivables due from the associate are disclosed in note 24 to the financial statements.

Particulars of the associate are as follows:

| Name | Particulars of capital invested | Place of registration and business | Percentage of ownership interest attributable to the Group | Principal activity |
|---|---|---|---|---|
| Jiashan Henghua Real Estate Co., Ltd. # * (**"JS Henghua"**) 嘉善恒華房地產開發有限公司 | Paid-up capital of RMB24,500,000 | The PRC/ Mainland China | 49 | Property development |

# *Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network*

The Group's shareholding in JS Henghua is held through a wholly-owned subsidiary of the Company.

JS Henghua, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the property development and is accounted for using the equity method.

* *For identification purposes only*

The following table illustrates the summarised financial information in respect of JS Henghua adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current assets | **130,994** | 69,641 |
| Non-current assets | **942** | 157 |
| Current liabilities | **(64,164)** | (20,431) |
| Non-current liabilities | **(25,000)** | – |
| Net assets | **42,772** | 49,367 |
| Reconciliation to the Group's interest in the associate: | | |
| Proportion of the Group's ownership | **49%** | 49% |
| Group's share of net assets of the associate and carrying amount of the investment | **20,958** | 24,190 |
| Revenue | **–** | – |
| Loss and total comprehensive loss for the year | **(6,595)** | (633) |

## 21. AVAILABLE-FOR-SALE INVESTMENT

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| An unlisted equity investment, at cost | **16,800** | 16,800 |

The unlisted equity investment was outside Hong Kong. It was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of the investment in the near future.

## 22. INVENTORIES

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Raw materials | **60,626** | 46,981 |
| Work in progress | **39,983** | 13,609 |
| Finished goods | **33,400** | 31,330 |
| | **134,009** | 91,920 |

## 23. TRADE AND BILLS RECEIVABLES

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Trade receivables | **433,223** | 485,257 |
| Impairment | **(35,377)** | (19,044) |
| | **397,846** | 466,213 |
| Bills receivable | **105,016** | 152,360 |
| Less: Amount shown as non-current | **(82,467)** | (93,994) |
| | **420,395** | 524,579 |

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Concentration of credit risk is managed by customer/counterparty, by geographical region and by industry sector. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

For certain customers, the Group allows a percentage, ranging from 2% to 10%, of the contracted amount (the retention money) to be settled within six months to thirty-six months, as agreed between the Group and the respective customers on a case by case basis, subsequent to the fulfilment of certain conditions including delivery of goods or completion of installation as stipulated in the respective sales contracts.

## 23 TRADE AND BILLS RECEIVABLES *(continued)*

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Within 3 months | **185,928** | 219,484 |
| 3 to 6 months | **86,773** | 82,277 |
| 6 to 12 months | **49,159** | 86,581 |
| Over 1 year | **75,986** | 77,871 |
| | **397,846** | 466,213 |

As at 31 December 2014, the Group's bills receivable would mature within twelve (2013: six) months.

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

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| At 1 January | **19,044** | 15,116 |
| Impairment losses recognised *(note 6)* | **16,350** | 4,424 |
| Amount written off as uncollectible | **(17)** | (496) |
| At 31 December | **35,377** | 19,044 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB35,377,000 (2013: RMB19,044,000) with a carrying amount before provision of RMB102,152,000 (2013: RMB103,791,000).

The individually impaired trade receivables relate to customers that were in default in principal payments and only a portion of the receivables is expected to be recovered.

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

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Neither past due nor impaired | **294,783** | 378,726 |
| Less than 6 months past due | **94,203** | 106,029 |
| 6 to 12 months past due | **40,726** | 42,438 |
| 1 to 2 years past due | **6,375** | 6,633 |
| | **436,087** | 533,826 |

## 23. TRADE AND BILLS RECEIVABLES *(continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 31 December 2014, certain trade and bills receivables of the Group with an aggregate carrying amount of RMB50,143,000 (2013: RMB40,331,000) were pledged to banks to secure the bank loans granted to the Group (note 29).

At 31 December 2014, certain bills receivable of the Group with an aggregate carrying amount of RMB29,332,000 (2013: RMB64,469,000) were pledged to secure certain of the Group's bills payable (note 26).

At 31 December 2014, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Endorsed Bills**") with a carrying amount of RMB6,979,000 (2013: RMB14,187,000) to certain of its suppliers in order to settle the trade payables due to these suppliers. In the opinion of the directors of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled.

## 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | | **Group** | | **Company** | |
|---|---|---|---|---|---|
| | | **2014** | 2013 | **2014** | 2013 |
| | *Note* | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayments | | **9,211** | 6,991 | **–** | – |
| Due from an associate | *37(b)* | **10,247** | 10,001 | **–** | – |
| Due from a joint venture | *37(b)* | **1,725** | 658 | **–** | – |
| Deposits and other receivables | | **30,277** | 21,419 | **42** | 42 |
| | | **51,460** | 39,069 | **42** | 42 |
| Impairment | | **(2,766)** | (2,472) | **–** | – |
| | | **48,694** | 36,597 | **42** | 42 |

The movement in the provision for impairment of prepayments, deposits and other receivables are as follows:

| | **Group** | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| At 1 January | **2,472** | 2,472 |
| Impairment losses recognised *(note 6)* | **294** | – |
| At 31 December | **2,766** | 2,472 |

Except for prepayment, deposits and other receivables amounting to RMB2,766,000 (2013: RMB2,472,000) included in the above balance, none of the above assets is either past due or impaired. Other than the aforementioned impaired receivables, the financial assets include in the above balances related to receivables for which there was no recent history of default.

## 25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and bank balances | **115,155** | 171,235 | **772** | 870 |
| Less: Pledged deposits for letters of credit | **(1,597)** | (17,375) | **–** | – |
| Cash and cash equivalents | **113,558** | 153,860 | **772** | 870 |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB110,627,000 (2013: RMB157,447,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 26. TRADE AND BILLS PAYABLES

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

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Within six months | **126,257** | 117,924 |
| Over six months | **35,217** | 24,553 |
| | **161,474** | 142,477 |

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 days to 180 days.

As at 31 December 2014, certain of the Group's bills payable amounting to RMB20,517,000 (2013: RMB21,320,000) were secured by the pledge of the Group's bills receivable amounting to RMB29,332,000 (2013: RMB64,469,000) (note 23).

## 27. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Advances from customers | **46,330** | 40,618 | **–** | – |
| Other payables and accruals | **29,518** | 30,957 | **29** | 43 |
| | **75,848** | 71,575 | **29** | 43 |

Other payables are non-interest-bearing and have an average term of three months.

## 28. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Foreign currency forward contracts | | |
| – assets | **–** | 743 |
| – liabilities | **6,922** | – |

The Group has entered into various forward foreign currency contracts to manage its exchange rate exposures. These forward foreign currency contracts are not designated for hedging purpose and are measured at fair value through profit or loss. Net fair value losses of these derivatives amounting to RMB11,983,000 (2013: RMB4,062,000) were charged to other expenses during the year.

## 29. INTEREST-BEARING BANK BORROWINGS

**Group**

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** | Effective interest rate (%) | Maturity | RMB'000 |
| Current | | | | | | |
| Bank loans-secured | **5.60-6.16** | **2015** | **45,000** | 5.70-6.00 | 2014 | 30,000 |
| Bank loans-unsecured | **5.88-6.30** | **2015** | **184,000** | 5.60-6.40 | 2014 | 269,000 |
| | | | **229,000** | | | 299,000 |
| Analysed into: | | | | | | |
| Bank loans repayable within one year or on demand | | | **229,000** | | | 299,000 |

*Notes:*

(a) As at 31 December 2014, certain of the Group's bank loans were secured by pledge of certain of the Group's trade and bills receivables amounting to RMB50,143,000 (2013: RMB40,331,000) (note 23).

(b) As at 31 December 2014 and 2013, all borrowings were denominated in RMB.

## 30. DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the year are as follows:

**Group**

| | Government grants RMB'000 | Withholding taxes RMB'000 | Provisions RMB'000 | Fair value adjustments arising from acquisitions of subsidiaries RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January 2013 | 3,905 | (6,708) | 4,344 | (7,148) | 2,544 | (3,063) |
| Deferred tax charged to profit or loss during the year *(note 10)* | (1,818) | – | (909) | 355 | (1,034) | (3,406) |
| Deferred tax assets/(liabilities) at 31 December 2013 and 1 January 2014 | 2,087 | (6,708) | 3,435 | (6,793) | 1,510 | (6,469) |
| Deferred tax credited to profit or loss during the year *(note 10)* | 874 | 775 | 2,284 | 321 | 702 | 4,956 |
| Deferred tax assets/(liabilities) at 31 December 2014 | 2,961 | (5,933) | 5,719 | (6,472) | 2,212 | (1,513) |

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| Net deferred tax assets recognised in the consolidated statement of financial position | **10,838** | 6,960 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **(12,351)** | (13,429) |
| | **(1,513)** | (6,469) |

The Group has tax losses arising in Mainland China of RMB104,997,000 (2013: RMB76,875,000) that are available for offsetting against future taxable profits to a maximum period of five years of the companies in which the losses arose. The Group also has tax losses arising in Hong Kong of RMB35,118,000 (2013: RMB28,657,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 31. SHARE CAPITAL

**Shares**

| | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|
| Authorised: | | |
| 200,000,000 (2013: 200,000,000) ordinary shares of HK$0.10 each | **200,000** | 200,000 |

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **HK$'000** | **RMB'000 equivalent** | HK$'000 | RMB'000 equivalent |
| Issued and fully paid: | | | | |
| 1,363,078,000 (2013: 1,362,928,000) ordinary shares of HK$0.10 each | **136,308** | **117,168** | 136,293 | 117,156 |

A summary of movements in the Company's issued share capital is as follows:

| | **Number of shares in issue** | **Issued capital** RMB'000 | **Share premium account** RMB'000 | **Total** RMB'000 |
|---|---|---|---|---|
| At 1 January 2013 | 1,362,694,000 | 117,137 | 399,888 | 517,025 |
| Share options exercised | 234,000 | 19 | 231 | 250 |
| At 31 December 2013 and 1 January 2014 | 1,362,928,000 | 117,156 | 400,119 | 517,275 |
| Share options exercised *(Note)* | 150,000 | 12 | 77 | 89 |
| At 31 December 2014 | 1,363,078,000 | 117,168 | 400,196 | 517,364 |

*Note:* The subscription rights attaching to 150,000 share options were exercised at the subscription price of HK$0.55 per share (note 32), resulting in the issue of 150,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$82,000 (equivalent to approximately RMB65,000). An amount of RMB24,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

## 32. SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to directors, eligible employees of the Group and consultants of the Group. The Share Option Scheme became effective on 23 September 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million, based on the closing price of the Company's shares at the date of offer, must be approved in advance by the Company's shareholders.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and commences after a vesting period and ends on the date on which the options lapse or the date on which the Share Option Scheme expires, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Share Option Scheme during the year:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$ per share** | **Number of options '000** | Weighted average exercise price HK$ per share | Number of options '000 |
| At 1 January | **0.82** | **68,126** | 0.88 | 55,570 |
| Granted during the year | **0.69** | **55,910** | 0.68 | 17,850 |
| Forfeited during the year | **0.70** | **(4,562)** | 0.95 | (5,060) |
| Exercised during the year | **0.55** | **(150)** | 0.55 | (234) |
| At 31 December | **0.76** | **119,324** | 0.82 | 68,126 |

The weighted average share price at the date of exercise for share options exercised during the year was RMB0.81 per share (2013: RMB0.69).

## 32. SHARE OPTION SCHEME *(continued)*

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

**2014**

| Number of options '000 | Exercise price* HK$ per share | Exercise period (dd-mm-yyyy) |
|---|---|---|
| **55,110** | **0.69** | **28-08-2015 to 27-08-2020** |
| **16,100** | **0.68** | **28-05-2014 to 27-05-2019** |
| **35,864** | **0.55** | **26-04-2013 to 25-04-2018** |
| **12,250** | **1.83** | **27-04-2012 to 26-04-2017** |
| **119,324** | | |

2013

| Number of options '000 | Exercise price* HK$ per share | Exercise period (dd-mm-yyyy) |
|---|---|---|
| 17,550 | 0.68 | 28-05-2014 to 27-05-2019 |
| 38,016 | 0.55 | 26-04-2013 to 25-04-2018 |
| 12,560 | 1.83 | 27-04-2012 to 26-04-2017 |
| 68,126 | | |

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

The fair values of the share options granted during the year ended 31 December 2014 were HK$0.33 for executives and HK$0.31 for non-executives, of which the Group recognised a share option expense of RMB2,035,000 for the year ended 31 December 2014.

The fair values of the share options granted during the year ended 31 December 2013 were HK$0.27 for executives and HK$0.26 for non-executives, of which the Group recognised a share option expense of RMB709,000 for the year ended 31 December 2014 (2013: RMB575,000).

The fair values of the share options granted during the year ended 31 December 2012 were HK$0.23 for Mr. Xiang Jie and executives and HK$0.20 for non-executives, of which the Group recognised a share option expense of RMB522,000 for the year ended 31 December 2014 (2013: RMB2,383,000).

The fair values of the share options granted during the year ended 31 December 2011 were HK$0.79 for non-executives, HK$0.81 for executives and HK$0.83 for directors, shareholders and consultants, of which the Group reversed a share option expense of RMB483,000 for the year ended 31 December 2014 (2013: recognised RMB1,241,000).

## 32. SHARE OPTION SCHEME *(continued)*

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | **2014** | 2013 |
|---|---|---|
| Dividend yield (%) | **0** | 0 |
| Expected volatility (%) | **53** | 55 |
| Historical volatility (%) | **50** | 58 |
| Risk-free interest rate (%) | **1.48** | 0.75 |
| Expected life of options (year) | **6** | 6 |

The expected life of the options is determined with reference to the vesting term and original contractual term of the Share Option Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 150,000 share options exercised during the year resulted in the issue of 150,000 ordinary share of the Company and new share capital of HK$15,000 (equivalent to RMB12,000) and share premium of HK$97,000 (equivalent to RMB77,000) (before issue expenses), as further detailed in note 31 to the financial statements.

At the end of the reporting period, the Company had 119,324,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 119,324,000 additional ordinary shares of the Company and additional share capital of HK$11,932,000 (equivalent to RMB9,413,000) and share premium of HK$79,185,000 (equivalent to RMB62,466,000) (before issue expenses).

At the date of approval of these financial statements, the Company had 119,324,000 share options outstanding under the Share Option Scheme, which represented approximately 8.8% of the Company's shares in issue as at that date.

# 33. RESERVES

## (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 34 of the financial statements.

## (b) Company

| | Notes | Share premium account RMB'000 | Employee share-based compensation reserve RMB'000 | Capital redemption reserve RMB'000 | Deemed contribution reserve RMB'000 | Other reserve RMB'000 | Retained profits/ (accumulated losses) RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2013 | | 399,888 | 9,032 | 288 | 6,294 | 42,519 | (58,371) | 399,650 |
| Profit and total comprehensive income for the year | | – | – | – | – | – | 73,141 | 73,141 |
| Share-based payments | 32 | – | 4,199 | – | – | – | – | 4,199 |
| Exercise of share options | 31 | 231 | (147) | – | – | – | – | 84 |
| Proposed final 2013 dividend | | – | – | – | – | – | (11,716) | (11,716) |
| At 31 December 2013 and at 1 January 2014 | | 400,119 | 13,084 | 288 | 6,294 | 42,519 | 3,054 | 465,358 |
| Profit and total comprehensive income for the year | | – | – | – | – | – | (3,044) | (3,044) |
| Share-based payments | 32 | – | 2,783 | – | – | – | – | 2,783 |
| Exercise of share options | 31 | 77 | (24) | – | – | – | – | 53 |
| Final 2013 dividend paid | | – | – | – | – | – | 896 | 896 |
| At 31 December 2014 | | 400,196 | 15,843 | 288 | 6,294 | 42,519 | 906 | 466,046 |

The employee share-based compensation reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised.

## 34. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

## 35. OPERATING LEASE ARRANGEMENTS AS LESSEE

The Group leases certain of its office properties under operating lease arrangements. Leases for the properties are negotiated for terms ranging from one to five years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Within one year | **1,762** | 649 |
| In the second to fifth years, inclusive | **4,637** | 331 |
| | **6,399** | 980 |

## 36. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of the reporting period:

| | Group | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Contracted, but not provided for: | | |
| Property, plant and equipment | **9,970** | 14,297 |

At the end of the reporting period, the Company did not have any significant commitments (2013: Nil).

## 37. RELATED PARTY TRANSACTIONS

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

| | | Group | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Notes* | **RMB'000** | RMB'000 |
| An associate: | | | |
| Interest income | *(i)* | **1,447** | 484 |
| A joint venture: | | | |
| Service income | *(ii)* | **1,000** | 658 |

*Notes:*

(i) The interest income arose from a loan to an associate bearing interest at a rate of 15% per annum.

(ii) The service income arose from a consulting service provided to a joint venture. The consulting service fee was determined according to mutually agreed terms.

(b) Outstanding balances with related parties

| | | Group | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Notes* | **RMB'000** | RMB'000 |
| Prepayments, deposits and other receivables | | | |
| Due from an associate | *(i)* | **10,247** | 10,001 |
| Due from a joint venture | *(ii)* | **1,725** | 658 |

*Notes:*

(i) Included in the amount due from an associate is a loan to the associate and interest receivable from the associate of RMB9,517,000 (2013: RMB9,517,000) and RMB730,000 (2013: RMB484,000), respectively. The loan to the associate is unsecured, interest-bearing at 15% per annum and is repayable within one year.

(ii) The balance is unsecured, interest-free and is repayable on demand.

(c) Compensation on key management personnel of the Group:

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Short term employee benefits | **8,482** | 7,032 |
| Post-employment benefits | **662** | 716 |
| Equity-settled share option expense | **2,797** | 2,527 |
| Total compensation paid to key management personnel | **11,941** | 10,275 |

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

## 38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

**2014**
**Financial assets**

| | Group Loans and receivables RMB'000 |
|---|---|
| Trade and bills receivables | 502,862 |
| Financial assets included in prepayments, deposits and other receivables | 23,084 |
| Pledged deposits | 1,597 |
| Cash and cash equivalents | 113,558 |
| | 641,101 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss RMB'000 | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|---|
| Trade and bills payables | – | 161,474 | 161,474 |
| Financial liabilities included in other payables and accruals | – | 12,851 | 12,851 |
| Derivative financial instruments | 6,922 | – | 6,922 |
| Interest-bearing bank borrowings | – | 229,000 | 229,000 |
| | 6,922 | 403,325 | 410,247 |

## 38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

2013
Financial assets

| | Group | | |
|---|---|---|---|
| | Financial assets at fair value through profit or loss RMB'000 | Loans and receivables RMB'000 | Total RMB'000 |
| Trade and bills receivables | – | 618,573 | 618,573 |
| Financial assets included in prepayments, deposits and other receivables | – | 22,428 | 22,428 |
| Derivative financial instruments | 743 | – | 743 |
| Pledged deposits | – | 17,375 | 17,375 |
| Cash and cash equivalents | – | 153,860 | 153,860 |
| | 743 | 812,236 | 812,979 |

Financial liabilities

| | Financial liabilities at amortised cost RMB'000 |
|---|---|
| Trade and bills payables | 142,477 |
| Financial liabilities included in other payables and accruals | 14,970 |
| Derivative financial instruments | – |
| Interest-bearing bank borrowings | 299,000 |
| | 456,447 |

## 38. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: *(continued)*

**Financial assets**

| | Company Loans and receivables | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Financial assets included in deposits and other receivables | **42** | 42 |
| Due from a subsidiary | **66,797** | 77,900 |
| Cash and cash equivalents | **772** | 870 |
| | **67,611** | 78,812 |

**Financial liabilities**

| | Financial liabilities at amortised cost | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Financial liabilities included in other payables and accruals | **29** | 43 |

## 39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

At the end of the reporting period, management has assessed that the fair values of the Group's and the Company's financial instruments approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments, mainly including forward currency contracts, are measured using quoted prices in active markets. The carrying amounts of forward currency contracts are the same as their fair values.

## 39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

### Assets measured at fair value:

**Group**

| | Fair value measurement using Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **As at 31 December 2014** | | | | |
| Derivative financial instruments | **–** | **–** | **–** | **–** |
| As at 31 December 2013 | | | | |
| Derivative financial instruments | 743 | – | – | 743 |

### Liabilities measured at fair value:

**Group**

| | Fair value measurement using Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **As at 31 December 2014** | | | | |
| Derivative financial instruments | **6,922** | **–** | **–** | **6,922** |
| As at 31 December 2013 | | | | |
| Derivative financial instruments | – | – | – | – |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the currency risk arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on minimising potential adverse effects of these risks, with material impact, on the Group's financial performance. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term interest-bearing bank borrowings with floating interest rates. The effective interest rates and terms of repayment of the short term interest-bearing bank borrowings of the Group are disclosed in note 29 to the financial statements.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit/(loss) before tax (through the impact on floating rate borrowings).

| | **Increase/ (decrease) in basis points** | **Increase/ (decrease) in loss before tax** RMB'000 |
|---|---|---|
| **2014** | | |
| RMB | **100** | **797** |
| RMB | **(100)** | **(797)** |

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| 2013 | | |
| RMB | 100 | (1,049) |
| RMB | (100) | 1,049 |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to manage its exchange rate exposure.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD exchange rate, CHF exchange rate, EUR exchange rate and HKD exchange rate with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary assets and liabilities).

| | **Increase/ (decrease) in foreign exchange rate %** | **Increase/ (decrease) in loss before tax RMB'000** |
|---|---|---|
| **2014** | | |
| If RMB weakens against USD | **5** | **(1)** |
| If RMB strengthens USD | **(5)** | **1** |
| If RMB weakens against CHF | **5** | **62** |
| If RMB strengthens against CHF | **(5)** | **(62)** |
| If RMB weakens against EUR | **5** | **(81)** |
| If RMB strengthens against EUR | **(5)** | **81** |
| If RMB weakens against HKD | **5** | **(55)** |
| If RMB strengthens against HKD | **(5)** | **55** |

| | Increase/ (decrease) in foreign exchange rate % | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| 2013 | | |
| If RMB weakens against USD | 5 | 1 |
| If RMB strengthens USD | (5) | (1) |
| If RMB weakens against CHF | 5 | (24) |
| If RMB strengthens against CHF | (5) | 24 |
| If RMB weakens against EUR | 5 | 130 |
| If RMB strengthens against EUR | (5) | (130) |
| If RMB weakens against HKD | 5 | 56 |
| If RMB strengthens against HKD | (5) | (56) |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. In addition, banking facilities have been put in place for continuing purpose.

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Liquidity risk

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

**Group**

| | **2014** | | |
|---|---|---|---|
| | **On demand or less than 3 months RMB'000** | **3 to less than 12 months RMB'000** | **Total RMB'000** |
| Interest-bearing bank borrowings | **81,768** | **152,093** | **233,861** |
| Trade and bills payables | **150,642** | **10,832** | **161,474** |
| Other payables | **12,851** | **–** | **12,851** |
| | **245,261** | **162,925** | **408,186** |

| | 2013 | | |
|---|---|---|---|
| | On demand or less than 3 months RMB'000 | 3 to less than 12 months RMB'000 | Total RMB'000 |
| Interest-bearing bank borrowings | 110,639 | 201,685 | 312,324 |
| Trade and bills payables | 131,758 | 10,719 | 142,477 |
| Other payables | 14,970 | – | 14,970 |
| | 257,367 | 212,404 | 469,771 |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Liquidity risk *(continued)*

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

**Company**

| | On demand or less than 3 months | |
|---|---|---|
| | **2014** | 2013 |
| | **RMB'000** | RMB'000 |
| Financial liabilities included in other payables and accruals | **29** | 43 |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2014 and 31 December 2013.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by total equity. The Group's policy is to maintain the gearing ratio as low as possible. The gearing ratios as at the end of the reporting periods were as follows:

**Group**

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest-bearing bank borrowings | **229,000** | 299,000 |
| Total equity | **832,004** | 878,727 |
| Gearing ratio | **27.5%** | 34.0% |

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2015.

# FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| REVENUE | **517,301** | 739,865 | 573,517 | 610,311 | 427,996 |
| PROFIT/(LOSS) BEFORE TAX | **(32,243)** | 56,816 | 11,366 | (50,489) | 52,443 |
| Income tax expense | **(6,357)** | (14,913) | (12,269) | (2,793) | (14,851) |
| PROFIT/(LOSS) FOR THE YEAR | **(38,600)** | 41,903 | (903) | (53,282) | 37,592 |
| Attributable to: | | | | | |
| Owners of the parent | **(32,138)** | 42,917 | 443 | (59,360) | 37,592 |
| Non-controlling interests | **(6,462)** | (1,014) | (1,346) | 6,078 | - |
| | **(38,600)** | 41,903 | (903) | (53,282) | 37,592 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| TOTAL ASSETS | **1,362,174** | 1,439,596 | 1,366,749 | 1,280,827 | 1,099,357 |
| TOTAL LIABILITIES | **(530,170)** | (560,869) | (534,227) | (453,746) | (264,725) |
| NON-CONTROLLING INTERESTS | **(37,460)** | (46,152) | (47,166) | (45,797) | (1,500) |
| | **794,544** | 832,575 | 785,356 | 781,284 | 833,132 |