# Annual Report 2014

Wison Engineering Services Co. Ltd.

(Incorporated in the Cayman Islands with limited liability Stock Code：2236)

WISON

Passion Powering Progress

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Hua Bangsong *(Chairman)*
Mr. Liu Haijun
Mr. Cui Ying
Mr. Zhou Hongliang

### Independent Non-executive Directors

Mr. Liu Ji
Mr. Wu Jianmin
Mr. Lawrence Lee

## AUDIT COMMITTEE

Mr. Lawrence Lee *(Chairman)*
Mr. Liu Ji
Mr. Wu Jianmin

## NOMINATION COMMITTEE

Mr. Wu Jianmin *(Chairman)*
Mr. Liu Ji
Mr. Hua Bangsong
Mr. Lawrence Lee

## REMUNERATION COMMITTEE

Mr. Liu Ji *(Chairman)*
Mr. Wu Jianmin
Mr. Hua Bangsong
Mr. Lawrence Lee

## GLOBAL HEADQUARTERS, PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PRC

699 Zhongke Road
Zhangjiang Hi-Tech Park
Pudong New Area
Shanghai 201210
PRC

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
George Town
Grand Cayman KY1-1108
Cayman Islands

# Corporate Information

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

## COMPANY SECRETARY

Ms. Luk Wai Mei

## AUTHORISED REPRESENTATIVES

Mr. Cui Ying
Ms. Luk Wai Mei

## AUDITORS

Ernst & Young

## PRINCIPAL BANKS

Agricultural Bank of China
China CITIC Bank Corporation Limited
Bank of Communications Co., Ltd.
Bank of China Limited

## REGISTERED OFFICE

Clifton House
75 Fort Street
P.O. Box 1350
George Town
Grand Cayman KY1-1108
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 24A
24th Floor
Tai Yau Building
181 Johnston Road
Wan Chai
Hong Kong

## COMPANY'S WEBSITE

www.wison-engineering.com

## STOCK CODE

2236

# Financial Summary

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Results** | | | | | |
| Revenue | **6,992,113** | 3,674,518 | 4,891,908 | 5,036,622 | 4,976,220 |
| Gross profit | **792,188** | 142,810 | 1,139,631 | 1,206,727 | 1,220,409 |
| Profit/(Loss) before tax | **267,430** | (546,291) | 699,929 | 795,217 | 818,659 |
| Income tax | **(56,736)** | 32,619 | (165,606) | (205,504) | (182,639) |
| Profit/(Loss) for the year | **210,694** | (513,672) | 534,323 | 589,713 | 636,020 |
| Attributable to: | | | | | |
| Owners of the parent | **179,038** | (471,301) | 466,812 | 518,753 | 567,685 |
| Non-controlling interests | **31,656** | (42,371) | 67,511 | 70,960 | 68,335 |
| Earnings/(loss) per share | | | | | |
| – Basic and diluted | **RMB0.04** | RMB(0.12) | RMB0.13 | N/A | N/A |

# Financial Summary

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2014** | 2013 | 2012 | 2011 | 2010 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Assets and liabilities** | | | | | |
| Non-current assets | **1,816,312** | 1,506,863 | 1,058,375 | 680,641 | 332,207 |
| Current assets | **6,923,468** | 5,439,034 | 6,610,645 | 3,538,712 | 5,613,386 |
| Current liabilities | **6,928,877** | 5,419,531 | 5,266,080 | 3,150,944 | 4,548,269 |
| Net current (liabilities)/assets | **(5,409)** | 19,503 | 1,344,565 | 387,768 | 1,065,117 |
| Total assets less current liabilities | **1,810,903** | 1,526,366 | 2,402,940 | 1,068,409 | 1,397,324 |
| Non-current liabilities | **25,548** | 23,187 | 350,750 | 263,986 | 382,019 |
| Net assets | **1,785,355** | 1,503,179 | 2,052,190 | 804,423 | 1,015,305 |
| Issued capital | **329,803** | 329,803 | 324,560 | 1 | – |
| Reserves | **1,336,928** | 1,086,408 | 1,576,376 | 649,325 | 841,013 |
| Non-controlling interests | **118,624** | 86,968 | 151,254 | 155,097 | 174,292 |
| Total equity | **1,785,355** | 1,503,179 | 2,052,190 | 804,423 | 1,015,305 |

# Business Overview

## OVERALL REVIEW

Looking back at 2014, global economic performance was complicated and volatile. Dragged by a slow economic recovery and sluggish international investment environment, the industry in which we operate faced various uncertainties. However, at the same time regional and industrial diversity created business opportunities. China's economy has shifted from a rapid growth model towards a "new normal", with GDP growth slowing to a more reasonable level of 7.4% in 2014. Its growth model has shifted from extensive growth driven by investments to intensive growth with an emphasis on efficiency and quality enhancement. In contrast to boosting large-scale production capacity, it focuses on the adjustment and optimization of the over-capacity. Economic development through innovation and the service sectors instead of traditional heavy industry.

In the second half of 2014, international energy prices saw unprecedented fluctuations. Crude oil price plunged by nearly 50% within mere half a year from the peak in mid-2014, adding uncertainty in the oil refinery, petrochemicals and coal-to-chemicals industries. In particular, EPC companies in the domestic coal-to-chemicals industry faced tough challenges as investment in the industry was significantly dampened by substantial fluctuations in oil prices.

Despite the short-term impact of falling international oil price on the petrochemicals industry, global energy demand will continue to increase, driving the stable growth of this sector in long-term. China will continue to play an important role in the global energy industry as it pushes global energy demand upward. Investment in the petrochemicals industry in emerging markets in the Middle East, North Africa, Asia Pacific and South Asia, received a boost due to economic demand and government support and is expected to grow further. Benefitting from technological breakthroughs in shale gas exploration, North America will see a boom in investment in petrochemicals projects and create new business opportunities arising from the need for environmental protection, energy savings, emissions reduction and clean energy. Meanwhile, China's "One Belt, One Road" strategy will support the expansion of the domestic manufacturing and service industries into the international market. The launch of the Thirteenth Five-year Plan will also bring new business opportunities. The Wison Engineering Services Co. Ltd. (the "**Company**", together with its subsidiaries, the "**Group**") remains optimistic about the outlook for the overall industry.

In spite of short-term uncertainties in the external environment, 2014 was a year of transformation, improvement and upgrading for the Group.

In light of the investigation of Mr. Hua Bangsong ("**Mr. Hua**"), who is a controlling shareholder, by the relevant PRC authorities (the "**PRC Investigation**"), trading in the shares of the Company was suspended on 2 September 2013. During the suspension in trading, the Group actively negotiated with banks for staged repayments and loan extensions. Some of the frozen bank accounts were released. With the benefit of the stability brought about by the suspension in trading, the Group successfully extended or re-financed bank loans of approximately RMB394 million and reduced total bank indebtedness by approximately RMB1,041.1 million. In addition, the Group is in the process of finalizing a new banking facility in the sum of approximately RMB170 million from a PRC bank. The Group anticipates that, assuming no change will happen to the overall situation, it will be available for draw down in 2015.

On 10 November 2014, the board of directors of the Company (the "**Board**") was informed that Wison Engineering Ltd. ("**Wison Engineering**"), an indirect, non wholly-owned subsidiary of the Company, had received legal documents in connection with the PRC Investigation from a court in the PRC which stated that two charges had been instigated against Wison Engineering and Mr. Hua, the legal representative of Wison Engineering, in relation to certain alleged criminal offences. The Board believes that these allegations will not have any material impact on the business operations and financial position of the Group. In addition, as disclosed in the announcement of the Company dated 12 November 2014, the Company has been in discussions with a number of PRC state-owned enterprises regarding potential investment in the Company as strategic investors so as to lay a solid foundation for the future stable development of the Group. Further announcements will be made in due course. Trading of the Company's shares resumed on 13 November 2014.

With great confidence in the future development of the industry, the Company made timely adjustments to its development strategy during the period in accordance with its core strategy of "laying a strong foundation for growth and further enhancing profitability through the development of an operating system in a scientific manner". It implemented fine management of its projects, strengthened the supervision of project quality and safety, carried out information construction and improved its digital design capability in order to further enhance the Group's project management and execution capabilities. Moreover, by adhering to the marketing strategy focusing on "customer services, market orientation and diversification of business scopes", the Company actively expanded its overseas and domestic markets. With continuous efforts in technological research and development, the Company pushed for commercial application of its technologies and drove its business development. The Company completed the targets it set at the beginning of the year and achieved satisfactory performance in terms of project execution, marketing and sales promotion, as well as technological research and development.

# Business Overview

## FINANCIAL HIGHLIGHTS

For the twelve months ended 31 December 2014 ("**Year under Review**"), the Group's revenue amounted to approximately RMB6,992.1 million (2013: approximately RMB3,674.5 million). Gross profit amounted to approximately RMB792.2 million (2013: approximately RMB142.8 million). The significant increases in revenue and gross profit were mainly due to the significant increase in sales income from projects for the Year under Review, as compared to the year of 2013, with the major on-going projects progressing. Meanwhile, in 2014 the Group adopted various measures to proactively strengthen its control on overall costs of its projects, which in turn enhanced the profitability of the Group's certain projects, and recognized the resulting impacts during the Year under Review. As a result, the Company successfully returned to profitability in 2014. Profit attributable to owners of the parent was approximately RMB179.0 million (2013: loss attributable to owners of the parent of approximately RMB471.3 million).

During the Year under Review, the Group executed a total of 41 engineering projects and had 22 engineering, procurement and construction ("**EPC**")/procurement and construction ("**PC**") projects under construction or completed. The Group actively explored new business development opportunities so as to deliver higher returns for its shareholders. During the year, the Group entered into 80 new contracts with new contract value, net of estimated value added tax ("**VAT**"), amounting to approximately RMB6,664.8 million (2013: approximately RMB12,923.2 million), of which the coal-to-chemicals business, oil refinery business and petrochemicals business accounted for 36.7%, 59.9% and 3.4%, respectively.

As at 31 December 2014, backlog value amounted to approximately RMB16,134.3 million (2013: approximately RMB23,560.8 million), of which coal-to-chemicals business, oil refinery business, petrochemicals business and other products and services accounted for 34.2%, 57.9%, 4.9% and 3.0%, respectively.

### Business Review

#### Coal-to-chemicals

During the Year under Review, revenue from the Group's coal-to-chemicals business amounted to approximately RMB4,337.5 million (2013: approximately RMB1,407.5 million), accounting for approximately 62.0% of total revenue. The increase in revenue from this business segment was primarily due to the smooth progress of the Group's major coal-to- chemicals projects, including the Shanxi Coal Gasification and Purification Project, Shandong Methanol-to-Olefin Project, Erdos Coal-to-Methanol Project, Shaanxi Polyethylene Plant and Public Utilities Project.

New contract value and backlog value amounted to approximately RMB2,445.8 million and RMB5,521.2 million, respectively (2013: approximately RMB6,379.8 million and RMB7,439.9 million, respectively).

Despite the enormous challenges it faced, the Group achieved excellent track records in coal- to-chemical. For instance, the Group entered into an olefin separation technology license contract and an engineering procurement and construction contract involving a 300 kta methanol-to-olefin (MTO) plant with Shandong Better Clean Energy Co., Ltd ("**Better**"). In addition, the Group entered into olefin separation technology licensing, basic and detailed engineering design contract with Liaocheng

# Business Overview

Meiwu New Materials Tech. Corp. for a 300 kta MTO plant of an oxo raw material line optimization project. It also entered into an olefin separation technology licensing process package design and technical services contract with Shandong Dongrun Clean Energy Co., Ltd. for a 300 kta MTO plant, phase I of a 600 kta MTO plant project. Moreover, the Group entered into a design contract with Guizhou Xintianhe C1 Chemical Engineering Co., Ltd. (貴州鑫天合碳一化工有限公司) involving a yellow phosphorus tail gas to glycal plant, which marked the first commercial application of coal-to-ethylene glycol technologies jointly developed by the Group and the Tianjin University. The Group also entered into a technology licensing and process package design contract involving the comprehensive utilization of lignite and rectisol technology in an industry chain extension project with Hinggan League Cheng Tai Energy and Chemical Industry Co., Ltd. (興安盟誠泰能源化工有限責任公司).

During the Year under Review, the Group completed the delivery of or made significant progress in a number of coal-to-chemicals projects. For example:

In December 2014, Shaanxi polyethylene plant, a coal-to-olefin project, successfully commenced operation. This is the first polyethylene plant undertaken by Wison Engineering under an EPC contract. During the Year under Review, the Group delivered the Erdos coal-to-methanol project and provided technology licensing and engineering services relating to a MTO unit of a new coal-based materials project in Xinjiang.

In January 2015, Shandong methanol-to-olefin (MTO) plant was delivered to a high standard. This MTO plant employed Wison Engineering's proprietary MTO separation technology, which showcased that Wison Engineering's overall capabilities in the execution of EPC services for MTO plants have been further strengthened. It also reflected the ability of the Group to provide coal-to-chemicals-related patent licensing and integrated EPC services. Wison Engineering was given strong recognition by the project owner. The plant is ready for start-up.

During the Year under Review, the Group's major projects under construction progressed smoothly: the utility unit and ancillary facilities in Shaanxi coal-to-olefin project was put in use, while the Shanxi coal gasification and purification project was ready for equipment installation.

In addition, another 600 kta MTO plant and ancillary project in Shandong has commenced phase I design work. The Group expects detailed design of the 300 kta MTO unit, olefin tank and all auxiliary facilities of phase I to be completed on schedule.

### Oil refineries

During the Year under Review, revenue from the Group's oil refinery business was approximately RMB287.9 million (2013: approximately RMB51.1 million), representing a significant increase of 463.4% as compared with the previous year. The increase was primarily due to the commencement of Site Preparation Project for the Puerto La Cruz Refinery Deep Conversion Plant in Venezuela, one of the Group's major oil refinery projects during the Year under Review. New contract value and backlog value amounted to approximately RMB3,991.8 million and RMB9,346.1 million, respectively (2013: approximately RMB5,168.4 million and RMB11,034.7 million, respectively).

# Business Overview

With years of excellent track records and project management experience, the Group made continuous efforts to further increase the contribution of overseas projects to its total sales and facilitated the global expansion. A consortium formed by the Group, Hyundai Engineering & Construction Co., Ltd. ("**HDEC**") and Hyundai Engineering Co., Ltd. ("**HEC**") entered into a procurement and construction contract worth approximately US$4.837 billion with PDVSA Petróleo S.A. ("**PDVSA**"), Venezuela's state-run oil company, in November last year involving the Core Process Units at the Puerto La Cruz Refinery. Pursuant to the contract, Wison Engineering took up approximately 10.338% of the total work, amounting to approximately US$500 million.

In addition, site preparation project for the Puerto La Cruz Refinery Deep Conversion Plant in Venezuela undertaken by the Group commenced on-site construction in July, while delivery of the first land backfilling was completed at the beginning of 2015. The Group believes that the project shall be delivered in a timely manner and with high quality, and will lay a solid foundation for the subsequent work on the Deep Conversion Project.

Moreover, in March 2014, six Units at PetroChina Sichuan Integrated Complex undertaken by the Group commenced safe, flawless and leak-free operation.

### Petrochemicals

During the Year under Review, revenue from the Group's petrochemicals business was approximately RMB2,326.3 million (2013: approximately RMB1,473.0 million), representing an increase of 57.9% from the previous year and accounting for 33.3% of total revenue. The increase was mainly due to the smooth progress made in major petrochemical projects such as the Sichuan PTA Project and the cracking furnace project in Saudi Arabia during the Year. New contract value and backlog value amounted to approximately RMB226.6 million and RMB787.3 million, respectively (2013: approximately RMB506.0 million and RMB4,561.1 million, respectively).

During the Year under Review, the Group was awarded a number of service contracts in petrochemical business, with representative projects including an EPC contract with Shandong Qixiang Tengda Chemical Co., Ltd. for a newly built heating furnace at its 450 kta light alkane dehydrogenation plant; an engineering contract with Shandong Yuhuang Chemical Co., Ltd. for revamping of its 70 kta butene oxidization and dehydrogenation to butadiene facility, as well as technology licensing and catalyst procurement contract marking the first commercial application of Wison's proprietary technology in butene oxidization and dehydrogenation to butadiene and related catalyst; an engineering design and technology licensing and service contract with Shandong Shengrong Chemical Co., Ltd. for the 300 kta alkylene separation unit. The Group's proprietary butane and butene separation technology employed in this project complements the aforementioned butene oxidization and dehydrogenation to butadiene technology. The comprehensive proprietary technology chain that enhances the Group's overall technological capabilities.

The Group delivered several projects, including the high-standard delivery of a benzene mitigation project in Saudi Arabia and hexene unit-1 project in Xinjiang. The Sichuan PTA Project was in the process of delivery. The hexene unit-1 project in Xinjiang successfully started up in October 2014 and commenced commercial operation.

# Business Overview

Meanwhile, the Chongqing MDI Project undertaken by the Group achieved mechanical completion and recorded 23,722,540 safety man-hours.

The Group entered into a PC contract with a customer in 2011 in respect of 1mta Purified Terephthalic Acid ("**PTA**") and downstream device. However, as the customer has not yet confirmed the date for the commencement of operation of the downstream device under the contract, the Group has not determined whether the work of the downstream device will be continued. Based on prudent considerations, the relevant contract amount of RMB1,642 million (net of VAT) of the downstream device has not been included in the total current backlog of the Group. The Group is negotiating with the customer and the PTA and public utilities project under the contract are in smooth progress.

In addition, the first digital factory (DF) undertaken by the Group, Xinjiang 40 kta styrene project has achieved digital delivery. The full application of integrated 3D software employed at the project not only highlights Wison Engineering's leading digital design capabilities in the PRC, but also marks a new stage of comprehensive application of digital design.

In the area of industrial furnaces, the Group built 16 new heating furnaces and renovated 15 cracking furnaces. The Saudi Arabia cracking furnace project is in progress, and it is expected to be delivered in 2015.

### Other Products and Services

Revenue from other products and services during the Year under Review was approximately RMB40.4 million (2013: approximately RMB743.0 million), representing a year-on-year decrease of 94.6% as compared with the previous year, mainly because the financing plan previously set for Zhoushan Wison Offshore & Marine Co., Ltd. ("**Zhoushan Wison**") Base Project was deferred. As a result, the project fell behind schedule since the second half year of 2013 (during November 2014, the Group entered into an interim settlement confirmation with Zhoushan Wison for the project). Meanwhile, the Saudi De-Bottlenecking (DBN) Project completed its major construction works in the previous year. Revenue from the manufacturing and sales of integrated pining systems composed of heat-resistant alloy tubes and fittings by Wison (Yangzhou) Chemical Machinery Co., Ltd. ("**Wison Yangzhou**"), a wholly-owned subsidiary of the Group, amounted to approximately RMB1.8 million (2013: approximately RMB19.2 million).

## Implementation of various measures to strengthen management

During the Year under Review, the Group adopted various systematic management measures to enhance the efficiency and profitability of project execution, including: the setting-up of a cost-based man-hour management system to optimize auditing management and man-hour computation for large-scale projects under construction at engineering centers and to lay a foundation for the refinement of design management;

# Business Overview

the establishment of an inter-departmental project cost audit team to raise cost awareness of all employees; the establishment of a large-project accountability system to fully capitalize on the expertise of the Company's management and to support efficient project execution; the enhancement of project support and inspection; strengthening compliance audits on major large projects; and the establishment of a standardized technical system and the enhancement of digital technology to ensure the design quality.

As for human resources, the Group strengthened performance-based management in accordance with the objectives established at the beginning of the year, to boost the performance of our teams. In particular performance-based incentive systems were established according to the Company's financial indicators, results and growth in relation to the function of design, project execution, sales and marketing, technological innovation and commercialization of R&D by providing to them incentives based on their performance.

## Acceleration of commercial application of technologies

The Group has been striving to develop innovative technologies. As at 31 December 2014, the Group obtained eight patents and three software copyrights during the year. It also filed new applications for six invention patents, two utility models and one software copyright. In addition, the Group was involved in the compilation of three national standards and received technology advancement awards at the ministerial and provincial levels (省部級科技進步獎), eight consultation awards at the ministerial and provincial levels (省部級諮詢成果獎) and a technology advancement award in Pudong New Area (浦東新區科技進步獎).

The Group has also accelerated the pace of commercial application of its technologies. Thanks to the mature and stable technological performance, a number of the Group's technologies achieved successful commercialization, thereby further supporting the development of our business. MTO separation technology, for which the Company has intellectual property rights, was involved in three technology transfers in 2014, paving the way for acquiring EPC contracts of new MTO plants. The technology is currently being adopted by a total of eight MTO plants (either under construction or completed) in China. Wison Engineering's proprietary technology in butadiene and the related catalyst were commercialized for the first time, meanwhile a breakthrough was made in alkane and alkene separation technology. In addition to the effective use of butane and butane separation technology and technology in butane oxidization and dehydrogenation to butadiene, the commercialization supplemented the proprietary technology chain of Wison Engineering and improved its overall technological competitiveness. The Rectisol Process Technology was also granted a license during the year.

Progress was made in technology projects jointly conducted by the Group and third parties. The coal-to-glycol synthetic gas technology jointly developed by the Group and Tianjin University was used in a commercial project for the first time, while the SNG technology jointly developed with Foster Wheeler and Clariant was at the pilot trial phase.

# Business Overview

## Outlook

Although the fall in oil price has brought uncertainties to the oil refinery, petrochemicals and coal-to-chemicals industries in the short term, global energy demand will continue to rise in the long run. Economic demand and government support, amongst others factors, will continue to drive petrochemical investments in emerging markets including the Middle East, North Africa, Asia Pacific and South Asia. Benefitting from technological breakthroughs in shale gas exploration, North America will see an investment boom for the expansion of petrochemical production capacity. In the meantime, development of global energy industry is moving towards areas of clean and high-efficiency energy, with natural gas in the spotlight. Solar, wind and nuclear energy will play a growing role in new energy. Given these developments and opportunities, there is still ample room for growth in the global energy engineering industry.

In respect of domestic market, trends in increasing use of natural gas and clean use of coal resource have become apparent in China. In light of the country's energy security and strategic considerations, there will still be a wealth of opportunities for new coal-to-chemicals industry. Meanwhile, due to the growing concerns on the part of the government and the general public on environmental issues, business opportunities for new technologies and environmental engineering services for energy savings, emissions reductions and efficiency enhancement will arise in the petrochemicals, refining and coal-to chemicals industries.

Underpinned by the "One Belt, One Road" development strategy of the PRC government, investments in overseas energy projects are expected to increase, thereby creating good opportunities for Chinese enterprises to expand overseas.

In view of the temporary uncertainties and promising long-term market outlook, the Group will review its business development in a timely manner and adjust its long-term development strategy to lay a strong foundation for future growth.

In 2015, the Group will adhere to the key strategy of "consolidating management foundation, improving profitability and sustaining healthy development" and centre around the key measures of "internationalization development", "enhancement in corporate governance", "improvement in overall design and technological capabilities" and "promotion of new businesses" to realise all strategic targets for the future development of the Group.

### First, expansion of international market and new businesses for healthy and sustainable growth

With the aim of boosting overseas sales to 50% of its total sales in the next few years, the Group will vigorously expand into key markets of the Asia Pacific, Middle East, Central Asia, North Africa and the Americas and augment its customer base in these countries through efforts like consultation-based marketing. While stepping up efforts to identify and win new customers both domestically and overseas, the Group will also further improve its sales network in target markets by setting up branches or representative offices in major markets like India, the Commonwealth of Independent States and North Africa to extend its coverage in the overseas market. Furthermore, the Group will establish long-term strategic partnerships with international engineering companies and patent holders to accelerate the development of its international business.

# Business Overview

As for domestic sales, the Group will reinforce its competitive advantages, extend its sales network to cover all key energy areas and quickly respond to its customers' needs through technological assistance and seamless support from frontline sales. It will also enhance analysis of future business opportunities, improve database for business research and development, and prepare analytical reports on target projects, customers and resources of target market to make sales management more systematic and to minimize fluctuations in sustainable growth.

Building on its existing capability, the Group will actively develop new business areas and drive business diversification to enhance its capability to withstand risks. For instance, the Group will leverage its strengths, carry out technological cooperation and implement marketing activities to develop oil & gas pre-processing, LNG, storage and transportation and environmental projects.

### Second, refinement of project management to improve profitability

Boasting competitive advantages in project management, the Group attaches great importance to project management in its overall management. In the future, refinement of management throughout the project cycle will become the focus for the Group to continue improving project profitability. A number of major measures will be taken to achieve this goal, including: full implementation of a management system to ensure the deals to be won are worthwhile and that the separation of project cost and progress targets are reasonable, and to ensure that assessment of progress of projects is accurate and carried out on a timely basis. It will set up professional budget teams to establish assessment standards of project execution and formulate procurement packages for better efficiency and cost control, to articulate procurement processes and establish an e-commerce system. Moreover, it will strengthen staff awareness of customer services and take the market-oriented approach.

The Group will improve its bidding capability for domestic and overseas projects. Through careful evaluation of potential projects, the establishment of project and market analysis databases and strengthened financing capability, the Group will be able to bid with improved accuracy. Coupled with refined management of project processes, the Group's project profitability shall be elevated.

### Third, enhancement of internal capacity through effective management

Continuous enhancement in design capacity is critical for the Group in strengthening its internal capacity in 2015. The Group will adjust and enhance its design capabilities in the areas of management structure, application of information technology and accountability in management. For instance, the Shanghai office will centralize the management of engineering talents from different regions. Engineering design management will be reformed to adapt to the digitalized engineering process. A design quality accountability system will be in place throughout the entire lifecycle of projects with a view to improving engineering quality. The Group will put great emphasis on technological reserves, introducing a set of key design products for new business development. The Group will also improve its execution and management process in overseas projects and strengthen application of international standards. An international project team will be developed with capability from initial design to comprehensive project execution for international projects.

As for research and development, in addition to retaining the leading position in existing core technologies, the Group will devote more to areas such as the integration of petrochemicals, oil refinery and coal-to-chemicals technologies, and environmental protection technologies, developing its new proprietary technologies. It will also accelerate new technology acquisition through cooperation and alliances.

# Business Overview

An outstanding and professional team serves as a must for the sustainable development of the Group. A talented team will be established through optimized resource allocation, staff training and development. The Group's incentive system will be further improved and the corporate value of effective management will be promoted. Through recruitment, staff development, reassignment, internal transfer, career path development and a medium- to long- term incentive mechanism, the Group will build a workforce compatible with the company's development needs. Corporate culture build-up will also be fostered to achieve greater cohesiveness within the Group.

In 2015, the Group will further strengthen its institutional management, continue to promote QHSE awareness, intensify process and project risk control, aiming to enhance the overall corporate governance standards.

Looking forward to 2015, with the fore-mentioned PRC Investigation coming to an end, the Group will emerge from the adversities brought about by the investigations and regain its growth momentum. Since the outset of the incident, the Group has been constantly self- examining and has gained valuable experience for its future growth. Every cloud has a silver lining. We believe that the Group will not only bear fruitful results in the future with a more mature, professional management team and the support of its entire staff, but may also regain its glories and secure leadership in technology, management and services in the petrochemicals, coal-to-chemicals and oil refinery industries to become a world-class engineering company highly respected by its customers and employees.


# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

For the year ended 31 December 2014, the comprehensive revenue of the Group amounted to RMB6,992.1 million, representing an increase of RMB3,317.6 million, or 90.3%, from RMB3,674.5 million in the previous year. Details of comprehensive revenue breakdown by business segments are set out below:

RMB'000

| Business segment | 2014 | 2013 | Change | Change % |
|---|---|---|---|---|
| Petrochemicals | **2,326,346** | 1,472,957 | 853,389 | 57.9% |
| Oil refineries | **287,931** | 51,111 | 236,820 | 463.3% |
| Coal-to-chemicals | **4,337,473** | 1,407,482 | 2,929,991 | 208.2% |
| Other products and services | **40,363** | 742,968 | -702,605 | -94.6% |
| | **6,992,113** | 3,674,518 | 3,317,595 | 90.3% |

In petrochemicals, revenue increased by RMB853.3 million, or 57.9%, from RMB1,473.0 million for the year ended 31 December 2013 to RMB2,326.3 million for the year ended 31 December 2014. The increase was mainly due to the smooth progress made in major petrochemical projects such as the Sichuan PTA Project and the cracking furnace project in Saudi Arabia during the year.

In oil refineries, revenue increased by RMB236.8 million, or 463.4%, from RMB51.1 million for the year ended 31 December 2013 to RMB287.9 million for the year ended 31 December 2014. The increase was primarily due to the commencement of Site Preparation Project for the Puerto La Cruz Refinery Deep Conversion Plant in Venezuela, one of the Group's major oil refinery projects during the year.

# Management Discussion and Analysis

In coal-to-chemicals, revenue increased by RMB2,930.0 million, or 208.2%, from RMB1,407.5 million for the year ended 31 December 2013 to RMB4,337.5 million for the year ended 31 December 2014. The increase was primarily due to the smooth progress of the Group's major coal-to-chemicals projects, including the Shanxi Coal Gasification and Purification Project, Shandong Methanol-to-Olefin Project, Erdos Coal-to-Methanol Project, Shaanxi Polyethylene Plant and Public Utilities Project during the year.

In other products and services, revenue decreased by RMB702.6 million, or 94.6%, from RMB743.0 million for the year ended 31 December 2013 to RMB40.4 million for the year ended 31 December 2014. The decrease was mainly because the financing plan previously set for Zhoushan Wison Base Project was deferred. As a result, the project fell behind schedule since the second half of 2013 (during November 2014, the Group entered into an interim settlement confirmation with Zhoushan Wison for the project). Meanwhile, the Saudi De-Bottlenecking (DBN) Project completed its major construction works in the previous year.

## Gross Profit and Gross Profit Margin

Gross profit of the Group increased by RMB649.4 million, or 454.8%, from RMB142.8 million for the year ended 31 December 2013 to RMB792.2 million for the year ended 31 December 2014.

The gross profit margins of the Group for the years ended 31 December 2013 and 2014 were 3.9% and 11.2%, respectively. For the year ended 31 December 2013, the gross profit margins for petrochemicals, oil refineries, coal-to-chemicals and other products and services business segments were 9.0%, -68.8%, -9.0% and 23.3%, respectively, while the gross profit margins for the year ended 31 December 2014 were 4.8%, 20.8%, 13.8% and 57.4%, respectively.

The decrease in the gross profit margin in petrochemicals was primarily attributable to the relatively low gross profit margin contributed by the Group's major petrochemical projects during the year.

The increase in the gross profit margin in oil refineries was mainly due to the recognition of miscellaneous additional costs associated with some modifications related to various installations in the previous year. During the year, the Group's major oil refinery project, namely Site Preparation Project for the Puerto La Cruz Refinery Deep Conversion Plant in Venezuela kicked off, which contributed relatively high gross profit.

# Management Discussion and Analysis

The increase in the gross profit margin in coal-to-chemicals was primarily due to the recognition of miscellaneous additional costs associated with some modifications related to various installations by certain projects as well as the change in pricing methods of an individual project in the previous year. During the year, the steady progress of Shanxi Coal Gasification and Purification Project, Shandong Methanol-to-Olefin Project, Shaanxi Polyethylene Plant and Public Utilities Project increased the contribution to the overall gross profit within the segment. Meanwhile, the Group updated the overall budgets of certain projects and recognised its effect during the year.

The increase in gross profit margin in other products and services was mainly because the Group updated the overall gross profit margin of Zhoushan Wison Base Project according to the interim settlement confirmation and recognised its effect during the year.

## Other Income

Other income increased by RMB218.5 million, or 642.6%, from RMB34.0 million for the year ended 31 December 2013 to RMB252.5 million for the year ended 31 December 2014. Interest income increased by RMB204.2 million, rental income increased by RMB17.7 million, government grants and others decreased by RMB3.4 million. The significant increase in interest income was attributed to the interest income from the financing arrangement for Site Preparation Project for the Puerto La Cruz Refinery Deep Conversion Plant in Venezuela, which was recognized according to the relevant accounting standards.

## Sales and Marketing Expenses

Sales and marketing expenses decreased by RMB55.6 million, or 55.3%, from RMB100.5 million for the year ended 31 December 2013 to RMB44.9 million for the year ended 31 December 2014. This is primarily due to the decrease in expenses arising from the preliminary stage of the projects as well as other sales and marketing expenses.

## Administrative Expenses

Administrative expenses decreased by RMB101.6 million, or 28.5%, from RMB356.5 million for the year ended 31 December 2013 to RMB254.9 million for the year ended 31 December 2014. The decrease were primarily due to the decrease in employees' expenses. Also there were exchange losses from IPO proceeds (denominated in HK dollars) in the previous year, while there was none during the year.

## Other Expenses

Other expenses increased by RMB81.3 million, or 65.2%, from RMB124.6 million for the year ended 31 December 2013 to RMB205.9 million for the year ended 31 December 2014. This increase was primarily due to the increase in research and development expenses.

## Finance Costs

Finance costs increased by RMB129.7 million, or 91.7%, from RMB141.5 million for the year ended 31 December 2013 to RMB271.2 million for the year ended 31 December 2014. Interest on bank loans decreased by RMB69.3 million and interest on discounted bills increased by RMB199.7 million. The decrease in interest on bank loans was primarily due to the decrease in our average bank borrowings for the year ended 31 December 2014 compared with the year ended 31 December 2013. The increase in interest on discounted bills was mainly due to the financing arrangement for Site Preparation Project for the Puerto La Cruz Refinery Deep Conversion Plant in Venezuela.

## Income Tax

Income tax increased by RMB89.3 million or 273.9%, from a credit of RMB32.6 million for the year ended 31 December 2013 to a debit of RMB56.7 million for the year ended 31 December 2014. The increase was primarily due to the substantial increase in taxable income for the year ended 31 December 2014.

# Management Discussion and Analysis

## Profit/Loss for the year

Profit for the year increased by RMB724.4 million, or 141.0%, from a loss of RMB513.7 million for the year ended 31 December 2013 to a profit of RMB210.7 million for the year ended 31 December 2014. Our net profit margin was -14.0% for the year ended 31 December 2013 and increased to 3.0% for the year ended 31 December 2014. The increase in our profit for the year and net profit margin were primarily due to the increase of our revenue and overall gross profit margin.

## Trade and Bills Receivables

The Group's trading terms with its customers are mainly on credit where payment in advance is normally required. Trade receivables are non-interest-bearing and on credit terms of a period of 90 days or the respective contracts' retention period.

As at 31 December 2014, the Group had trade and bills receivables of RMB1,015,257,000, of which RMB455,057,000 was overdue. As at 31 December 2013, the Group had trade and bills receivables of RMB261,567,000, of which RMB134,157,000 was overdue. The increase in overdue trade and bills receivables is mainly due to the delay in settlement of contract payments from certain project owners.

The Company has been actively communicating with the relevant project owners with a view to formulating plans for their prompt settlement of the overdue receivables. The Group has maintained a favourable long-term business relationship with these project owners and the negotiations between the Company and the project owners are satisfactory. The Company is not aware of any circumstances which indicate that such project owners may default in settling their contract payments.

It is a characteristic of the industry in which the Group operates that a significant proportion of revenue derives from a limited number of clients in a given period of time. Given the nature of the industry, the Group generally has a relatively limited client base. If the Group fails to complete the construction work of major projects or if the projects with the Group's major clients are terminated before completion, the Group's business, results of operations and financial condition may be adversely affected. In order to further diversify the Group's sources of revenue and reduce the Group's reliance on major clients, the Company will continue to carry out various measures to cover more mid- to large-size petrochemical producers, expand the Group's business in the oil refineries and coal-to-chemicals business segments and expand into the international markets.

## Financial Resources, Liquidity and Capital Structure

The Group meets its working capital and other capital requirements principally with cash generated from its operations, borrowings and proceeds from the global offering.

# Management Discussion and Analysis

As at 31 December 2014, the Group's pledged and unpledged cash and bank balances included the following amounts:

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **(Million)** | |
| Hong Kong Dollar | **2.7** | 12.6 |
| US Dollar | **76.2** | 0.9 |
| Renminbi | **357.7** | 1,065.2 |
| Saudi Riyal | **5.9** | 1.9 |
| Euro | **0.7** | – |
| Indonesian Rupiah | **386.9** | 262.2 |
| Venezuelan Bolivar | **5.9** | 0.1 |

Interest-bearing bank and other borrowings of the Group as at 31 December 2014 and 2013 were set out in the table follow. The short-term bank borrowings of the Group accounted for 100% of the total bank borrowings (2013: 100%).

| | As at 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | **(RMB million)** | |
| Current | | |
| Bank loans repayable within one year | | |
| — secured | **539.8** | 1,418.0 |
| — unsecured | **–** | 135.8 |
| | **539.8** | 1,553.8 |
| Finance lease payables | **0.1** | 0.2 |
| | **539.9** | 1,554.0 |
| Non-current | | |
| Finance lease payables | **0.1** | 0.2 |
| | **0.1** | 0.2 |
| | **540.0** | 1,554.2 |

# Management Discussion and Analysis

Bank and other borrowings at 31 December 2014 were denominated in RMB and bore interest at floating rates except for loans of RMB319,992,000 at 31 December 2014 (31 December 2013: RMB1,083,825,000) which bore interest at fixed rates.

The effective interest rates of the Group's bank and other borrowings ranged as follows:

| | |
|---|---|
| Year ended 31 December 2013 | 4.30% to 7.91% |
| Year ended 31 December 2014 | 5.70% to 7.80% |

The maturity profile of interest-bearing bank and other borrowings as at 31 December 2014 and 2013, based on contractual undiscounted payments, is as follows.

| | On demand | Less than 3 months | 3 to 12 months | 1 to 5 years | Total |
|---|---|---|---|---|---|
| | | | (RMB million) | | |
| 31 December 2014 | | | | | |
| Interest-bearing bank and other borrowings | **–** | **9.1** | **553.3** | **–** | **562.4** |
| Finance lease payables | **–** | **–** | **0.1** | **0.1** | **0.2** |
| 31 December 2013 | | | | | |
| Interest-bearing bank and other borrowings | – | 711.5 | 883.2 | – | 1,594.7 |
| Finance lease payables | – | 0.1 | 0.2 | 0.1 | 0.4 |

As at 31 December 2014, the gearing ratio of the Group, which was derived by dividing total debt by total equity, was 0.3x (2013: 1.0x). The ratio of total borrowings to total assets was 6.2% (2013: 22.4%). The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 December 2012 (the "Listing Date"). Net proceeds from the IPO, after deducting the underwriting commission and other estimated expenses in connection with the offering, amounted to approximately HK$1,364.3 million. As at 31 December 2014, the net proceeds have been fully utilised for purposes set out in the announcement of the Company dated 1 November 2013.

# Management Discussion and Analysis

## Material Acquisitions and Disposals

During the reporting year, the Group has not conducted any material acquisitions or disposals.

## Capital Expenditure

During the reporting year, the capital expenditure of the Group amounted to RMB8.9 million (2013: RMB504.5 million).

## Foreign Exchange Risk Control

The business transactions of the Group are mainly settled in Renminbi and US dollars. The Group is exposed to currency risks in relation to the bank balances denominated in currency other than the functional currencies of the bank balances and bank loans of the relevant entities. At present, the Group has not maintained any hedging policy against the foreign currency risk. However, the management monitors the related foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

## Asset Security

As at 31 December 2014, property, plant and equipment with carrying amount of RMB116.0 million and leasehold interests on land with carrying amounts of RMB11.1 million were pledged as security for bank facilities of the Group.

## Contingent Liability

In 2010, the Group submitted an application for special tax treatment under Circular No. 59 for Wison Energy (HK) to transfer its entire equity interests in Wison Yangzhou and Wison Engineering. To date, the relevant authorities have not reverted on this application. The Group calculated the prospective tax liability in relation to the transfer of equity interests in Wison Yangzhou and Wison Engineering. The Group paid RMB10.4 million in December 2011 and made a provision of RMB4.4 million in its financial statements as at 31 December 2011 accordingly. The provision was based on a valuation of Wison Yangzhou and Wison Engineering performed by a PRC valuer.

Except for the contingent liabilities as stated above, the Group had no other contingent liabilities as at 31 December 2014.

# Management Discussion and Analysis

## Human Resources

As at 31 December 2014, the Group had 1,572 employees (31 December 2013: 1,782 employees). The Group reviews the salaries and benefits of the employees according to market practice and the performance of the employees on a regular basis. Also, the Group contributes to various social insurance schemes in the PRC and the Mandatory Provident Fund Scheme in Hong Kong for qualified employees and provides medical insurance, work injury insurance, maternity insurance and unemployment insurance pursuant to applicable laws and regulations in the PRC and Hong Kong, as well as additional business accident and medical insurance. For the year ended 31 December 2014, the total staff cost of the Group (including salaries, bonuses, insurance and share option schemes) amounted to RMB673.8 million (during the year ended 31 December 2013: RMB686.1 million).

The Group adopted the Pre-IPO Share Option Scheme and the Share Option Scheme on 30 November 2012 as encouragement and reward for their contributions to the Company.

# Biographies of the Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Hua Bangsong (華邦嵩)**, age 49, is the founder of our Group, and the chairman and executive Director of our Company. Mr. Hua has been our Chairman and an executive Director since 30 June 2004. Mr. Hua is also a director of Wison Group Holding Limited and Wison Engineering Investment Limited, the ultimate and intermediate holding companies of the Company. Mr. Hua has in-depth industry knowledge and has over 25 years of experience in the operation and management in the petrochemicals industry.

Mr. Hua began his career in the petrochemicals industry in the sales department of Jiangsu Province Xing Hua City Dai Nan Metal Screen Factory (江蘇省興化市戴南金屬絲網廠). Subsequently, Mr. Hua established the predecessor of Jiangsu Xinhua Chemical Engineering Co., Ltd. ("Jiangsu Xinhua"), namely, Jiangsu Xinhua City Petrochemical Equipment Parts Factory (江蘇省興化市石油化工設備配件廠). The predecessor of Jiangsu Xinhua was primarily engaged in the manufacture of petrochemical machinery and related accessories, as well as the supply of raw materials for the petroleum industry.

Mr. Hua established Wison Engineering Ltd. ("Wison Engineering") in 1997. Under the management of Mr. Hua, Wison Engineering was primarily engaged in the provision of engineering and construction solutions for improving the performance and environmental friendliness of separation systems for chemical engineering processes during its initial stage of operation. Since 2000, Mr. Hua gradually shifted the focus of Wison Engineering's principal business to its current operations of providing solution to the petrochemicals and coal-to-chemicals industry in PRC for designing, building and renovating ethylene cracking furnaces and for the engineering, procurement and construction of production facilities for ethylene, coal-to-chemicals and their downstream products and oil refineries. To complement the operations of Wison Engineering, Mr. Hua established Wison (Yangzhou) Chemical Machinery Co., Ltd. ("Wison Yangzhou") in 2004. He is currently responsible for planning and formulating our Group's strategy on overall business development.

On 10 November 2014, the Board was informed that Wison Engineering had received legal documents which stated that two charges had been instigated against Wison Engineering and Mr. Hua, the legal representative of Wison Engineering, in relation to certain alleged criminal offences. As of the date of this annual report, no judgement has been passed for the legal proceedings relating to the two charges.

# Biographies of the Directors and Senior Management

In accordance with article 108 of the articles of association of the Company (the "Articles"), Mr. Hua shall retire by rotation at the forthcoming annual general meeting ("AGM"). However, Mr. Hua will not offer himself for re-election at the AGM.

**Mr. Liu Haijun (劉海軍)**, age 50, is an executive Director of our Company and a senior vice president of our Group, and is mainly responsible for supervising the daily operation of Wison Engineering and takes charge of its domestic marketing, advisory and commercial affairs. He is also responsible for overseeing the office of the president as well as the marketing, commercial and advisory departments of Wison Engineering. Mr. Liu is also a director of Wison Engineering Investment Limited, the intermediate holding company of the Company. Mr. Liu graduated from Shandong Chemical School (山東省化工學校) in 1984, majoring in organic processing and the University of Petroleum (石油大學) in 1991, majoring in petrochemical. In 2010, Mr. Liu obtained his executive MBA from China Europe International Business College (中歐國際工商學院). From 1984 to 1994, he was engaged in the petroleum processing and design work in the Design Institute of China Petroleum & Chemical Corporation Qilu Branch ("Sinopec Qilu"). From 1994 to 2001, he was engaged in the design management and project management in the Project Management Department of Sinopec Qilu. In 2000, he was appointed by Sinopec Qilu as a senior engineer. Mr. Liu joined our Group as a technical engineer of the Furnace Department of Wison Engineering in August 2001 and has successively served as the technical engineer, the project manager, the manager of the Furnace Department, vice general manager of the Engineering Department and deputy general manager of Wison Engineering. Mr. Liu was appointed as our Director on 18 May 2011. He has 30 years' experience in the petrochemicals industry.

**Mr. Zhou Hongliang (周宏亮)**, age 45, is a senior vice president of our Group and was appointed as an executive Director of our Company on 10 September 2013, and is mainly responsible for supervising the operations of the project management and project execution, and overseeing the quality and safety, project management, procurement, construction management and administration departments. He graduated from Liaoning Shihua University (遼寧石油化工大學), formerly known as the Fushun Petroleum Institute (撫順石油學院) in 1991. He received his master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2014. He obtained the qualification of constructor from the Ministry of Construction of the PRC (中華人民共和國建設部) in 2006. He was responsible for project management in Sinopec Ningbo Engineering Company Limited from 1991 to 2002. From 2002 to 2004, Mr. Zhou worked as a deputy manager in the Ethylene Project Team in SECCO (上海賽科石油化工有限責任公司). Mr. Zhou joined our Group in January 2005 as a manager of the construction management department of Wison Engineering and was appointed as the deputy general manager of Wison Engineering in January 2008. He has 22 years' experience in the petrochemicals industry.

# Biographies of the Directors and Senior Management

**Mr. Cui Ying (崔穎)**, age 42, is a senior vice president of our Group and was appointed as an executive Director of our Company on 10 September 2013. Mr. Cui is also a director of Wison Group Holding Limited and Wison Engineering Investment Limited, the ultimate and intermediate holding companies of the Company. He is mainly responsible for supervising our Company's human resources, investor relations management and finance affairs, and overseeing the human resources, finance and financial analysis departments. He graduated from Shanghai Railway University (上海鐵道大學) with a bachelor's degree in telecommunications engineering in 1994 and completed a master's degree in telecommunications signal processing from Shanghai Railway University (上海鐵道大學), (which subsequently merged with Tongji University (同濟大學)) in 1997. He completed an executive master of business administration in the Olin Business School of Washington University in St. Louis and Advanced Management Program 186 (AMP186) at Harvard Business School. From 1997 to 2000, he worked in the Shanghai branch of China Unicom Group Co., Ltd. (中國聯通上海分公司). From 2000 to 2001, he was employed by Lucent Technologies (China) Co., Ltd. (朗訊科技(中國)公司). From 2001 to 2004, Mr. Cui worked as a marketing senior management at China Netcom (中國網通). From 2005 to 2009, he was appointed by IBM Global Business Services as a managing consultant. Mr. Cui joined our Group as director of sales and marketing in July 2009.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Liu Ji (劉吉)**, age 79, was appointed as our independent non-executive Director on 30 November 2012. Mr. Liu graduated from Power Mechanical Engineering Department of Tsinghua University in 1958 and, thereafter, worked in the Shanghai Internal Combustion Engine Research Institute (上海內燃機研究所) for over 20 years. Mr. Liu acted as vice president of the Science and Technology Commission of Shanghai Municipality (上海市科協) from 1983 to 1998, vice director of Propaganda Department of Shanghai Municipal Committee (中共上海市委宣傳部) from 1988 to 1991, director of the Commission for Economic Restructuring of Shanghai Municipal (上海市人民政府經濟體制改革委員會) from 1992 to 1993 and vice president of Chinese Academy of Social Sciences (中國社會科學院) from 1993 to 1998. Since 1999, Mr. Liu served as a researcher, member of the academic committee and tutor for doctorial candidates in Chinese Academy of Social Sciences (中國社會科學院). He was the executive president of China Europe International Business School (中歐國際工商學院) from 2000 to 2004 and became the honorary president in 2005. Mr. Liu has also been an independent non-executive director of First Shanghai Investments Limited, a company listed on the Main Board of the Stock Exchange, since 2004. Mr. Liu has also been a class II director of $O_2$Micro International Limited since June 2007. $O_2$Micro is a company listed on the NASDAQ Stock Market. Mr. Liu was previously an independent non-executive director of Universal Technologies Holdings Limited, a company listed on the Main Board of the Stock Exchange from 2009 to 2011. Mr. Liu was previously an independent non-executive director of Stone Group Holdings Limited from 2005 to 2008, a company previously listed on the Main Board of the Stock Exchange on 16 August 1993 and subsequently privatized and delisted on 6 November 2009.

# Biographies of the Directors and Senior Management

**Mr. Wu Jianmin (吳建民)**, age 76, was appointed as our independent non-executive Director on 30 November 2012. Mr. Wu graduated from Beijing Foreign Language Institute (北京外國語學院) (now known as Beijing Foreign Studies University (北京外國語大學)) in 1959 with an undergraduate degree in French, where he also pursued postgraduate studies in translation from 1959 to 1961. From 1965 to 1971, he served at the Department of Translation and Interpretation of the Ministry of Foreign Affairs of the PRC (中華人民共和國外交部翻譯室) as a French interpreter for Chinese leaders such as Mao Zedong and Zhou Enlai. In 1971, he became a member of the first Permanent Mission of the PRC to the United Nations. During his diplomatic career of over 40 years, he served such various positions as political counselor of the Permanent Mission of the PRC to the United Nations, DCM (deputy chief of Mission) of the Embassy of the PRC in the Kingdom of Belgium, DCM of the PRC Mission to the European Communities, director-general of Department of Information and spokesman of Ministry of Foreign Affairs, Chinese ambassador to the Netherlands, permanent representative and ambassador of the PRC to the United Nations office at Geneva and other International Organizations in Switzerland (中華人民共和國常駐聯合國日內瓦辦事處和瑞士其他國際組織代表團), and Chinese Ambassador to France from 1998 to 2003. He was the president of China Foreign Affairs University from 2003 to 2008. He also served as the executive vice president of China National Association for International Studies, deputy secretary-general and spokesman of the Chinese People's Political Consultative Conference ("CPPCC") and vice chairman of the Foreign Affairs Commission of the CPPCC National Committee. He was the president of the Bureau International des Expositions from 2003 to 2007. In June 2003, Mr. Wu was awarded Grand Officer, Légion d'Honneur by then French President Jacques Chirac in recognition of his outstanding contribution to Sino-French relations.

In accordance with article 108 of the Articles, Mr. Wu shall retire by rotation at the AGM. However, Mr. Wu will not offer himself for re-election at the AGM.

**Mr. Lawrence Lee (李磊)**, age 50, joined our Company as an independent non-executive director on 30 March 2015. Mr. Lee is an executive director of Kasen International Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited and was vice president and Chief Financial Officer of Kasen International Holdings Limited from August 2004 to September 2007. Mr. Lee also held other senior finance positions during his career of over 20 years, serving as Chief Financial Officer at Synutra International, Inc., a company listed on NASDAQ from October 2007 to October 2009; as Chief Financial Officer at Eagle Brand Holdings Limited, a company listed on the Singapore Stock Exchange from July 2001 to April 2004; and as a financial controller at the Korean division of Exel Plc in the United Kingdom between January 1999 to July 2001. Mr. Lee has also worked as independent advisors to several companies in China on corporate finance and strategy. Mr. Lee received a Bachelor's degree in Management and Engineering from the Beijing Institute of Technology in 1984. Mr. Lee also obtained a Master degree in Economics from the Renmin University in 1987 and a Master's degree in Accounting and Finance from the London School of Economics in 1992. He is also a fellow member of the Association of Chartered Certified Accountants.

## SENIOR MANAGEMENT

**Ms. Xu Tan (徐坦)**, age 45, is a vice president of our Group and the general manager of the Beijing Branch of Wison Engineering and is responsible for overseeing the expansion of international business in Asia-Pacific region and "One Belt and One Road". Ms. Xu is a registered accountant and a senior economist in the PRC. Ms. Xu graduated from Renmin University of China (中國人民大學) in 1992 and received her master's degree in business administration from Tsinghua University (清華大學) in 2001. From 2000 to 2004, she successively served as the assistant to CFO on investor relations and the director of the Human Resources and Administration Department of China Netcom Broadband Corporation Ltd. (中國網通寬帶公司). Ms. Xu joined our Group as an assistant president of Wison Engineering and general manager of the Beijing branch office of Wison Engineering in October 2004.

# Biographies of the Directors and Senior Management

**Mr. Lin Zhong (林中)**, age 54, is a vice president of our Group, and is responsible for overseeing the operations of technology management and information departments. He graduated from Zhengzhou Institute of Technology (鄭州工學院) in 1983. From 1983 to 2006, he engaged in petrochemical design in Qilu Petrochemical Design Institute (齊魯石油化工設計院) and served as a deputy general manager. He was engaged by China Petroleum & Chemical Corporation ("Sinopec") as a senior engineer in 1996. From 2003 to 2005, he pursued further studies at Dalian University of Technology (大連理工大學) on a part-time basis and obtained a master's degree in engineering. In 2003, he was awarded with the qualification of (investment) consultant engineer jointly recognized by various authorities such as the Ministry of Personnel and the State Development and Reform Commission of the PRC and automatic engineer recognized by China Association. Mr. Lin joined our Group as a deputy general manager of Wison Engineering in July 2006 and he has 29 years' experience in the petrochemicals industry.

**Mr. Yang Zhimin (楊志敏)**, age 56, is a vice president of our Group and a general manager of Henan branch of Wison Engineering. He is mainly responsible for overseeing business qualifications management and management of the Henan branch office and design center in Henan. He graduated from Lanzhou Petroleum College (蘭州石油學校) with a major in petroleum machinery, Renmin University of China (中國人民大學) with a major in industrial and economic management, and received his master's degree (EMBA) from Guanghua School of Management of Peking University. Mr. Yang has over 30 years of experience in petrochemicals design and management. He successively served as the dean, party secretary and chairman of the board of directors. Mr. Yang has won approximately 30 prizes such as scientific and technological progress awards of national, ministerial and provincial levels (國家和省部級科技進步獎) and outstanding engineering consulting and design awards (優秀工程設計諮詢獎). He has also obtained "Cross-century Pioneer in academics and technology (跨世紀學術和技術帶頭人)" from Henan province in 1999, "Expert in special allowance (特殊津貼專家)" by the Central People's Government of PRC (中華人民共和國國務院) in 2002 and 60th Anniversary of Nationwide Engineering Design Industry "Top Ten Entrepreneurs" (全國工程設計行業國慶60周年"十佳現代管理企業家大獎") in 2009. He was also a senior engineer of professor level, State-registered consultant engineer and State-registered mechanical engineer. He joined our Group as a deputy general manager of Wison Engineering and a general manager of Henan branch office of Wison Engineering in November 2007.

**Mr. Yang Guangping (楊廣平)**, age 49, is a vice president of our Group and is responsible for marketing in Shandong. Mr. Yang graduated from Dalian University of Technology (大連理工大學) with a bachelor's degree in chemical machinery in 1988. From 2003 to 2005, he worked as an equipment engineer at Chemtex China. He joined our Group in 2005 and worked as a procurement department manager in Wison Engineering where he was mainly responsible for the procurement, quality control and dispatch of the project materials. Mr. Yang has 25 years' experience in the petrochemicals industry.

**Mr. Sun Xiaoguang (孫曉光)**, age 54, is a vice president of our Group. He is responsible for overseeing the management of project contracting. Mr. Sun graduated from the College of Architecture and Engineering of Heilongjiang University with a major in engineering geology and hydrogeology in 1983. He was previously an assistant general manager of China Petroleum Daqing Coal Chemical Company. He joined our Group in 2004 as project manager in Wison Engineering. Mr. Sun has 31 years' experience in the petrochemicals industry.

# Biographies of the Directors and Senior Management

**Mr. Yang Dechang (楊德昌)**, age 50, is a vice president of our Group and is responsible for overseeing expansion of international business in the Middle East and Africa. Mr. Yang graduated from Zhengzhou Institute of Technology (鄭州工學院) with a bachelor's degree in Foundry in 1984. He obtained the qualification of supervisory engineer in 1998 from the Ministry of Construction of the PRC (中華人民共和國建設部) and the qualification of constructor in 2005 from the Ministry of Personnel and the Ministry of Construction of the PRC. He obtained a certificate in business administration (MBA core course) from Antai College of Economics and Management Shanghai Jiao Tong University (上海交通大學安泰經濟與管理學院) in 2006. He obtained the qualification of senior engineer from China Petrochemical Corporation in 1997. Mr. Yang joined our Group in 2002 and worked in Wison Engineering as project manager, manager in the Engineering Division, manager in the Projects Control Division, manager in Commercial Division and manager in Procurement Division. Mr. Yang has 30 years' experience in the petrochemicals industry. He is pursuing an EMBA degree at China Europe International Business School (中歐國際工商學院).

**Mr. Li Yansheng (李延生)**, age 50, is a vice president of our Group, the chief scientist of Wison Engineering and the chief technology officer of both the design center and technology center. He is mainly responsible for guiding and leading the technology development of Wison Engineering and supporting and participating in internal technology research and development of Wison Engineering. Mr. Li graduated from Qingdao University of Science & Technology (青島化工學院) with a bachelor's degree in organic chemical engineering. Mr. Li also obtained a certificate in business administration (MBA core course) from Antai College of Economics and Management Shanghai Jiao Tong University (上海交通大學安泰經濟與管理學院) in 2006. Mr. Li then obtained an executive education program certificate from Cheung Kong Graduate School of Business (長江商學院) in 2010. Prior to joining our Group, Mr. Li worked at Qilu Petrochemical Engineering Company as vice chief engineer from 1987 to 2004. Mr. Li joined our Group in 2004, to work at the technical department of Wison Engineering. He then worked in the design management department and technical management department of Wison Engineering as a manager and vice chief engineer in 2005 and 2006, respectively. Since 2008, Mr. Li has been working at Wison Engineering as an assistant of general manager and technical director. Mr. Li also received various awards such as First-class Technical Progress Award (科技進步一等獎) from All-China Federation of Industry & Commerce (中華全國工商業聯合會) in 2010 and the nationwide outstanding chemical engineering worker (全國化工優秀科技工作者) from China Petroleum and Chemical Industry Federation (中國石油和化學工業聯合會) in 2010. He earned the title as a master of exploration design in the petroleum industry of the PRC in 2013.

**Mr. Man Tangquan (滿堂泉)**, age 52, is a vice president of our Group. He is mainly responsible for supporting the overseas sales of Wison Engineering and the execution of overseas projects. Mr. Man graduated from Huadong Petroleum College (華東石油學院) with a bachelor's degree in basic organic chemical engineering in 1984, and obtained his master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2013. Mr. Man has 29 years' experience in the petrochemicals industry.

**Mr. Dong Hua (董華)**, age 48, is a senior vice president of our Group. He is mainly responsible for supervising overseas sales, assisting execution of overseas projects and overseeing international business, regional sales and overseas branches of Wison Engineering. Mr. Dong graduated from Lanzhou Petroleum College (蘭州石油學校) with Petrochemical Equipment major in 1988 and subsequently graduated from China Three Gorges University (三峽大學) with a major in law in 2006. Mr. Dong obtained Project Management Professional Certificate from Project Management Institute. Mr. Dong obtained management related program certificates from Fudan University (復旦大學) and China Europe International Business School (中歐國際工商學院), and is currently pursuing his EMBA in the Hong Kong University of Science and Technology. Mr. Dong has 26 years' experience in the petrochemicals industry.

# Biographies of the Directors and Senior Management

**Mr. Li Baoyou (李保有)**, age 50, is a vice president of our Group and the manager of the design center (Beijing branch) of Wison Engineering. He is responsible for managing the operation of the design center (Beijing branch) and overseeing the industrial furnace division. Mr. Li graduated from Beijing University of Chemical Engineering (北京化工學院) with a bachelor's degree in polymer chemicals in 1988. Mr. Li also obtained a certificate of attending serial courses of business administration master from Guanghua School of Management in 2008 and the EMBA certificate from the China Europe International Business School (中歐國際工商學院) in 2013. Mr. Li joined our Group in 2004 as a senior engineer of the industrial furnace affairs department of Wison Engineering. Mr. Li has 27 years' experience in the petrochemicals industry.

**Ms. Luk Wai Mei (陸慧薇)**, MPA, BBA (Hons), CPA, CPA (Aust), ACS, ACIS, age 48, is the company secretary of our Company. Ms. Luk is mainly responsible for overseeing our Group's internal controls, compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and other relevant laws and regulations, compliance with financial reporting requirements, disclosure and reporting, board information and procedures. Prior to joining our Group as company secretary in September 2004, she had accumulated 16 years of accounting and company secretarial experience. From 1998 to 2004, Ms. Luk served as financial controller and company secretary in three companies listed in Hong Kong, Dawnrays Pharmaceutical (Holdings) Limited (stock code: 02348), Sing Lee Software (Group) Limited (stock code: 08076) and Dong Jian Group Holdings Limited (stock code: 00649) (privatized and delisted on 27 July 2007). Ms. Luk is a CPA member of Hong Kong Institute of Certified Public Accountant, a CPA member of CPA Australia, an associate member of both The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Luk holds a master's degree in professional accounting from the Hong Kong Polytechnic University and a bachelor's degree in business administration from the Chinese University of Hong Kong.

**Ms. Chen Huimei (陳惠梅)**, age 47, is a vice president of our Group. She is responsible for the technology development , market analysis and internal governance of Wison Engineering. Ms. Chen graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in chemistry and chemical engineering in 1989. From 1998 to 2007, Ms. Chen worked at China National Petroleum Corporation (中石油蘭州石化工程公司) as project manager, project director and the manager of the technology management. Ms. Chen joined our Group in 2007 and worked at Wison Engineering as assistant manager of the quality safety assurance department, manager of the technical management department and manager of the research and development center. Ms. Chen has 24 years' experience in the petrochemicals industry. She is pursuing an EMBA degree at the Chinese University of Hong Kong.

**Mr. Fan Weijie (范慰頡)**, age 51, is a vice president of our Group and the general manager of the consulting division of Wison Engineering. Mr. Fan is mainly responsible for marketing and advisory affairs in the preliminary stage of the projects. He obtained a profession qualification of architecture general arrangement drawing and logistics (總圖運輸專業) from Xi'an Metallurgy & Architecture College (西安冶金建築學院) in 1986. Mr. Fan also obtained qualification of construction project management from China Exploration & Design Association (中國勘察設計協會). Mr. Fan joined our Group in 2008 as an assistant manager of the design center and became a manager of the advisory department in 2011. Mr. Fan has 29 years' experience in the petrochemicals industry.

# Biographies of the Directors and Senior Management

**Mr. Hua Lingsu (華令蘇)**, age 49, is a vice president of our Group. He is the manager of the Procurement Division and a representative of the quality management system, HSE management system and information security management system of Wison Engineering. Mr. Hua graduated from East China University of Science & Technology (華東理工大學) (formerly known as East China Chemical Engineering College (華東化工學院)) with a bachelor's degree in chemical process automation (化工生產過程自動化). From 1988 to 2003, he worked as the head of technology division in Qilu Petrochemical Engineering Co. Ltd. (山東齊魯石化工程有限公司). From 2003 to 2004, he worked as a project manager in China International Water & Electric Corp. (S) Pte. Ltd. (中國國際水利電力新加坡公司). He joined our Group in 2004 and has been responsible for planning and implementing corporate management system and procurement of Wison Engineering. Mr. Hua Lingsu has 27 years' experience in the petrochemicals industry.

**Mr. Zheng Shifeng** (**鄭世鋒**), age 48, is a vice president of our Group and the general manager of the Project Management Department of Wison Engineering. He is responsible for the operation management of the Company's domestic and overseas projects. Mr. Zheng graduated from Hefei University of Technology (合肥工業大學) with a major in welding technology and equipment in 1990. He has been engaging in the project management in the petrochemicals and coal-to-chemicals industries and gained extensive experience. He holds the title of senior engineer and the qualification of registered qualification certificate professional constructor of electrical and mechanical engineering in the PRC (國家註冊機電工程專業一級建造師). He also holds an EMBA degree from China Europe International Business School (中歐國際工商學院). From 1996 to 2004, he worked as a project manager in the engineering department of Sinopec Qilu Petrochemical Corporation. Mr. Zheng joined our Group in 2004 and has successively served as the vice manager and the general manager of the Project Management Department as well as the vice president of our Group. Mr. Zheng has 25 years' experience in the petrochemicals industry.

# Report of the Directors

The board of directors of the Company (the "Board") is pleased to present its report together with the audited financial statements of the Company and its subsidiaries (the "Group"), for the year ended 31 December 2014.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activity of the Group is the provision of chemical engineering, procurement and construction management, or EPC, services. The Group provides a broad range of integrated services spanning the project lifecycle from feasibility studies, consulting services, provision of proprietary technologies, design, engineering, raw materials and equipment procurement and construction management to maintenance and after-sale technical support.

## MAJOR CUSTOMERS AND SUPPLIERS

Purchases of raw materials attributable to the Group's five largest suppliers amounted to less than 30% of the Group's total purchases for the year ended 31 December 2014.

For the year ended 31 December 2014, our five largest clients, in aggregate, counting each subsidiary of PetroChina Company Limited ("PetroChina") on a standalone basis, accounted for approximately 84.4% of our total revenue. For the same period, our five largest clients, in aggregate, counting revenue derived from PetroChina and its subsidiaries and China Petroleum & Chemical Corporation ("Sinopec") and its subsidiaries, respectively, on a group basis, accounted for approximately 84.4% of our total revenue. Our revenue derived from the single largest client for the same period, counting each subsidiary of PetroChina on a standalone basis, amounted to approximately 30.4% of our total revenue.

Our revenue derived from Zhoushan Wison Offshore & Marine Co., Ltd. ("Zhoushan Wison"), which is one of our five largest clients for the year ended 31 December 2014, amounted to approximately 0.45% of our total revenue for the same period. Zhoushan Wison is indirectly wholly-owned by Wison Group Holding Limited ("Wison Holding"). As at the date of this report, Wison Holding, through Wison Engineering Investment Limited ("Wison Investment"), holds approximately 78.13% of our Company.

Save as disclosed above, none of our Directors, any of their close associates or any Shareholders that, to the knowledge of our Directors, own more than 5% of the issued share capital of our Company had any interest in any of our five largest clients during the year ended 31 December 2014.

## SUBSIDIARIES AND ASSOCIATE

Particulars of the Company's subsidiaries and the Group's associates as at 31 December 2014 are set out in Note 35 and Note 19 to the financial statements respectively.

## FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2014 and the state of the Company's and the Group's financial affairs as at that date are set out in the financial statements on pages 57 to 144 of this report.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2014.

## DONATIONS

Donations made by the Group during the year ended 31 December 2014 amounted to RMB200,000 (2013: RMB50,000).

## PROPERTY, PLANT AND EQUIPMENT

Changes to the property, plant and equipment of the Group and the Company during the year are set out in Note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTION SCHEMES

Details of the Company's share capital and share option schemes are set out in Notes 32 and 33 to the financial statements and the paragraph "Share Option Schemes" below, respectively.

## RESERVES

Changes to the reserves of the Group during the year ended 31 December 2014 are set out in the consolidated statement of changes in equity. Changes to the reserves of the Company during the year ended 31 December 2014 are set out in Note 32 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's distributable reserves calculated under the Companies Law of the Cayman Islands comprise the share premium and retained earnings totaling approximately RMB904,599,000.

# Report of the Directors

## USE OF PROCEEDS FROM THE GLOBAL OFFERING

On 28 December 2012, the Company's shares were listed on the main board of The Stock Exchange of Hong Kong Limited. A total of 544,622,000 ordinary shares with nominal value of HK$0.10 each of the Company were issued at HK$2.79 per share for a total of approximately HK$1,519 million. The net proceeds raised by the Company from the abovementioned global offering are approximately HK$1,364.27 million.

As at 31 December 2014, the net proceeds have been fully utilized for purposes set out in the announcement of the Company dated 1 November 2013.

## DIRECTORS

The directors during the year and as at the date of this annual report are:

### Executive Directors

Mr. Hua Bangsong *(Chairman)*
Mr. Liu Haijun
Mr. Cui Ying
Mr. Zhou Hongliang

### Independent Non-executive Directors

Mr. Liu Ji
Mr. Wu Jianmin
Mr. Lawrence Lee
*(appointed on 30 March 2015)*

In accordance with Article 108 of the Company's Articles of Association, Mr. Hua Bangsong and Mr. Wu Jianmin will retire by rotation at the forthcoming annual general meeting of the Company. Both Mr. Hua Bangsong and Mr. Wu Jianmin will not offer themselves for re-election.

In accordance with Article 112 of the Company's Articles of Association, Mr. Lawrence Lee will retire at the forthcoming annual general meeting of the Company, and being eligible, offers himself for re-election.

Mr. Lawrence Lee does not have an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than under normal statutory obligations.

## RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Save as disclosed under the section "Share Option Schemes" below, at no time during the year was the Company, or any of its holding companies or subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the Securities and Futures Ordinance (the "SFO") or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

# Report of the Directors

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the section "Connected Transactions" below, no contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, and no contract of significance between the Company or any of its subsidiaries and the Company's controlling shareholder or any of its subsidiaries, subsisted at the end of the year or at anytime during the year.

## DIRECTORS ' INTERESTS IN COMPETING BUSINESS

As at the date of this report, none of the directors of the Company and directors of the Company's subsidiaries, or their respective associates had interests in businesses, which compete or are likely to compete either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

## MANAGEMENT CONTRACTS

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

## DIRECTORS ' AND CHIEF 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 or the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

| Name of Director | Company/ Name of Group Company | Capacity/ Nature of interest | Number of Shares[1] | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr. Hua Bangsong[2] | Company | Interest in controlled corporation | 3,175,520,000 (L) | 78.13% |
| Mr. Liu Haijun | Company | Beneficial owner | 3,040,000 (L)[3] | 0.07% |
| Mr. Cui Ying | Company | Beneficial owner | 3,040,000 (L)[3] | 0.07% |
| Mr. Zhou Hongliang | Company | Beneficial owner | 3,040,000 (L)[3] | 0.07% |

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) 3,175,520,000 Shares are beneficially owned by Wison Investment, which in turn is wholly owned by Wison Holding. By virtue of his 100% shareholding in Wison Holding, which in turn wholly owns Wison Investment, Mr. Hua Bangsong is deemed or taken to be interested in a total of 3,175,520,000 Shares owned by Wison Investment.

(3) Shares in respect of options granted under the pre-IPO share option scheme of the Company.

# Report of the Directors

Save as disclosed above, as at 31 December 2014, none of the Directors nor the chief executive of the Company had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEMES

### Share Option Scheme of the Company

On 30 November 2012, a share option scheme (the "Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The Share Option Scheme will remain in force for a period to be notified by the Board, such period shall not exceed the period of ten years from the adoption date.

The purposes of the Share Option Scheme are to attract and retain the best available personnel, to provide additional incentive to employees, directors, consultants and advisers of our Group and to promote the success of the business of our Group. Pursuant to the Share Option Scheme, the Board may offer any employee (whether full-time or part-time), Director, consultant or adviser of our Group (the "Eligible Person") options to subscribe for Shares. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Company shall not exceed such number of Shares as shall represent 30% of the issued share capital of our Company from time to time. Subject to the above, the Board may grant options under the Share Option Scheme in respect of such number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes in aggregate not exceeding 10% of the issued share capital of the Company as at the date on which dealings in the Shares commenced on the main board of the Stock Exchange (the "Scheme Mandate Limit") (being 400,000,000 Shares). Therefore, as at 31 December 2014, the total number of shares which may be issued on the exercise of options to be granted under the Share Option Scheme and any other schemes is 400,000,000, representing approximately 9.84% of the issued share capital of the Company as at the date of this report. Options lapsed in accordance with the Share Option Scheme shall not be counted for the purpose of calculating the Scheme Mandate Limit. Unless approved by the Shareholders in a general meeting, the total number of Shares issued and to be issued upon the exercise of the options granted to each Eligible Person (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the relevant class of securities of our Company in issue.

The amount payable for each Share to be subscribed for under an option in the event of the option being exercised shall be determined by the Board and shall be not less than the greater of:

(i) the closing price of the Shares on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of grant;

(ii) the average closing price of the Shares on the Main Board as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of the Shares.

# Report of the Directors

An option may be exercised in whole or in part by the option holder in accordance with the terms of the Share Option Scheme at any time during the period to be notified by the Board to each option holder upon the grant of options, such period not to exceed ten years from the date of grant of the relevant option. Terms and conditions to options can be specified upon grant of such options, which may include provisions as to the performance conditions which must be satisfied before the option can be exercised, the minimum period for which an option must be held before it can be exercised, vesting conditions (if any), lapse conditions and such other provisions as the Board may determine provided such provisions are not inconsistent with the relevant requirements of the Share Option Scheme or the Listing Rules.

As at 31 December 2014, no option has been granted or agreed to be granted under the Share Option Scheme.

## Pre-IPO Share Option Scheme of the Company

On 30 November 2012, a Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company was approved and adopted by the shareholders of the Company. The Pre-IPO Share Option Scheme shall be valid and effective for the 180-day period commencing on the date on which the Pre-IPO Share Option Scheme was adopted, after which no further pre-IPO options shall be offered but the provisions of this Pre-IPO Share Option Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to the exercise of any pre-IPO options granted prior thereto or otherwise as may be required in accordance with the provisions of the Pre-IPO Share Option Scheme and pre-IPO options granted prior thereto but not yet exercised shall continue to be valid and exercisable in accordance with the Pre-IPO Share Option Scheme.

The purpose of the Pre-IPO Share Option Scheme is to enable our Company to grant pre-IPO options to eligible participants, including directors, senior management and employees of the Group and certain employees, executives and officers of Wison Holding, as recognition and acknowledgement of the contributions that such eligible participants have made or may make to our Group or any affiliates.

Each of the grantees to whom a pre-IPO option has been granted under the Pre-IPO Share Option Scheme shall be entitled to exercise his/her pre-IPO option at any time during the option period or such period as may be specified by the Board at the time of grant.

As at 31 December 2014, the maximum number of shares in respect of which pre-IPO options have been granted under the Pre-IPO Share Option Scheme is 184,414,000 shares, representing approximately 4.54% of the issued share capital of our Company as at the date of this report. No further options can be granted under the Pre-IPO Share Option Scheme after the Listing Date.

As at 31 December 2014, options to subscribe for an aggregate of 184,414,000 shares representing 4.54% of the total issued share capital of our Company as at the date of this report have been granted by our Company and remain outstanding under the Pre-IPO Share Option Scheme for a consideration of HK$1.00 per option. Save as disclosed below, no Directors, substantial shareholders or other connected persons or their respective associates have been granted options under the Pre-IPO Share Option Scheme.

# Report of the Directors

Particulars of the outstanding options granted under the Pre-IPO Share Option Scheme are set out below:

| Category of participants | Exercise price per share | No. of shares involved in the options outstanding at 1 January 2014 | Exercised during the period | Lapsed during the period | Reassigned during the period | No. of Shares involved in the options outstanding at 31 December 2014 |
|---|---|---|---|---|---|---|
| The Group | | | | | | |
| Directors, chief executive or substantial shareholders of the Company or subsidiaries, or their respective associates | | | | | | |
| Liu Haijun | 0.837 | 3,040,000 | – | – | – | 3,040,000 |
| Cui Ying | 0.837 | 3,040,000 | – | – | – | 3,040,000 |
| Zhou Hongliang | 0.837 | 3,040,000 | – | – | – | 3,040,000 |
| Dong Hua | 0.837 | 2,660,000 | – | – | – | 2,660,000 |
| Zhuang Yongqing | 0.837 | 3,648,000 | – | – | – | 3,648,000 |
| Employees of the Group | 0.837 | 137,427,000 | – | (6,555,000) | (266,000)* | 130,606,000 |
| Wison Holding and its subsidiaries | | | | | | |
| Employees, executives and officers of Wison Holding or any of its subsidiaries | 0.837 | 38,494,000 | – | (380,000) | 266,000* | 38,380,000 |
| Total | | 191,349,000 | – | (6,935,000) | – | 184,414,000 |

Note: *Options representing 646,000 Shares were held by certain then employees of the Group at the beginning of the period, who were reassigned as employees of Wison Holding or its subsidiaries during the period. Options representing 380,000 Shares were held by certain then employees of Wison Holding or its subsidiaries at the beginning of the period, who were reassigned as employees of the Group during the period.*

The outstanding options granted under the Pre-IPO Share Option Scheme above were granted on 30 November 2012. During the year ended 31 December 2014, no options have been exercised by the holders, options to subscribe for an aggregate of 6,935,000 shares have lapsed.

Pursuant to the Pre-IPO Share Option Scheme, outstanding and unexercised options may be exercisable in tranches during the option period (which shall expire on the last business day of the 96th month after the Listing Date) such that 20% of such options shall be exercisable at any time on or after the first business day following each of the 36th, 48th, 60th, 72th and 84th month after the Listing Date.

# Report of the Directors

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

As at 31 December 2014, the following persons (other than the Directors or the chief executive of the Company) has interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

| Name | Company/Name of Group Company | Capacity/ Nature of interest | Number of Shares directly or indirectly held(1) | Approximate percentage of shareholding |
|---|---|---|---|---|
| Wison Investment | Company | Beneficial owner | 3,175,520,000 (L) | 78.13% |
| Wison Holding(2) | Company | Interest in controlled corporation | 3,175,520,000 (L) | 78.13% |
| Mr. Hua Bangsong(3) | Company | Interest in controlled corporation | 3,175,520,000 (L) | 78.13% |
| Ms. Huang Xing(4) | Company | Interest of spouse | 3,175,520,000 (L) | 78.13% |

Notes:

(1) The letter "L" denotes the person's long position in such Shares.

(2) Wison Holding, as the sole shareholder of Wison Investment, is deemed or taken to be interested in the Shares which are owned by Wison Investment.

(3) Mr. Hua Bangsong, as the sole shareholder of Wison Holding, is deemed or taken to be interested in the Shares which are beneficially owned by Wison Holding.

(4) Ms. Huang Xing is the spouse of Mr. Hua Bangsong. Under the SFO, Ms. Huang Xing is deemed to be interested in the same number of Shares in which Mr. Hua is interested.

Save as disclosed above, as at 31 December 2014, no persons (other than the Directors or the chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## CONNECTED TRANSACTIONS

Mr. Hua Bangsong ("Mr. Hua"), an executive Director and the Chairman of our Company, is a connected person of our Company under Rule 14A.11 (1) of the Listing Rules.

Wison Holding, a company wholly-owned by Mr. Hua, holds 100% of Wison Investment. Wison Investment owns approximately 78.13% of our Company as at the date of this report, and therefore is a controlling shareholder and a connected person of the Company under the Listing Rules.

As at 31 December 2014, Wison (Nanjing) Clean Energy Co., Ltd. ("Wison Nanjing") was owned as to 52.8% by Wison (China) Holding Company ("Wison (China) Investment"), which is an indirectly wholly-owned subsidiary of Wison Holding. Therefore, each of Wison (China) Investment and Wison Nanjing is an associate of Mr. Hua and a connected person of our Company under the Listing Rules.

# Report of the Directors

Prior to its de-registration and merger into Wison Nanjing on 30 November 2011, Nanjing Ruigu Chemical Engineering Co., Ltd. ("Nanjing Ruigu") was a wholly-owned subsidiary of Wison Nanjing. Nanjing Ruigu was therefore a connected person of our Company until its merger into Wison Nanjing.

Jiangsu Xinhua Chemical Engineering Co., Ltd. ("Jiangsu Xinhua") is a substantial shareholder of Wison Engineering Ltd. ("Wison Engineering") (an indirect non-wholly owned subsidiary of the Company), holding 25% of its equity interest (but is entitled as to 10% of its distributable profits). Jiangsu Xinhua is therefore a connected person of our Company under the Listing Rules.

Wison (Shanghai) Telecommunication Technology Co., Ltd. ("Wison Telecommunication") is owned as to 80% by Jiangsu Xinhua and the remaining 20% is owned by three independent third parties. Wison Telecommunication is therefore an associate of Jiangsu Xinhua (a substantial shareholder of Wison Engineering) and a connected person of our Company under the Listing Rules.

Wison (Nantong) Heavy Industry Co., Ltd. ("Wison Nantong") is indirectly wholly-owned by Wison Holding. Wison Nantong is therefore an associate of Mr. Hua and a connected person of our Company under the Listing Rules.

Shanghai Zerun Biotechnology Co., Ltd. ("Zerun Biotech") is owned as to 41.9% by Wison Holding as at 31 December 2014. Zerun Biotech is therefore an associate of Wison Holding and a connected person of our Company under the Listing Rules.

Zhoushan Wison is indirectly wholly-owned by Wison Holding and is therefore an associate of Mr. Hua and a connected person of our Company under the Listing Rules.

## One-off Connected Transactions

The following transactions are one-off transactions entered into by our Group:

1. **Zhoushan marine engineering base project**
   On 16 May 2012, Wison Engineering and Zhoushan Wison entered into a procurement and construction lead contractor agreement (as supplemented by a supplemental agreement dated 15 August 2012) (the "Zhoushan PC Agreement") for the "construction of the marine engineering base" project (海洋工程建造基地工程) in Zhoushan, Zhejiang Province, PRC, pursuant to which Zhoushan Wison engaged Wison Engineering to procure all equipment and materials and oversee quality assurance and completion of the construction of the Zhoushan marine engineering base. The amount of consideration is to be determined based on, among other things, the volume of work, the market price of equipment and materials and other factors as agreed between the two parties and may be adjusted due to an increase or decrease in the volume of work resulting from the change in the design of the marine engineering base, fluctuation in market price of equipment and materials that significantly deviates from the initial quotation, change in the applicable legal and regulatory framework governing this type of project and other factors as agreed between the two parties. Based on the then prevailing circumstances in 2013, Wison Engineering and Zhoushan Wison confirmed that the consideration payable under the Zhoushan PC Agreement is estimated to be RMB1,882.08 million. On 11 November 2014, Wison Engineering and Zhoushan Wison entered into an interim settlement confirmation, whereby the parties confirmed that the total contract value for the work already carried out by Wison Engineering amounted to RMB1,390 million and agreed to a deferral of the uncompleted work until Zhoushan Wison obtains necessary financing. The Group recognised revenue of RMB34.02 million during the year ended 31 December 2014 and as at 31 December 2014, the amount due from Zhoushan Wison included in the Group's trade receivables is RMB396.68 million.

# Report of the Directors

2. On 24 January 2014, Wison Engineering and Wison Nanjing entered into (i) the Methanol Synthesis Renovation Project Design Contract in relation to the Methanol Synthesis Renovation Project of Wison Nanjing; (ii) the Technology Consultancy Contracts in relation to five different projects, namely (a) 200kta ethylene oxide project, (b) 600kta MTO project, (c) Wison-BASF joint project for MTO and downstream derivatives, (d) propylene oxide project, and (e) methanol synthesis renovation project; (iii) the Patent Right Sharing Agreement; and (iv) the SNG Cooperation Agreement. (i) The Methanol Synthesis Renovation Project Design Contract is for the Methanol Synthesis Renovation Project of Wison Nanjing in respect of an additional 300kta methanol synthesis unit, whereby Wison Engineering has agreed to provide basic and detail project design services for the Methanol Synthesis Renovation Project. The contract price under the Methanol Synthesis Renovation Project Design Contract was RMB2.8 million and was determined with reference to the market rates of similar services provided. The contract price under the Methanol Synthesis Renovation Project Design Contract shall be payable by Wison Nanjing in cash by instalments at various stages of the design project. The Group recognized revenue of RMB2.64 million for this contract for the year ended 31 December 2014, of which RMB2.24 million has been paid during the year. (ii) Pursuant to each of the five Technology Consultancy Contracts, Wison Nanjing engaged Wison Engineering to produce a feasibility study report in relation to the relevant project within three months of the date of the relevant contract. The aggregate contract price for the five Technology Consultancy Contracts is RMB2.6 million and was determined with reference to the market rates of similar services provided. The contract price shall be payable in lump sum in cash by Wison Nanjing to Wison Engineering within 10 days upon delivery of the relevant feasibility study report. The Group recognized revenue of RMB2.45 million for these five contracts for the year ended 31 December 2014. The entire aggregate contract price of RMB2.6 million was settled during the year ended 31 December 2014. (iii) Pursuant to the Patent Right Sharing Agreement, Wison Engineering and Wison Nanjing agreed to the joint ownership of the intellectual property right in respect of four patents, namely (a) regeneration process of using low temperature methanol to wash and spray methanol; (b) method of heat pump distillation of methanol; (c) gasifying device for liquid and solid fuel aqueous slurry; and (d) petro coke residue slurry with high ash fusion point and its preparation method. No consideration is payable by either party to the other under the Patent Right Sharing Agreement for the joint ownership of the intellectual property rights. (iv) Pursuant to the SNG Cooperation Agreement, Wison Nanjing shall provide Wison Engineering with the right to use the land and facilities owned by Wison Nanjing and located at the Nanjing Chemical Industrial Park and also with certain gases and utilities such as water and mid-pressure steam, for Wison Engineering's use in relation to its Vesta new SNG technology trial research and development project. Wison Engineering may also request Wison Nanjing to second experienced staff to assist in its project. Pursuant to the SNG Cooperation Agreement, Wison Engineering shall pay Wison Nanjing a lump sum cash payment of RMB600,000 within 60 days of the signing of the agreement as consideration for the provision of the land and facilities. This consideration is determined after arm's length negotiations between the parties and reflect the costs to Wison Nanjing for the provision of the land and facilities. As for the provision of gases and utilities by Wison Nanjing, the consideration payable shall be determined with reference to the actual usage by Wison Engineering and at a price which shall be either the actual costs to Wison Nanjing for such gases or utilities or the lowest price charged by Wison Nanjing to other customers. As for the secondment of staff, Wison Nanjing shall charge Wison Engineering at 1.5 times the basic salary of such staff, which after taking into account insurance, pension and other staff benefits, represent the costs to Wison Nanjing. No expenses have been incurred by the Group under the SNG Cooperation Agreement during the year ended 31 December 2014.

# Report of the Directors

## Continuing Connected Transactions

Details of the continuing connected transactions are set out in Note 34 to the financial statements.

For the financial year ended 31 December 2014, the following continuing connected transactions (the "Continuing Connected Transactions") have not exceeded their respective annual caps:

1. **Leases and property management services agreements**
   The Group leased (the "Leases") to Wison (China) Investment, Wison Telecommunication and Wison Nantong on 1 January 2014 specified parts of certain premises in Zhangjiang Hi-Tech Park, the Group also provided property management services (the "Property Management Services Agreements") to Wison (China) Investment, Wison Telecommunication and Wison Nantong for the premises under the Leases for office use.

Details of the above Leases and Property Management Services Agreements are as follows:

| Lesser | Lessee | Leased Properties | Duration of Lease | g.f.a of Leased Properties ($m^2$) | Annual Rental (RMB in thousands) | Property management services fee (RMB in thousands) |
|---|---|---|---|---|---|---|
| Wison Engineering | Wison (China) Investment | • Certain premises located at 6th Floor, Block A, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC. | 1 January 2014 to 31 December 2016 | 2,000 | 2,920 | 528 |
| Wison Engineering | Wison Telecommunication | • Certain premises located at 6th Floor, Block B, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC. | 1 January 2014 to 31 December 2016 | 500 | 730 | 132 |
| Wison Engineering | Wison Nantong | • Certain premises located at 8th Floor to 11th Floor, Block C, No. 699 Zhongke Road, Pudong New District, Shanghai, PRC. | 1 January 2014 to 31 December 2016 | 7,000 | 10,220 | 1,848 |

# Report of the Directors

As the Leases were entered into by Wison Engineering with Wison (China) Investment, Wison Telecommunication and Wison Nantong, respectively, all of which are connected persons of our Company, the Leases are considered under Rule 14A.26 (1) of the Listing Rules to be entered into between our Group and "parties connected or otherwise associated with one another". Hence, the Leases should be aggregated under Rule 14A.26 (1) of the Listing Rules.

The rental and property management services fee payable by each of Wison (China) Investment, Wison Telecommunication and Wison Nantong to the Group under the Leases and Property Management Services Agreements are consistent with the prevailing market rates for similar properties in similar locations as of the commencement date of their respective tenancies. The annual cap for the aggregate amounts of the rental and the property management services fees payable by Wison (China) Investment to Wison Engineering under the 2014 Wison (China) Investment Property Leasing Agreement and the 2014 Wison (China) Investment Property Management Services Agreement for each of the three years ending 31 December 2014, 2015 and 2016 is RMB3,500,000, and the annual cap for the aggregate amounts of the rental and the property management services payable fees by Wison Nantong to Wison Engineering under the 2014 Wison Nantong Property Leasing Agreement and the 2014 Wison Nantong Property Management Services Agreement for each of the three years ending 31 December 2014, 2015 and 2016 is RMB12,100,000. As at 31 December 2014, the amounts of outstanding rental and property management services fees due from Wison (China) Investment, Wison Telecommunication and Wison Nantong are RMB2,586,000, RMB646,000 and RMB12,189,000, respectively. The Group has assessed the repayment schedule of the overdue amounts proposed by the lessees and considered that the risk exposure is manageable. Therefore, no decision has been made to terminate the leases.

2. **Miscellaneous engineering design and technology services fee**

   On 4 July 2014, Wison Engineering and Wison Nanjing entered into the Framework Agreement, pursuant to which Wison Engineering and/or its subsidiaries will provide miscellaneous engineering design and technology services (the "Services") to Wison Nanjing and/or its subsidiaries in relation to their manufacturing facilities, public utility engineering systems and ancillary production systems. For projects which could adopt "design estimation approach" to calculate the contract price, the parties shall determine the contract price in accordance with the principles laid down in the Regulations on Pricing Management of Survey and Design and where "design estimation approach" is not applicable, the amount payable by Wison Nanjing to Wison Engineering shall be determined based on the agreed hourly rates. The basic hourly rate for each manpower shall follow the market price. The contract price under the Framework Agreement shall be payable on a quarterly basis by Wison Nanjing to Wison Engineering. The Framework Agreement took effect upon signing and affixation by the parties, and shall expire on 31 December 2016. The annual cap of the amount payable by Wison Nanjing to Wison Engineering for the services provided under the Framework Agreement for each of the three years ending 31 December 2014, 2015 and 2016 shall be RMB2 million. The aggregate value of the engineering design and technology services fee payable by Wison Nanjing during the year ended 31 December 2014 was RMB1,254,000.

# Report of the Directors

In the opinion of the independent non-executive directors, the continuing connected transactions above were entered into by the Group:

(i) in the ordinary and usual course of its business;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Further, the Board has engaged the auditor of the Company to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.38 of the Listing Rules.

A copy of the auditor's letter on the continuing connected transactions of the Group for the period from the date of listing of the Company on the Stock Exchange up to 31 December 2014 has been provided by the Company to the Stock Exchange.

Details of the related party transactions of the Group during the year ended 31 December 2014 are set out in Note 34 to the financial statements. During the year ended 31 December 2014, the related party transactions set out in Notes 34(a)(i), (a)(ii), (a)(iv), (a)(v), (a)(vi) and (b)(ii) are regarded as continuing connected transactions of the Group under Rule 14A.34(1) of the Listing Rules as each of the relevant percentage ratios as set out in Rule 14.07 of the Listing Rules is less than 5%, while the related party transactions set out in Notes 34(a)(iii), (a)(vii) and (a)(viii) are regarded as exempt continuing connected transactions of the Group under Rule 14A.33 of the Listing Rules, the related party transactions with Wison Offshore & Marine Limited set out in Note 34(b)(i) are regarded as exempted connected transactions under Rule 14A.31 of the Listing Rules and the financial assistance provided by Wison (China) Investment set out in Note 34(b)(iii) is an exempt financial assistance under Rule 14A.65(4) of the Listing Rules. The related party transactions with Wison Nanjing and Zhoushan Wison set out in Notes 34(b)(i) is one-off connected transactions entered into by the Group prior to listing and such transactions are still ongoing after listing.

In respect of the Continuing Connected Transactions, the Company has complied with the disclosure requirements under the Listing Rules in force from time to time.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the articles of association of the Company, although there are no restrictions against such rights under the laws in the Cayman Islands.

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

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2014.

# Report of the Directors

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 4 to 5 of this report.

## BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2014 are set out in Note 28 to the financial statements.

## EMOLUMENT POLICY

The Company is well aware of the importance of incentivising and retaining its employees. The Group offers competitive salaries and bonuses to its employees, and make contributions to various social welfare funds for its employees, which in turn provide retirement benefits, pension payments, medical insurance, unemployment insurance, public housing reserves, work injury insurance and maternity insurance benefits to the employees. The Company also offers a long-term incentive scheme in the form of share option schemes for eligible employees, details of which are set out under the paragraph headed "Share Option Schemes" above.

## EMPLOYEE RETIREMENT BENEFITS

Particulars of the employee retirement benefits of the Group are set out in Note 8 to the financial statements.

## PUBLIC FLOAT

The Company has obtained a waiver from the Stock Exchange and the Stock Exchange has accepted, under Rule 8.08 (1)(d) of the Listing Rules, a lower public float percentage of 21.87% of our total issued share capital.

As at the date of this report and based on the information that is publicly available to the Company and to the knowledge of the Directors of the Company, the Company has maintained the minimum public float as permitted by the Stock Exchange.

## AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and discussed the Group's internal controls and financial reporting matters with the management. The Audit Committee has reviewed and discussed the annual results for the year ended 31 December 2014.

## AUDITORS

The financial statements have been audited by Ernst & Young who shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for reappointment.

By order of the Board
**Liu Haijun**
*Executive Director*

Hong Kong, 30 March 2015

# Corporate Governance Report

The Company is committed to achieving high standards of corporate governance by focusing on principles of integrity, accountability, transparency, independence, responsibility and fairness. The Company has developed and implemented sound governance policies and measures. The Board will continue to review and monitor the corporate governance of the Company with reference to the Corporate Governance Code (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Reference is made to the announcements of the Company dated 19 September 2013 and 19 December 2013, where the Company announced that Mr. Choy Sze Chung Jojo has resigned from his position as an independent non-executive Director, the Chairman of the Audit Committee and a member of the Nomination Committee of the Company, with effect from 19 September 2013, due to his intention to pursue other business opportunities. Reference is also made to the announcement of the Company dated 30 March 2015 where the Company announced the appointment of Mr. Lawrence Lee as an independent non-executive director, the chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee. Therefore, during the period commencing from 19 September 2013 to 30 March 2015, (i) the number of the independent non-executive Directors has fallen below the minimum number required under Rules 3.10(1) and 3.10A of the Listing Rules; (ii) the number of members of the Audit Committee has fallen below the minimum number required under Rule 3.21 of the Listing Rules; (iii) there is a vacancy for chairman of the Audit Committee as required under Rule 3.21 of the Listing Rules; (iv) the Company has failed to comply with the requirements under Rule 3.10(2) of the Listing Rules that at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise; and (v) the number of the independent non-executive Directors has fallen below the minimum number required under Code Provision A.5.1 of the Code. After the appointment of Mr. Lawrence Lee, the Company has complied with the above requirements of the Listing Rules and the Code.

Save as disclosed above, during the year ended 31 December 2014, the Company has complied with the applicable code provisions of the Code.

In accordance with article 108 of the Articles, Mr. Hua Bangsong and Mr. Wu Jianmin shall retire by rotation at the AGM. However, Mr. Hua and Mr. Wu will not offer themselves for re-election at the AGM. Therefore, following the retirement of Mr. Wu and unless an independent non-executive Director is appointed before

# Corporate Governance Report

such retirement, (i) the number of the independent non-executive Directors will fall below the minimum number required under Rule 3.10(1) of the Listing Rules; (ii) the number of members of the Audit Committee will fall below the minimum number required under Rule 3.21 of the Listing Rules; and (iii) the number of the independent non-executive Directors will fall below the minimum number required under Code Provision A.5.1 of the Code.

## BOARD OF DIRECTORS

The Board is charged with promoting the success of the Company by directing and supervising its affairs. The Board has general powers for the management and conduct of the Company's business. The day-to-day operations and management are delegated by the Board to the management of the Company, who will implement the strategy and direction as determined by the Board.

The Board of the Company currently consists of seven Directors, namely Mr. Hua Bangsong (Chairman), Mr. Liu Haijun, Mr. Zhou Hongliang and Mr. Cui Ying as executive directors, Mr. Liu Ji, Mr. Wu Jianmin and Mr. Lawrence Lee as independent non-executive Directors. There is no financial, business, family or other material relationship among the members of the Board. Save for the non-compliance as disclosed above, the Board has a balance of skills and experience appropriate for the requirements of the business of the Company.

The biographies of the Directors are set out on pages 24 to 31 of this report.

Each of Mr. Hua Bangsong and Mr. Liu Haijun has entered into a service contract with us for an initial term of three years commencing from the Listing Date and shall continue thereafter unless terminated by not less than six months' written notice. Each of Mr. Zhou Hongliang and Mr. Cui Ying has entered into a service contract with us for an initial term of three years commencing from 10 September 2013 and shall continue thereafter unless terminated by not less than six months' written notice. Each of our independent non-executive Directors, Mr. Liu Ji, Mr. Wu Jianmin and Mr. Lawrence Lee, has entered into a letter of appointment with our Company for a term of three years commencing from the Listing Date (in respect of Mr. Liu and Mr. Wu) or from 30 March 2015 (in respect of Mr. Lee) unless terminated by three months' written notice or in certain circumstances in accordance with the terms of the relevant letter of appointment. Notwithstanding the above, all Directors, including the independent non-executive Directors, are subject to retirement by rotation at least once every three years in accordance with the Listing Rules and the articles of association of the Company. A retiring director is eligible for re-election.

Under the service contracts, our executive Directors are entitled to aggregate annual salaries of approximately RMB6.4 million, starting from January 2013, plus a discretionary bonus as determined by the Board and our Remuneration Committee. The aggregate annual salaries of our executive Directors were revised to approximately RMB 6.5 million with effect from January 2015. The basic annual remuneration payable by our Company to our independent non-executive Directors according to their respective letter of appointment will be HK$240,000. The remuneration of the Directors is determined with reference to their duties, responsibilities and experience, and to prevailing market conditions. Details of the remuneration of the Directors for 2014 are set out in Note 9 to the financial statements.

# Corporate Governance Report

The Company has received a written confirmation of independence from each of the independent non-executive Directors (including Mr. Lawrence Lee), and considers them to be independent.

Directors have access to the services of the Company Secretary to ensure that the Board procedures are followed. The Company Secretary of the Company is Ms. Luk Wai Mei. In compliance with Rule 3.29 of the Listing Rules, Ms. Luk has undertaken not less than 15 hours of relevant professional training during the year ended 31 December 2014.

Each of the Directors (other than Mr. Hua, who was unavailable due to the PRC Investigation) attended various trainings in 2014, including the training on connected transactions, as part of their profession development. The Company will arrange suitable training for all Directors in order to develop and refresh their knowledge and skills as part of their continuous professional development.

In 2014, the Board held 7 meetings. A total of 32 proposals were considered at these Board meetings, including proposals for the consideration of the Company's 2013 annual report, 2014 interim report, connected transactions and continuing connected transactions and resumption of trading of the Company's shares.

The table below sets out the details of Board meetings attendance of each Director during the year ended 31 December 2014.

| Director | Number of meetings requiring attendance | Number of meetings attended in person |
|---|---|---|
| Hua Bangsong | 7 | 0 |
| Liu Haijun | 7 | 7 |
| Zhou Hongliang | 7 | 7 |
| Cui Ying | 7 | 7 |
| Liu Ji | 7 | 6 |
| Wu Jianmin | 7 | 6 |
| Lawrence Lee(Note 1) | 0 | 0 |

*Note:*

1. *Mr. Lawrence Lee was appointed as independent non-executive Director of the Company on 30 March 2015*

In 2014, the Company convened and held one shareholders' general meeting, being the 2013 annual general meeting held on 20 June 2014. Mr. Liu Haijun, Mr. Zhou Hongliang, Mr. Cui Ying, Mr. Liu Ji and Mr. Wu Jianmin attended the shareholders' general meeting.

# Corporate Governance Report

## BOARD COMMITTEES

The Company has three principal Board committees, the Audit Committee, the Nomination Committee and the Remuneration Committee. Each of the Board committees operates under its terms of reference. The terms of reference of the Board committees are available on the website of the Company and that of the Stock Exchange.

### Audit Committee

During 2014, the Audit Committee comprises the two independent non-executive Directors of the Company, namely, Mr. Liu Ji and Mr. Wu Jianmin, and the position of the chairman of the Audit Committee was vacant. Mr. Lawrence Lee was appointed as chairman of the Audit Committee with effect from 30 March 2015.

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of our Group and provide advice and comments to the Board.

In 2014, the Audit Committee held 2 meetings, at which a total of 10 proposals were considered, including proposals for the consideration of the Company's 2013 annual report, 2014 interim report and the appointment of auditors for 2014. The Audit Committee also assessed the risk management and internal control measures of the Company.

The table below sets out the details of meetings attendance of each member of the Audit Committee during the year ended 31 December 2014.

| Director | Number of meetings requiring attendance | Number of meetings attended in person |
|---|---|---|
| Liu Ji | 2 | 2 |
| Wu Jianmin | 2 | 2 |
| Lawrence Lee (Note) | 0 | 0 |

*Notes: Mr. Lawrence Lee was appointed as an independent non-executive Director, the Chairman of the Audit Committee, member of the Nomination Committee and Remuneration Committee of the Company with effect from 30 March 2015*

### Nomination Committee

The Nomination Committee comprises one executive Director, namely, Mr. Hua Bangsong and two independent non-executive Directors, namely Mr. Liu Ji and Mr. Wu Jianmin. Mr. Wu Jianmin is the chairman of the Nomination Committee.

Mr. Lawrence Lee was appointed as a member of the Nomination Committee with effect from 30 March 2015.

The primary duty of the Nomination Committee is to make recommendations to our Board on the appointment of Directors and senior management. The Nomination Committee is also responsible for reviewing and assessing the composition of the Board and the independence of the independent non-executive Directors and making recommendations to the Board on appointment and removal of Directors. In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regards to the benefits of diversity on the Board. Diversity of the Board will be considered from a number of perspectives,

# Corporate Governance Report

including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, and length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. For nomination and appointment of Mr. Lawrence Lee as an independent non-executive Director of the Company, these criteria and procedures have been applied.

In 2014, the Nomination Committee held 1 meeting, at which a total of 6 proposals were considered, including proposals for re-election of directors and adoption of board diversity policy.

The table below sets out the details of meetings attendance of each member of the Nomination Committee during the year ended 31 December 2014.

| Director | Number of meetings requiring attendance | Number of meetings attended in person |
|---|---|---|
| Wu Jianmin | 1 | 1 |
| Hua Bangsong | 1 | 0 |
| Liu Ji | 1 | 1 |
| Lawrence Lee (Note 1) | 0 | 0 |

*Note:*

1. *Mr. Lawrence Lee was appointed as an independent non-executive director, the Chairman of the Audit Committee, member of the Nomination Committee and Remuneration Committee with effect from 30 March 2015*

## Remuneration Committee

The Remuneration Committee consists of two non-executive Directors, namely, Mr. Liu Ji and Mr. Wu Jianmin, and one executive Director, namely, Mr. Hua Bangsong, of whom Mr. Liu Ji is the chairman.

Mr. Lawrence Lee was appointed as a member of the Remuneration Committee with effect from 30 March 2015.

The Remuneration Committee has adopted the model code described in code provision B.1.2 (c)(i) of the Code in its terms of reference. The Remuneration Committee considers and recommends to the Board the remuneration and other benefits paid by our Company to our Directors. The remuneration of all Directors is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate.

In 2014, the Remuneration Committee held 2 meetings, at which a total of 5 proposals were considered, including proposals for the remuneration of executive Directors of the Company.

The table below sets out the details of meetings attendance of each member of the Remuneration Committee during the year ended 31 December 2014.

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| Director | Number of meetings requiring attendance | Number of meetings attended in person |
|---|---|---|
| Liu Ji | 2 | 2 |
| Wu Jianmin | 2 | 2 |
| Hua Bangsong | 2 | 0 |
| Lawrence Lee (Note 1) | 0 | 0 |

*Note:*

1. *Mr. Lawrence Lee was appointed as an independent non-executive director, the Chairman of the Audit Committee, member of the Nomination Committee and Remuneration Committee with effect from 30 March 2015*

For the year ended 31 December 2014, the number of senior management (excluding directors) whose remuneration fell within the following bands is as follows:

| | |
|---|---|
| HK$2,500,001 to HK$3,000,000 | 1 |
| HK$3,500,001 to HK$4,000,000 | 1 |

Further details of the remuneration of the Directors and the five highest paid employees are set out in note 9 to the financial statements.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for ensuring that the Company establishes good corporate governance practices and procedures.

During the year ended 31 December 2014, the Board carried out risk assessment and management on the internal controls of the business processes in accordance with The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework. In addition, the Board also assessed the effectiveness of measures on internal control and implementation of risk management. Rules on information disclosure and reporting procedures were formed and implemented in order to systematically collect and monitor information disclosure practice of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the Model Code during the year ended 31 December 2014.

## EXTERNAL AUDITORS

Ernst & Young are appointed as the external auditors of the Company. The Group also engaged some local auditors as its subsidiaries' statutory auditors.

# Corporate Governance Report

For the year ended 31 December 2014, the external auditors received the following remuneration for audit services provided to the Group in respect of the following:

| | RMB'000 |
|---|---|
| Audit services provided by Ernst & Young | 3,600 |
| Audit services provided by other local auditors | 1,326 |
| | 4,926 |

## ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of the financial statements which give a true and fair view of the state of affairs of the Group and of the results and cash flow during the reporting period. A statement from the auditors about their reporting responsibilities on the financial statements is set out on pages 54 to 56 of this report. In preparing the financial statements for the year ended 31 December 2014, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. However, Ernst & Young, the external auditors, have noted certain events (including the fact that the Group had net current liabilities as at 31 December 2014, the Group had significant outstanding trade receivables and amounts overdue from contract customers, the alleged charges against Wison Engineering and that the Group remained in default of a RMB150 million loan) which indicate the existence of material uncertainties which may cast doubt on the Group's ability to continue as a going concern. Details of the external auditors' opinion are set out in the Independent Auditors' Report.

The Board has further reviewed the effectiveness of the internal control system of the Group to ensure that a sound system is maintained and operated by the management in compliance with the agreed procedures and standards. The review covered all material controls, including financial, operational and compliance controls and risk management functions. In particular, the Board considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

# Corporate Governance Report

## SHAREHOLDERS

The Company is incorporated in the Cayman Islands. Pursuant to the articles of association of the Company, extraordinary general meetings shall also be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary and deposited at the Company's principal place of business in Hong Kong at Room 24A, 24th Floor, Tai Yau Building, 181 Johnston Road, Wan Chai, Hong Kong. For the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after 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 (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Pursuant to the Articles, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at any general meeting (including annual general meeting), the shareholder should lodge a written notice at the registration office or head office of the Company in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days. Such written notice must be accompanied by a notice signed by the person to be proposed of his willingness to be elected as a Director.

Enquiries may be put to the Board by contacting the Company's Investor Relations Department through email at ir-eng@wison.com or directly by raising the questions at an annual general meeting or extraordinary general meeting.

During the year ended 31 December 2014 and up to the date of this report, there has not been any change in the Company's memorandum and articles of association. The Company's memorandum and articles of association are available on the website of the Company and that of the Stock Exchange.

# Independent Auditors' Report

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**To the shareholders of Wison Engineering Services Co. Ltd.**
*(Incorporated in the Cayman Islands with limited liability)*

We were engaged to audit the accompanying consolidated financial statements of Wison Engineering Services Co. Ltd. (the "Company") and its subsidiaries (together, the "Group") which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as management determines 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 conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

## BASIS FOR DISCLAIMER OF OPINION

### Impairment of trade receivables and amounts due from contract customers

The Group had outstanding trade and bills receivables of RMB1,015,257,000 and RMB261,567,000 as of 31 December 2014 and 2013 and amounts due from contract customers of RMB3,242,274,000 and RMB2,923,402,000 as of 31 December 2014 and 2013, respectively, of which trade receivables of RMB455,057,000 and RMB134,157,000 as of 31 December 2014 and 2013, respectively, and amounts due from contract customers of RMB1,038,005,000 and RMB2,194,030,000 as of 31 December 2014 and 2013, respectively, have been identified as overdue in accordance with contract terms. The Group has recorded an impairment provision of RMB765,000 and RMB765,000 as of 31 December 2014 and 2013, respectively, against the balance of trade receivables and amounts due from contract customers. We were unable to obtain sufficient evidence on the recoverability of the balance of trade receivables and amounts due from contract customers as of 31 December 2014 and 2013. Accordingly, we were unable to satisfy ourselves regarding the adequacy of the impairment provision against the balance of trade receivables and amounts due from contract customers as at 31 December 2014 and 2013. Any under-provision for the recoverability of these balances would reduce the net assets of the Group as at 31 December 2014 and 2013 and decrease the Group's net profit or increase the Group's net loss for the year ended 31 December 2014 and 2013, respectively.

# Independent Auditors' Report

## Impairment of property, plant and equipment and other long-term assets

Included in the consolidated statement of financial position of the Group as at 31 December 2014 and 2013 were property, plant and equipment of approximately RMB1,210,881,000 and RMB1,274,438,000 (net of depreciation and impairment), prepaid land lease payments of approximately RMB178,279,000 and RMB182,732,000, goodwill of approximately RMB15,752,000 and RMB15,752,000 and long-term prepayments relating to the purchase of property, plant and equipment of approximately RMB1,603,000 and RMB2,042,000, respectively. The management has performed impairment assessment on these assets based on discounted cash flows. As a result of the assessment, the management is of the view that there was no impairment provision required as at 31 December 2014 and 2013.

Due to the uncertainty as to whether the Group will remain as a viable going concern, as set out in further detail in the paragraph headed "Going concern basis" below, we are unable to obtain sufficient evidence to assess the appropriateness of the management's estimation of the recoverable amounts of the property, plant and equipment, prepaid land lease payments, long-term prepayments relating to the purchase of property, plant and equipment and goodwill and whether these assets as at 31 December 2014 and 2013 were impaired. Any under-provision for impairment of these assets will reduce the net assets of the Group as at 31 December 2014 and 2013 and decrease the net profit or increase the net loss of the Group for the years ended 31 December 2014 and 2013, respectively.

## Alleged charges against a subsidiary of the Company

Certain books and records belonging to a subsidiary of the Company in Mainland China, 惠生工程(中國)有限公司 (Wison Engineering Ltd. "Wison Engineering", a non-wholly-owned subsidiary of the Company), were seized by the regulatory authorities in 2013 as part of an investigation of Wison Engineering (the "PRC Investigations") and in this connection, certain bank accounts of the Wison Engineering have been frozen by the regulatory authorities.

As further disclosed in note 39 to the consolidated financial statements, on 10 November 2014, the board of directors was informed that two charges relating to alleged bribery and conspiracy to commit a tender-offer fraud have been filed against Wison Engineering and Mr. Hua Bang Song ("Mr. Hua"), the legal representative of Wison Engineering and a director and shareholder of the Company in connection with the investigation from a court in Mainland China.

As we have been unable to obtain the foregoing mentioned legal documents relating to the above alleged charges against Wison Engineering, we have been unable to obtain sufficient information to assess the impacts that the foregoing alleged charges may have on the Group's financial position and the adequacy of the disclosure included in the Group's consolidated financial statements.

## Going concern basis

The Group had net current liabilities of RMB5,409,000 at 31 December 2014.

As mentioned in the foregoing section headed "Impairment of trade receivables and amounts due from contract customers", the Group had outstanding trade receivables of RMB455,057,000 as of 31 December 2014, and amounts due from contract customers of RMB1,038,005,000 of 31 December 2014 which have been identified as overdue in accordance with contract terms. The recoverability of these overdue amounts may significantly impact the financial position and cash flow of the Group.

In addition, the alleged charges brought against Wison Engineering mentioned in "Alleged charges against a subsidiary of the Company" above may have impact on the financial position and business of the Group.

# Independent Auditors' Report

As further disclosed in note 28 to the consolidated financial statements, the Group remained in default of the outstanding loan of RMB150 million due to China Development Bank ("CDB"), together with the foregoing mentioned alleged charges, have triggered cross-default provisions in other loan agreements entered into between the Group and other banks with a total principal amount of RMB540 million as of 31 December 2014. As a possible consequence of the breaches, the banks may demand immediate repayment of loans advanced to the Group with an aggregate outstanding principal amount of RMB540 million at 31 December 2014.

As at the date of approval of the financial statements, notwithstanding the implementation of the measures as disclosed in note 2.1 to the consolidated financial statements, the foregoing events still indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. The validity of the going concern assumption on which the financial statements are prepared is dependent on the successful and favourable outcomes of the steps being taken by the directors of the Company as set out in note 2.1 to the consolidated financial statements. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and, therefore, does not include any adjustments relating to the realisation and classification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

## Impairment of amounts due from subsidiaries in the Company's financial statements

As at 31 December 2014, the Company had amounts due from its wholly-owned subsidiaries namely Wison Engineering Technology Limited and Wison Energy Engineering (Hong Kong) Limited (the "Subsidiaries") of aggregate amounts of RMB956,889,000 (2013: RMB959,195,000), which have been eliminated on the Group basis. For the Company on a standalone basis, notwithstanding the Subsidiaries had net current liabilities as at 31 December 2014, and incurred persistent losses for years, no impairment provision has been made by the Company, on a standalone basis, regarding the amounts due from the Subsidiaries as at 31 December 2014. We are unable to obtain sufficient evidence to assess the appropriateness of the management's estimation of the recoverable amounts of the advances made by the Company to the Subsidiaries as recorded in the Company's financial statements as at 31 December 2014 and 2013. Any under-provision for impairment of these amounts due from the Subsidiaries will reduce the net assets of the Company, on a standalone basis, as at 31 December 2014 and 2013 and increase the net loss or decrease the net profit of the Company, on a standalone basis, for the years ended 31 December 2014 and 2013, respectively.

## Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether 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 its profit and cash flows for the year then ended and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong
30 March 2015

# Consolidated Statements of Profit or Loss

Year ended 31 December 2014

| | Notes | **2014** **RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| **REVENUE** | 6 | **6,992,113** | 3,674,518 |
| Cost of sales | | **(6,199,925)** | (3,531,708) |
| **GROSS PROFIT** | | **792,188** | 142,810 |
| Other income and gains | 6 | **252,499** | 33,959 |
| Selling and marketing expenses | | **(44,918)** | (100,533) |
| Administrative expenses | | **(254,912)** | (356,544) |
| Other expenses | | **(205,853)** | (124,626) |
| Finance costs | 7 | **(271,161)** | (141,451) |
| Share of (loss)/profit of an associate | | **(413)** | 94 |
| **PROFIT/(LOSS) BEFORE TAX** | 8 | **267,430** | (546,291) |
| Income tax | 10 | **(56,736)** | 32,619 |
| **PROFIT/(LOSS) FOR THE YEAR** | | **210,694** | (513,672) |
| Attributable to: | | | |
| Owners of the parent | 13 | **179,038** | (471,301) |
| Non-controlling interests | | **31,656** | (42,371) |
| | | **210,694** | (513,672) |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 12 | | |
| — Basic and diluted | | **RMB0.04** | RMB(0.12) |

# Consolidated Statements of Comprehensive Income

Year ended 31 December 2014

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **PROFIT/(LOSS) FOR THE YEAR** | **210,694** | (513,672) |
| **OTHER COMPREHENSIVE INCOME** | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of foreign operation | **–** | 361 |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent periods** | **–** | 361 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | **–** | 361 |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | **210,694** | (513,311) |
| Attributable to: | | |
| Owners of the parent | **179,038** | (470,940) |
| Non-controlling interests | **31,656** | (42,371) |
| | **210,694** | (513,311) |

# Consolidated Statements of Financial Position

31 December 2014

| | Notes | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **1,210,881** | 1,274,438 |
| Investment properties | 15 | **14,136** | 14,716 |
| Prepaid land lease payments | 16 | **178,279** | 182,732 |
| Goodwill | 17 | **15,752** | 15,752 |
| Other intangible assets | 18 | **13,134** | 15,191 |
| Investment in an associate | 19 | **1,579** | 1,992 |
| Long-term prepayments | 23 | **382,551** | 2,042 |
| Total non-current assets | | **1,816,312** | 1,506,863 |
| **CURRENT ASSETS** | | | |
| Inventories | 20 | **433,167** | 241,823 |
| Gross amounts due from contract customers | 21 | **3,242,274** | 2,923,402 |
| Trade and bills receivables | 22 | **1,015,257** | 261,567 |
| Due from a related company | 34 | **646** | 117 |
| Due from fellow subsidiaries | 34 | **14,775** | 121 |
| Due from the ultimate holding company | 34 | **87** | 87 |
| Prepayments, deposits and other receivables | 23 | **1,374,806** | 904,830 |
| Pledged bank balances and time deposits | 24 | **300,180** | 791,030 |
| Cash and bank balances | 24 | **542,276** | 293,510 |
| Tax recoverable | | **–** | 22,547 |
| Total current assets | | **6,923,468** | 5,439,034 |
| **CURRENT LIABILITIES** | | | |
| Gross amounts due to contract customers | 21 | **1,771,315** | 574,915 |
| Trade and bills payables | 25 | **3,941,053** | 2,526,183 |
| Other payables, advance from customers and accruals | 26 | **347,601** | 491,002 |
| Derivative financial instruments | 27 | **725** | – |
| Interest-bearing bank borrowings | 28 | **539,971** | 1,554,049 |
| Due to a related company | 34 | **78** | 78 |
| Due to an associate | 34 | **630** | 630 |
| Dividends payable | | **272,674** | 272,674 |
| Tax payable | | **54,830** | – |
| Total current liabilities | | **6,928,877** | 5,419,531 |
| **NET CURRENT (LIABILITIES)/ASSETS** | | **(5,409)** | 19,503 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,810,903** | 1,526,366 |

# Consolidated Statements of Financial Position

31 December 2014

| | Notes | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Finance lease payables | 29 | **49** | 171 |
| Deferred tax liabilities | 30 | **23,362** | 20,803 |
| Government grants | 31 | **2,137** | 2,213 |
| Total non-current liabilities | | **25,548** | 23,187 |
| **NET ASSETS** | | **1,785,355** | 1,503,179 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 32 | **329,803** | 329,803 |
| Share premium | 32 | **846,077** | 846,077 |
| Statutory reserve | 32 | **62,211** | 62,211 |
| Other reserve | 32,33 | **428,640** | 178,120 |
| | | **1,666,731** | 1,416,211 |
| **Non-controlling interests** | | **118,624** | 86,968 |
| **Total equity** | | **1,785,355** | 1,503,179 |

**Liu Haijun**
*Director*

**Cui Ying**
*Director*

# Consolidated Statements of Changes in Equity

Year ended 31 December 2014

| | Attributable to owners of the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 (note 32) | Share premium RMB'000 (note 32) | Share option reserve* RMB'000 (note 33) | Capital reserve* RMB'000 (note 32) | Redemption reserve* RMB'000 | Statutory surplus reserves RMB'000 (note 32) | Expansion reserve RMB'000 (note 32) | Exchange fluctuation reserve* RMB'000 | Retained profits* RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| As at 1 January 2013 | 324,560 | 710,100 | 6,908 | (1) | 1 | 32,491 | 23,674 | 8,024 | 795,179 | 1,900,936 | 151,254 | 2,052,190 |
| Loss for the year | – | – | – | – | – | – | – | – | (471,301) | (471,301) | (42,371) | (513,672) |
| Exchange difference on translation of foreign operations | – | – | – | – | – | – | – | 361 | – | 361 | – | 361 |
| Total comprehensive income for the year | – | – | – | – | – | – | – | 361 | (471,301) | (470,940) | (42,371) | (513,311) |
| Issue of shares | 5,243 | 141,048 | – | – | – | – | – | – | – | 146,291 | 11,000 | 157,291 |
| Share issue expenses | – | (5,071) | – | – | – | – | – | – | – | (5,071) | – | (5,071) |
| Transfer to statutory reserve fund | – | – | – | – | – | 3,023 | 3,023 | – | (6,046) | – | – | – |
| Equity-settled share option arrangements | – | – | 78,401 | – | – | – | – | – | – | 78,401 | – | 78,401 |
| Dividend declared | – | – | – | – | – | – | – | – | (233,406) | (233,406) | – | (233,406) |
| Dividends to a non-controlling equity holder | – | – | – | – | – | – | – | – | – | – | (32,915) | (32,915) |
| As at 31 December 2013 and 1 January 2014 | **329,803** | **846,077** | **85,309** | **(1)** | **1** | **35,514** | **26,697** | **8,385** | **84,426** | **1,416,211** | **86,968** | **1,503,179** |
| Profit for the year and total comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **179,038** | **179,038** | **31,656** | **210,694** |
| Winding up of a subsidiary | **–** | **–** | **–** | **1** | **–** | **–** | **–** | **(194)** | **–** | **(193)** | **–** | **(193)** |
| Equity-settled share option arrangements | **–** | **–** | **71,675** | **–** | **–** | **–** | **–** | **–** | **–** | **71,675** | **–** | **71,675** |
| As at 31 December 2014 | **329,803** | **846,077** | **156,984** | **–** | **1** | **35,514** | **26,697** | **8,191** | **263,464** | **1,666,731** | **118,624** | **1,785,355** |

* These reserve accounts represent the total consolidated other reserves of RMB428,640,000 and RMB178,120,000 in the consolidated statements of financial position as at 31 December 2014 and 2013, respectively.

# Consolidated Statements of Cash Flows

Year ended 31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax | | **267,430** | (546,291) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment and investment properties | 8,14,15 | **69,210** | 41,481 |
| Amortisation of intangible assets | 8,18 | **5,158** | 5,252 |
| Amortisation of prepaid land lease payments | 8,16 | **4,453** | 4,453 |
| Impairment for inventories | 20 | **3,142** | – |
| Share of loss/(profit) of an associate | | **413** | (94) |
| Loss/(gain) on disposal of items of property, plant and equipment | 8 | **460** | (211) |
| Fair value loss, net | | | |
| Derivative instruments — transactions not qualifying as hedges | 27 | **725** | – |
| Equity-settled share option expense | 32 | **71,675** | 78,401 |
| Finance costs | 7 | **271,161** | 141,451 |
| Interest income | 6 | **(215,912)** | (11,754) |
| | | **477,915** | (287,312) |
| Increase in inventories | | **(194,486)** | (127,849) |
| Increase in trade and bills receivables | | **(753,690)** | (100,353) |
| Increase in prepayment, deposits and other receivables | | **(469,976)** | (757,629) |
| Increase in long-term prepayment | | **(380,948)** | – |
| Decrease/(increase) in amounts due from/(to) contract customers | | **877,528** | 1,532,499 |
| Increase/(decrease) in trade and bills payables | | **1,414,870** | (85,793) |
| (Decrease)/Increase in other payables, advance from customers and accruals | | **(143,401)** | 289,594 |
| | | **827,812** | 463,157 |
| Interest received | | **215,912** | 11,754 |
| Interest paid | | **(271,161)** | (141,451) |
| Tax refund/(paid) | | **23,200** | (103,214) |
| **Net cash flows from operating activities** | | **795,763** | 230,246 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | **(5,817)** | (497,263) |
| Increase in amounts due from fellow subsidiaries | | **(14,654)** | (238) |
| (Increase)/decrease in an amount due from a related company | | **(529)** | 1,022 |
| Proceeds from disposal of items of property, plant and equipment | | **723** | 414 |
| Purchase of other intangible assets | 18 | **(3,101)** | (7,272) |
| Winding up a subsidiary | | **(193)** | – |
| Decrease in government grants | | **(76)** | (37) |
| **Net cash flows used in investing activities** | | **(23,647)** | (503,374) |

# Consolidated Statements of Cash Flows

Year ended 31 December 2014

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net proceeds from issue of shares | | – | 152,220 |
| Increase in an amount due to a related company | | – | 78 |
| Capital element of finance lease payments | | (227) | (221) |
| Dividends paid to a non-controlling equity holder | | – | (10,000) |
| Decrease/(increase) in pledged deposits | | 490,850 | (319,740) |
| New bank loans | | – | 1,743,557 |
| Repayment of bank loans | | (1,013,973) | (2,745,207) |
| Increase in unpledged time deposits with original maturity of more than three months | | (6,402) | (2,068) |
| **Net cash flows used in financing activities** | | (529,752) | (1,181,381) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | 242,364 | (1,454,509) |
| Cash and cash equivalents at beginning of year | | 144,294 | 1,611,589 |
| Decrease/(increase) in frozen and unpledged cash balances | | 9,774 | (12,786) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | 396,432 | 144,294 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | | 287,903 | 152,829 |
| Unpledged time deposits with original maturity of less than three months when acquired | | 111,541 | 4,251 |
| Unpledged time deposits with original maturity of more than three months when acquired | | 142,832 | 136,430 |
| **CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF FINANCIAL POSITION** | 24 | 542,276 | 293,510 |
| Unpledged time deposits with original maturity of more than three months when acquired | | (142,832) | (136,430) |
| Frozen and unpledged cash balances | | (3,012) | (12,786) |
| **CASH AND CASH EQUIVALENTS AS STATED IN THE STATEMENT OF CASH FLOWS** | | 396,432 | 144,294 |

# Statements of Financial Position

31 December 2014

| | Notes | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | 35 | **1** | 1 |
| Total non-current assets | | **1** | 1 |
| **CURRENT ASSETS** | | | |
| Due from subsidiaries | 34 | **956,909** | 959,195 |
| Other receivables | 23 | **460** | 391 |
| Dividends receivables | | **696,609** | 696,609 |
| Cash and cash equivalents | 24 | **1,834** | 9,496 |
| Total current assets | | **1,655,812** | 1,665,691 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | 26 | **912** | 442 |
| Due to subsidiaries | 34 | **30,109** | 30,109 |
| Dividends payable | | **233,406** | 233,406 |
| Total current liabilities | | **264,427** | 263,957 |
| **NET CURRENT ASSETS** | | **1,391,385** | 1,401,734 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,391,386** | 1,401,735 |
| **NET ASSETS** | | **1,391,386** | 1,401,735 |
| **EQUITY** | | | |
| Issued capital | 32 | **329,803** | 329,803 |
| Reserves | 32(d) | **1,061,583** | 1,071,932 |
| **TOTAL EQUITY** | | **1,391,386** | 1,401,735 |

**Liu Haijun**
*Director*

**Cui Ying**
*Director*

# Notes to Financial Statements

Year ended 31 December 2014

## 1. CORPORATE INFORMATION

The registered office address of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, George Town, Grand Cayman, KY1-1108, Cayman Islands.

Wison Engineering Investment Limited ("Wison Investment") is the immediate holding company of the Company. In the opinion of the directors, Wison Group Holding Limited ("Wison Holding") is the ultimate holding company of the Company. Wison Holding and Wison Investment are exempted companies with limited liability incorporated in the British Virgin Islands.

The Group is principally engaged in the provision of project solutions to petrochemical and coal-to-chemicals producers in terms of design, building and commissioning of their production facilities through technology consultancy, engineering, procurement and construction management services in the People's Republic of China ("PRC") and overseas.

## 2.1 BASIS OF PRESENTATION

The Group had net current liabilities of RMB5,409,000 at 31 December 2014.

The Group remained in default of the outstanding loan of RMB150 million owed to China Development Bank ("CDB"), together with the alleged charges against 惠生工程(中國)有限公司 (Wison Engineering Limited, "Wison Engineering", a non-wholly-owned subsidiary of the Company) and Mr. Hua Bang Song ("Mr. Hua", a director and shareholder of the Company), which have triggered cross-default provisions in other loan agreements entered into between the Group and other banks. The Group's outstanding bank borrowings, which were subject to cross-default provisions, were in the aggregate principal amount of RMB540 million as of 31 December 2014. As a possible consequence of the foregoing incidences, the banks can immediately demand repayment of loans advanced to the Group with an aggregate outstanding principal amount of RMB540 million at 31 December 2014. In addition, the Group had long outstanding balance of trade receivables and amounts due from contract customers of RMB455,057,000 and RMB1,038,005,000, respectively, that the settlements have been delayed.

In order to further improve the Group's operating cash flow and financial position, the directors of the Company have taken the following measures:

1. the directors of the Company have sought and continue to seek potential strategic investors in respect of a possible equity investment in the Company;

2. the directors of the Company are active in negotiations with the banks and other creditors to defer, roll over or refinance the Group's bank and other borrowings with a view to improving its short-term liquidity;

3. actively following up with its customers on outstanding trade receivables and amounts due from contract customers with an immediate aim of agreeing a repayment schedule with each of them;

4. making arrangements with certain customers whereby the relevant customers will pay part of the procurement costs (relating to their projects) on behalf of the Group;

# Notes to Financial Statements

Year ended 31 December 2014

## 2.1 BASIS OF PRESENTATION (CONTINUED)

5. on-going communications with the relevant PRC regulatory authorities with a view to releasing the frozen bank accounts; and

6. the Group continues to monitor and manage the operating cash flows through cutting costs and capital expenditure.

The directors of the Company are of the opinion that, after taking into account the measures as mentioned above and the existing contract backlogs, the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from 31 December 2014. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the going concern assumption be inappropriate, adjustments would have been made to state the values of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in the financial statements.

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board (the "IASB"). These financial statements also comply with the applicable disclosure 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 instrument. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

## 2.2 BASIS OF PREPARATION

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") 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.

# Notes to Financial Statements

Year ended 31 December 2014

## 2.2 BASIS OF PREPARATION (CONTINUED)

### Basis of consolidation (Continued)

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.

## 2.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs and new interpretations for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 27 | *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* |
| 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

# Notes to Financial Statements

Year ended 31 December 2014

## 2.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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:

The principal effects of adopting these new and revised IFRSs are as follows:

(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. 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.

(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 for the levies incurred by the Group are consistent with the requirements of IFRIC 21.

# Notes to Financial Statements

Year ended 31 December 2014

## 2.3 CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(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.

## 2.4 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 | *Sale or Contribution of Assets between an Investors and its Associate or Joint ventures*[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 | *Equity Method in Separate Financial Statements*[2] |
| Amendments to IAS 1 | *Disclosure Initiative*[2] |
| IFRS 10, IFRS 12 and IAS 28 (2011) Amendments | *Investment Entities: Applying the Consolidation Exception*[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

# Notes to Financial Statements

Year ended 31 December 2014

## 2.4 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 address an inconsistency between the requirements in IFRS 10 and in IAS 28 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.

# Notes to Financial Statements

Year ended 31 December 2014

## 2.4 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (CONTINUED)

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 2.3, 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:

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.

## 3. 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 to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investment in an associate

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.

The Group's investment in an associate is 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.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of its associate are included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, 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 associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate is included as part of the Group's investment in the associate.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

### Business combination 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 interest in the acquiree that are present ownership interests and entitle their holder to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identified assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

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

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

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combination and goodwill (Continued)

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

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

### Fair value measurement

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

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fair value measurement (Continued)

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 financial assets, inventories, amounts due from contract customers, deferred tax assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of non-financial assets (Continued)

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 statement of profit or loss in the period in which it arises.

### 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).

# Notes to Financial Statements

Year ended 31 December 2014

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

Depreciation is calculated on the straight-line basis to depreciate the cost of each item of property, plant and equipment over the following estimated useful lives.

| | |
|---|---|
| Buildings | 20–30 years |
| Plant and machinery | 10 years |
| Motor vehicles | 10 years |
| Office equipment | 5 years |
| Leasehold improvements | Over the lease terms and 5 years, whichever is shorter |

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.

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

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

### Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment properties) held to earn rental income rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured at cost, including transaction costs.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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. Intangible assets represent software and are subject to amortisation over an estimated useful life of five years.

### Research and development costs

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

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

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

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

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

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets

**Initial recognition and measurement**

Financial assets are classified, at initial recognition, as loans and receivables, financial instrument through profit and loss, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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 loans and receivables is as follows:

**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 taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

### Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the 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.

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets

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

**Financial assets carried at amortised cost**

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not 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 either through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 write-off is later recovered, the recovery is credited to the statement of profit or loss.

**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.

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial liabilities

**Initial recognition and measurement**

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

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

The Group's financial liabilities include trade and bills payables, other payables, an amount due to a related company, derivatives financial instruments, an amount due to an associate, dividends payable, finance lease payables and interest-bearing bank borrowings.

**Subsequent measurement**

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

**Loans and borrowings**

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

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

**Financial guarantee contracts**

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

### Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation under the liabilities are discharged, cancelled or expires.

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

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Offsetting of financial instruments

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

### Derivative financial instruments and hedge accounting

**Initial recognition and subsequent measurement**

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such 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 the statement of 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.

### Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete and slow-moving items. Cost is determined on the weighted average basis and in case of finished goods, comprises direct materials, direct labour and appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

### Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriation of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### Contracts for services

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

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Contracts for services (Continued)

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

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

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### 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 bank balances 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 the statement of profit and 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 for the current and prior periods 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.

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Income tax (Continued)

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, 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 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, except:

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

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, 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.

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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 the statement of 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 the statement of profit or loss by way of a reduced depreciation charge.

### 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 construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(b) 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;

(c) from the rendering of services, either on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" above or in the period when services are rendered;

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

(e) rental income, on a time proportion basis over the lease terms; and

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

### Other employee retirement benefits

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

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Other employee retirement benefits (Continued)

Pursuant to the relevant regulations of the PRC government, the companies comprising the Group operating in Mainland China ("PRC group companies") have participated in a local municipal government retirement benefit scheme (the "Scheme"), whereby the PRC group companies are required to contribute a certain percentage of the salaries of their employees to the Scheme to fund their retirement benefits. The only obligation of the Group with respect to the Scheme is to pay the ongoing contributions under the Scheme. Contributions under the Scheme are charged to profit or loss in the period in which they are incurred.

### Share-based payments

The Company operates share option schemes 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 a binomial model, further details of which are given in note 33 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 expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of 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 payments, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, 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.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's presentation and functional currency because the Group's principal operations are carried out in Mainland China. 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 the statement of 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 translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

# Notes to Financial Statements

Year ended 31 December 2014

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (Continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income deferred relating to that particular foreign operation is recognised in the statement of profit or loss.

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.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Judgements

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

**Operating lease commitments — Group as lessor**

The Group has entered into commercial property leases on its investment property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

**Classification between investment properties and owner-occupied properties**

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

# Notes to Financial Statements

Year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Estimation uncertainty

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

**Estimated useful lives of property, plant and equipment**

The Group's management determines the estimated useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations. Management will increase the depreciation charge where useful lives are less than previously estimates, or it will write off or write down technically obsolete assets that have been abandoned.

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

**Percentage of completion of construction works**

The Group recognises revenue according to the percentage of completion of individual contracts of construction works, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs, and the corresponding contract revenue is also estimated by management. Due to the nature of the activity undertaken in construction contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a foreseeable loss may arise.

**Estimation of total budgeted costs and cost to completion for construction contracts**

Total budgeted costs for construction contracts comprise (i) direct material costs, (ii) costs of subcontracting and direct labour, and (iii) an appropriation of variable and fixed construction overheads. In estimating the total budgeted costs for construction contracts, management makes reference to information such as (i) current offers from sub-contractors and suppliers, (ii) recent offers agreed with sub-contractors and suppliers, and (iii) professional estimation on construction and material costs.

**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 of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

# Notes to Financial Statements

Year ended 31 December 2014

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Estimation uncertainty (Continued)

**Impairment of trade receivables**

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

**Impairment test of goodwill**

The Group determines whether goodwill is impaired at least on an annual basis. The carrying amount of goodwill of the Group arose from the acquisition of 河南省化工設計院 ("Henan Chemical Industry Design Institute") in 2007. This requires an estimation of the value in use of the asset and the cash-generating unit to which the asset is allocated. Management considers that the goodwill should be allocated to the Group's operating segment (cash generating unit) as Henan Chemical Industry Design Institute provides design service (integral to these contracts). Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2014 was RMB15,752,000. Details are set out in note 17.

**PRC corporate income tax**

The Group is subject to corporate income taxes in the Mainland China. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise.

**Deferred tax assets**

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation 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.

# Notes to Financial Statements

Year ended 31 December 2014

## 5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) Petrochemicals segment engages in the provision of Engineering, Procurement and Construction ("EPC") services to ethylene and downstream petrochemicals producers, which includes design-building of ethylene production facilities, renovating and rebuilding existing ethylene cracking furnaces and technology consultancy, engineering, procurement and construction management services;

(b) Coal-to-chemicals segment engages in the provision of a broad range of EPC services to coal-to-chemicals producers;

(c) Oil refinery segment engages in the provision of procurement and construction management services to the project owners for the construction of oil refineries; and

(d) The other products and services segment engages in the provision of services on other industries, such as fine chemical production facilities and manufacture of integrated piping systems.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations.

Segment assets exclude property, plant and equipment, investment properties, prepaid land lease payment, goodwill, other intangible assets, an investment in an associate, long-term prepayments, an amount due from a related company, amounts due from fellow subsidiaries, an amount due from the ultimate holding company, tax recoverable, deposits and other receivables, pledged bank balance and time deposits and cash and bank balances as these assets are managed on a group basis.

Segment liabilities exclude other payables and accruals, derivative financial instruments, interest-bearing bank borrowings, an amount due to a related company, an amount due to an associate, dividends payable, tax payable, finance lease payables, government grants and deferred tax liabilities as these liabilities are managed on a group basis.

No further geographical information is presented as over 90% of the Group's revenue from external customers is derived from its operation in Mainland China and over 90% of the Group's non-current assets are located in Mainland China.

# Notes to Financial Statements

Year ended 31 December 2014

## 5. OPERATING SEGMENT INFORMATION (CONTINUED)

### Operating segments

| Year ended 31 December 2014 | Petrochemicals RMB'000 | Coal-to-chemicals RMB'000 | Oil refinery RMB'000 | Other products and services RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Segment revenue** | | | | | |
| Sales to external customers | 2,326,346 | 4,337,473 | 287,931 | 40,363 | 6,992,113 |
| Intersegment sales | 4,626 | 16,003 | – | – | 20,629 |
| **Total revenue** | 2,330,972 | 4,353,476 | 287,931 | 40,363 | 7,012,742 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment sales | | | | | (20,629) |
| Revenue from continuing operations | | | | | 6,992,113 |
| **Segment results** | 110,672 | 598,490 | 59,877 | 23,149 | 792,188 |
| *Reconciliations:* | | | | | |
| Unallocated income | | | | | 252,499 |
| Unallocated expenses | | | | | (505,683) |
| Share of loss of an associate | | | | | (413) |
| Finance costs | | | | | (271,161) |
| Profit before tax | | | | | 267,430 |
| **Segment assets** | 1,063,054 | 2,941,862 | 1,902,261 | 460,395 | 6,367,572 |
| *Reconciliations:* | | | | | |
| Elimination of intersegment receivables | | | | | (38,936) |
| Corporate and other unallocated assets | | | | | 2,411,144 |
| Total assets | | | | | 8,739,780 |
| **Segment liabilities** | 839,988 | 2,533,880 | 2,193,537 | 211,324 | 5,778,729 |
| *Reconciliations:* | | | | | |
| Elimination of intersegment payables | | | | | (40,332) |
| Corporate and other unallocated liabilities | | | | | 1,216,028 |
| Total liabilities | | | | | 6,954,425 |
| **Other segment information** | | | | | |
| Share of loss of an associate | – | – | – | (413) | (413) |
| Depreciation and amortisation | | | | | |
| Unallocated | – | – | – | – | 78,821 |
| Segment | – | – | – | – | – |
| Investment in an associate | – | – | – | – | 1,579 |
| Capital expenditure* | | | | | |
| Unallocated | – | – | – | – | 8,918 |
| Segment | – | – | – | – | – |

* Capital expenditure consists of additions to property, plant and equipment and other intangible assets.

# Notes to Financial Statements

Year ended 31 December 2014

## 5. OPERATING SEGMENT INFORMATION (CONTINUED)

### Operating segments (Continued)

| Year ended 31 December 2013 | Petrochemicals RMB'000 | Coal-to-chemicals RMB'000 | Oil refinery RMB'000 | Other products and services RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Segment revenue** | | | | | |
| Sales to external customers | 1,472,957 | 1,407,482 | 51,111 | 742,968 | 3,674,518 |
| Intersegment sales | 2,488 | 45,824 | – | – | 48,312 |
| **Total revenue** | 1,475,445 | 1,453,306 | 51,111 | 742,968 | 3,722,830 |
| *Reconciliation:* | | | | | |
| Elimination of intersegment sales | | | | | (48,312) |
| Revenue from continuing operations | | | | | 3,674,518 |
| **Segment results** | 132,271 | (127,282) | (35,169) | 172,990 | 142,810 |
| *Reconciliations:* | | | | | |
| Unallocated income | | | | | 33,959 |
| Unallocated expenses | | | | | (581,703) |
| Share of profit of an associate | | | | | 94 |
| Finance costs | | | | | (141,451) |
| Loss before tax | | | | | (546,291) |
| **Segment assets** | 1,200,637 | 1,496,088 | 775,442 | 739,728 | 4,211,895 |
| *Reconciliations:* | | | | | |
| Elimination of intersegment receivables | | | | | (36,329) |
| Corporate and other unallocated assets | | | | | 2,770,331 |
| Total assets | | | | | 6,945,897 |
| **Segment liabilities** | 851,967 | 840,612 | 1,120,645 | 329,394 | 3,142,618 |
| *Reconciliations:* | | | | | |
| Elimination of intersegment payables | | | | | (37,476) |
| Corporate and other unallocated liabilities | | | | | 2,337,576 |
| Total liabilities | | | | | 5,442,718 |
| **Other segment information** | | | | | |
| Share of profit of an associate | – | – | – | 94 | 94 |
| Depreciation and amortisation | | | | | |
| Unallocated | – | – | – | – | 51,186 |
| Segment | – | – | – | – | – |
| Investment in an associate | – | – | – | 1,992 | 1,992 |
| Capital expenditure* | | | | | |
| Unallocated | – | – | – | – | 504,535 |
| Segment | – | – | – | – | – |

* Capital expenditure consists of additions to property, plant and equipment and other intangible assets.

# Notes to Financial Statements

Year ended 31 December 2014

## 5. OPERATING SEGMENT INFORMATION (CONTINUED)

### Information about major customers

Revenue from major customers which individually amounted to 10% or more of the Group's revenue is set out below:

| | **2014** | 2013 |
|---|---|---|
| Customer A (Coal-to-chemicals segment) | **30.3%** | N/A* |
| Customer B (Coal-to-chemicals segment) | **15.2%** | N/A* |
| Customer C (Coal-to-chemicals segment) | **11.9%** | 10.2% |
| Customer D (Coal-to-chemicals segment) | **10.3%** | N/A* |
| Customer E (Petrochemicals segment) | **N/A*** | 23.5% |
| Customer F (Other products and services segment) | **N/A*** | 11.7% |

* The revenue derived from each of these customers amounted to less than 10% of the Group's revenue during the years ended 31 December 2013 or 2014.

# Notes to Financial Statements

Year ended 31 December 2014

## 6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents an appropriate proportion of contract revenue of construction contracts; the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered during the year.

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

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| **Revenue** | | |
| Construction contracts | **6,838,054** | 3,331,850 |
| Sale of goods | **1,832** | 19,213 |
| Rendering of services | **152,227** | 323,455 |
| | **6,992,113** | 3,674,518 |
| **Other income** | | |
| Government grants* | **3,018** | 13,818 |
| Interest income | **215,912** | 11,754 |
| Rental income | **25,229** | 7,538 |
| Others | **2,536** | 638 |
| | **246,695** | 33,748 |
| **Gains** | | |
| Foreign exchange gains | **5,804** | – |
| Gain on disposal of items of property, plant and equipment | **–** | 211 |
| | **5,804** | 211 |
| | **252,499** | 33,959 |

* Government grants have been received from the local governments as incentives to promote and accelerate development in the local province. There are no unfulfilled conditions or contingencies relating to these grants.

# Notes to Financial Statements

Year ended 31 December 2014

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Interest on bank loans wholly repayable within five years | **64,820** | 134,161 |
| Interest on discounted bills | **206,325** | 6,670 |
| Interest on finance leases | **16** | 620 |
| | **271,161** | 141,451 |

## 8. 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 | | **1,140** | 15,145 |
| Cost of services provided | | **6,198,785** | 3,516,563 |
| Depreciation | 14,15 | **69,210** | 41,481 |
| Research and development costs | | **202,796** | 124,134 |
| Amortisation of prepaid land lease payments | 16 | **4,453** | 4,453 |
| Amortisation of intangible assets | 18 | **5,158** | 5,252 |
| Impairment for inventories | 20 | **3,142** | – |
| Loss/(gain) on disposal of items of property, plant and equipment | | **460** | (211) |
| Minimum lease payments under operating leases | | **21,382** | 20,239 |
| Auditors' remuneration | | **4,926** | 4,477 |
| Foreign exchange differences, net | | **(5,770)** | 29,560 |
| Fair value loss, net | | | |
| Derivative instruments — transactions not qualifying as hedges | | **725** | – |
| Employee benefit expense (including directors' and chief executive's remuneration) (note 9): | | | |
| Wages and salaries | | **551,885** | 554,992 |
| Retirement benefit scheme contributions | | **50,194** | 52,665 |
| Equity settled share options | | **71,675** | 78,401 |
| | | **673,754** | 686,058 |

# Notes to Financial Statements

Year ended 31 December 2014

## 9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules 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:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Fees | **380** | 522 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kinds | **6,514** | 7,724 |
| Discretionary bonus | **1,200** | 1,323 |
| Equity settled share option expenses | **3,546** | 3,738 |
| Retirement benefit scheme contributions | **111** | 135 |
| Total | **11,751** | 13,442 |

During the year and in prior year, 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 33 to the financial statements. The fair value of such options, which has been recognised in the statement of 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.

# Notes to Financial Statements

Year ended 31 December 2014

## 9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (CONTINUED)

### (a) Executive directors, independent non-executive directors and chief executive

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Discretionary bonus RMB'000 | Equity settled share option expenses RMB'000 | Retirement benefit scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|---|
| Year ended 31 December 2014 | | | | | | |
| — Mr. Hua Bangsong | **–** | **1,843** | **–** | **–** | **–** | **1,843** |
| — Mr. Liu Haijun | **–** | **1,597** | **400** | **1,182** | **37** | **3,216** |
| — Mr. Cui Ying | **–** | **1,597** | **400** | **1,182** | **37** | **3,216** |
| — Mr. Zhou Hongliang | **–** | **1,477** | **400** | **1,182** | **37** | **3,096** |
| — Mr. Liu Ji | **190** | **–** | **–** | **–** | **–** | **190** |
| — Mr. Wu Jianmin | **190** | **–** | **–** | **–** | **–** | **190** |
| — Mr. Lawrence Lee*** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **380** | **6,514** | **1,200** | **3,546** | **111** | **11,751** |
| Year ended 31 December 2013 | | | | | | |
| — Mr. Hua Bangsong | – | 1,843 | 290 | – | – | 2,133 |
| — Mr. Liu Haijun | – | 1,596 | 211 | 1,246 | 36 | 3,089 |
| — Mr. Chen Wenfeng* | – | 1,214 | 400 | – | 27 | 1,641 |
| — Mr. Cui Ying** | – | 1,596 | 211 | 1,246 | 36 | 3,089 |
| — Mr. Zhou Hongliang** | – | 1,475 | 211 | 1,246 | 36 | 2,968 |
| — Mr. Choy Sze Chung Jojo* | 138 | – | – | – | – | 138 |
| — Mr. Liu Ji | 192 | – | – | – | – | 192 |
| — Mr. Wu Jianmin | 192 | – | – | – | – | 192 |
| | 522 | 7,724 | 1,323 | 3,738 | 135 | 13,442 |

The Company did not appoint chief executive during 2014 and 2013.

* Mr. Chen Wenfeng resigned as an executive director of the Company from 18 September 2013. Mr. Choy Sze Chung Jojo resigned as an independent non-executive director from 19 September 2013.

** Mr. Cui Ying and Mr. Zhou Hongliang were appointed as the executive directors of the Company from 10 September 2013.

*** Mr. Lawrence Lee was appointed as an independent non-executive director of the Company from 30 March 2015.

On 16 December 2014, the remuneration committee decided to forfeit Mr. Hua Bangsong's annual bonus in full in the amount of RMB289,800 for the year ended 31 December 2013.

# Notes to Financial Statements

Year ended 31 December 2014

## 9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (CONTINUED)

### (b) Five highest paid employees

The number of the five highest paid employees of the Group during the year is analysed as follows:

| | **2014** | 2013 |
|---|---|---|
| Directors | **3** | 3 |
| Non-director and non-chief executive employees | **2** | 2 |
| | **5** | 5 |

Details of the remuneration of the directors are set out in above.

Details of the remuneration of the non-director and non-chief executive highest paid employees for the year ended 31 December 2014 are as follows:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kinds | **2,354** | 2,533 |
| Discretionary bonus | **988** | 383 |
| Equity settled share option expenses | **1,773** | 2,055 |
| Retirement benefit scheme contributions | **74** | 72 |
| | **5,189** | 5,043 |

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

| | **2014** | 2013 |
|---|---|---|
| HK$2,500,001 to HK$3,000,000 | **1** | 1 |
| HK$3,500,001 to HK$4,000,000 | **1** | 1 |
| | **2** | 2 |

# Notes to Financial Statements

Year ended 31 December 2014

## 9. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (CONTINUED)

### (b) Five highest paid employees (Continued)

During the year ended 31 December 2012, share options were granted to three 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 33 to the financial statements. The fair value of such options, which has been recognised in the statement of 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 employees' remuneration disclosures.

During the year ended 31 December 2014, no emoluments were paid by the Group to any of the persons who are directors of the Company, the chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group was not subject to any income tax in the Cayman Islands and British Virgin Islands. The Group was not liable for income tax in Hong Kong and United States of America as the Group did not have any assessable income arising in Hong Kong and United States of America during the year ended 31 December 2014 (2013: Nil).

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Current — Mainland China: | | |
| Charge for the year | **53,177** | – |
| Deferred (note 30) | **3,559** | (32,619) |
| Total tax charge/(credit) for the year | **56,736** | (32,619) |

Wison Engineering was also qualified as a "High and New Technology Enterprise" in 2008 and was entitled to a preferential corporate income tax ("CIT") rate of 15%. In accordance with the requirements of the tax regulations in the PRC, Wison Engineering submitted its application to renew its "High and New Technology Enterprise" status for another three years ending 4 September 2017 and obtained the certification in 2014. Therefore, Wison Engineering was subject to CIT at a rate of 15% for the years ended 31 December 2014 and 2013.

惠生(揚州)化工機械有限公司 ("Wison Yangzhou") was entitled to a CIT rate of 25%.

# Notes to Financial Statements

Year ended 31 December 2014

## 10. INCOME TAX (CONTINUED)

A reconciliation of income tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the income tax expense at the effective income tax rate for the year as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Profit/(loss) before tax | 267,430 | (546,291) |
| At the statutory income tax rates | 66,858 | (136,573) |
| Lower tax rate enacted by local authority | (13,320) | 41,911 |
| Tax losses utilised from previous years | (20,764) | – |
| Tax losses not recognised | 25,490 | 94,593 |
| Withholding taxes on undistributed profits of the subsidiaries in Mainland China | 3,559 | (37,370) |
| Additional tax deduction | (7,999) | (4,674) |
| Expenses not deductible for tax | 2,912 | 9,494 |
| Tax charge/(credit) for the year | 56,736 | (32,619) |

## 11. DIVIDENDS

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| 2013 Interim — RMB0.057424 per share | – | 233,406 |

The Company declared interim dividends of RMB0.057424 per share to its shareholders during 2013.

# Notes to Financial Statements

Year ended 31 December 2014

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

The calculation of the basic earnings per share amount for 2014 is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,064,622,000 (2013: 4,060,904,022) in issue during the year.

The diluted earnings per share for the year ended 31 December 2013 and 2014 is the same as basic earnings per share because the dilutive potential ordinary shares are anti-dilutive.

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

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Earnings/(loss)<br>Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation: | **179,038** | (471,301) |
| Shares<br>Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **4,064,622,000** | 4,060,904,022 |
| Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation | **4,064,622,000** | 4,060,904,022 |

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

The consolidated profit/(loss) attributable to owners of the parent for the year ended 31 December 2014 includes a loss of RMB82,024,000 (2013: profit of RMB145,062,000) which has been dealt with in the financial statements of the Company (note 32(d)).

# Notes to Financial Statements

Year ended 31 December 2014

## 14. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Office equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **31 December 2014** | | | | | | |
| At 31 December 2013 and 1 January 2014: | | | | | | |
| Cost | 1,300,188 | 6,856 | 18,942 | 27,840 | 85,060 | 1,438,886 |
| Accumulated depreciation | (86,802) | (4,617) | (12,789) | (20,012) | (40,228) | (164,448) |
| Net carrying amount | 1,213,386 | 2,239 | 6,153 | 7,828 | 44,832 | 1,274,438 |
| At 1 January 2014, net of accumulated depreciation | 1,213,386 | 2,239 | 6,153 | 7,828 | 44,832 | 1,274,438 |
| Additions | – | 289 | 3,224 | 90 | 2,653 | 6,256 |
| Depreciation provided during the year | (41,201) | (313) | (5,664) | (2,849) | (18,603) | (68,630) |
| Disposals | – | – | (1) | (397) | (785) | (1,183) |
| At 31 December 2014, net of accumulated depreciation | 1,172,185 | 2,215 | 3,712 | 4,672 | 28,097 | 1,210,881 |
| At 31 December 2014: | | | | | | |
| Cost | 1,300,188 | 6,285 | 22,138 | 27,107 | 81,250 | 1,436,968 |
| Accumulated depreciation | (128,003) | (4,070) | (18,426) | (22,435) | (53,153) | (226,087) |
| Net carrying amount | 1,172,185 | 2,215 | 3,712 | 4,672 | 28,097 | 1,210,881 |

# Notes to Financial Statements

Year ended 31 December 2014

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Group (Continued)

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Office equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | | |
| At 31 December 2012 and 1 January 2013: | | | | | | | |
| Cost | 248,309 | 6,856 | 16,732 | 29,557 | 49,952 | 573,386 | 924,792 |
| Accumulated depreciation | (62,544) | (2,605) | (10,964) | (18,665) | (30,560) | – | (125,338) |
| Net carrying amount | 185,765 | 4,251 | 5,768 | 10,892 | 19,392 | 573,386 | 799,454 |
| At 1 January 2013, net of accumulated depreciation | 185,765 | 4,251 | 5,768 | 10,892 | 19,392 | 573,386 | 799,454 |
| Additions | – | – | 2,210 | – | 35,385 | 478,493 | 516,088 |
| Depreciation provided during the year | (24,258) | (2,012) | (1,825) | (2,892) | (9,914) | – | (40,901) |
| Disposals | – | – | – | (172) | (31) | – | (203) |
| Transfers | 1,051,879 | – | – | – | – | (1,051,879) | – |
| At 31 December 2013, net of accumulated depreciation | 1,213,386 | 2,239 | 6,153 | 7,828 | 44,832 | – | 1,274,438 |
| At 31 December 2013: | | | | | | | |
| Cost | 1,300,188 | 6,856 | 18,942 | 27,840 | 85,060 | – | 1,438,886 |
| Accumulated depreciation | (86,802) | (4,617) | (12,789) | (20,012) | (40,228) | – | (164,448) |
| Net carrying amount | 1,213,386 | 2,239 | 6,153 | 7,828 | 44,832 | – | 1,274,438 |

At 31 December 2014, certain of the Group's buildings with a net book value of approximately RMB116,033,000 (2013: RMB118,288,000) were pledged to secure general banking facilities granted to the Group (note 28). The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of the office equipment at 31 December 2014 amounted to RMB543,000 (2013: RMB605,000).

At 31 December 2014, lien was imposed on certain of the Group's buildings with a net book value of RMB1,118,138,000 (2013: RMB1,154,389,000) by People Court of Shanghai at the request of the Group's certain banks (note 28).

At 31 December 2014, the Group's buildings are situated in Mainland China and are held under long term leases except for the buildings with net book value of RMB1,020,285,000 (2013: RMB1,052,417,000) which are held under a medium term lease.

# Notes to Financial Statements

Year ended 31 December 2014

## 15. INVESTMENT PROPERTIES

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **14,716** | 15,296 |
| Depreciation | **(580)** | (580) |
| Carrying amount at 31 December | **14,136** | 14,716 |

The fair value of the Group's investment properties was RMB38,443,000 as at 31 December 2014 (2013: RMB38,258,000), based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professionally qualified valuers, on an open market, existing use basis.

The Group's investment properties are situated in Mainland China under a medium term lease and are leased to a third party under operating leases (note 36).

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

| | **Fair value measurement as at 31 December 2014 using** | | | |
|---|---|---|---|---|
| Recurring fair value measurement for: | **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** |
| Commercial properties | **–** | **–** | **38,443** | **38,443** |

| | Fair value measurement as at 31 December 2013 using | | | |
|---|---|---|---|---|
| Recurring fair value measurement for: | 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 |
| Commercial properties | – | – | 38,258 | 38,258 |

During the year, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfer into or out of Level 3 (2013: Nil).

# Notes to Financial Statements

Year ended 31 December 2014

## 15. INVESTMENT PROPERTIES (CONTINUED)

### Fair value hierarchy (Continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

| | Valuation techniques | Significant unobservable inputs | Range or weighted average | |
|---|---|---|---|---|
| | | | **2014** | 2013 |
| Commercial properties | Income method | Market month rental (per square meter and per month) | **11 to 11.5** | 10 to 11 |
| | | Long term vacancy rate | **5%** | 5% |
| | | Yield rate | **6.5%** | 6.5% |

Under the income method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase (decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the long term vacancy rate and the discount rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

# Notes to Financial Statements

Year ended 31 December 2014

## 16. PREPAID LAND LEASE PAYMENTS

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **187,185** | 191,638 |
| Amortised during the year | **(4,453)** | (4,453) |
| Carrying amount at end of the year | **182,732** | 187,185 |
| Current portion included in prepayments, deposits and other receivables | **(4,453)** | (4,453) |
| Non-current portion | **178,279** | 182,732 |

The carrying amount of the Group's prepaid land lease payments represents land use rights in Mainland China with land held under the following lease terms:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Long term lease (≥50 years) | **13,523** | 13,939 |
| Medium term lease (<50 years) | **169,209** | 173,246 |
| | **182,732** | 187,185 |

At 31 December 2014, certain of the Group's leasehold interests on land with the carrying amount of approximately RMB11,146,000 (2013: RMB11,444,000) were pledged to secure banking facilities granted to the Group (note 28).

At 31 December 2014, lien was imposed on certain of the Group's parcels of land with a carrying amount of RMB180,356,000 (2013: RMB184,690,000) by the People Court of Shanghai at the request of the Group's certain banks (note 28).

## 17. GOODWILL

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Carrying amount at beginning of year and at the end of the year | **15,752** | 15,752 |

The carrying amount of goodwill of the Group arose from the acquisition of the business of Henan Chemical Industry Design Institute during 2007.

# Notes to Financial Statements

Year ended 31 December 2014

## 17. GOODWILL (CONTINUED)

The recoverable amount of the goodwill is determined from a value in use calculation using cash flow forecast based on financial budgets. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the year. The directors has estimated the discount rate of 12% using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Group. The growth rate of 20% is based on industry growth forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for 2014 and extrapolates cash flow for the following five years based on an estimated average industry growth rate. The rate does not exceed the average long-term growth rate for the relevant markets.

## 18. OTHER INTANGIBLE ASSETS

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Software | | |
| At 1 January | | |
| Cost | **43,531** | 36,259 |
| Accumulated amortisation | **(28,340)** | (23,088) |
| Net carrying amount | **15,191** | 13,171 |
| Cost at 1 January, net of accumulated amortisation | **15,191** | 13,171 |
| Additions | **3,101** | 7,272 |
| Amortisation provided during the year | **(5,158)** | (5,252) |
| At the end of the year, net of accumulated amortisation | **13,134** | 15,191 |
| At the end of the year | | |
| Cost | **46,632** | 43,531 |
| Accumulated amortisation | **(33,498)** | (28,340) |
| Net carrying amount | **13,134** | 15,191 |

# Notes to Financial Statements

Year ended 31 December 2014

## 19. INVESTMENT IN AN ASSOCIATE

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Unlisted shares, at cost | – | – |
| Share of net assets | 1,579 | 1,992 |
| | 1,579 | 1,992 |

The investment in an associate as at 31 December 2014 represents the Group's 30% equity interest in 河南創思特工程監理咨詢有限公司 (Henan Chuangsite Supervisory Consulting Co., Ltd.) ("Henan Chuangsite") , a company established in the PRC.

The principal activity of Henan Chuangsite is the provision of supervisory services for construction projects. The Group's equity holding in Henan Chuangsite is held through a subsidiary of the Company.

Henan Chuangsite is not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of Henan Chuangsite, the Group's associate, extracted from its management accounts:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Assets | 7,197 | 7,353 |
| Liabilities | 1,935 | 713 |
| Revenue | 8,637 | 869 |
| (Loss)/profit for the year | (1,378) | 314 |

## 20. INVENTORIES

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Construction materials, net | 430,812 | 228,746 |
| Raw materials, gross | 2,355 | 8,307 |
| Work in progress, gross | – | 4,146 |
| Finished goods, gross | – | 624 |
| | 433,167 | 241,823 |

# Notes to Financial Statements

Year ended 31 December 2014

## 20. INVENTORIES (CONTINUED)

The movements in the provision for inventory provision are as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| At 1 January | **2,556** | 2,556 |
| Write off | **(2,556)** | – |
| Impairment for the year | **3,142** | – |
| At 31 December | **3,142** | 2,556 |

## 21. CONSTRUCTION CONTRACTS

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Gross amounts due from contract customers | **3,242,274** | 2,923,402 |
| Gross amounts due to contract customers | **(1,771,315)** | (574,915) |
| | **1,470,959** | 2,348,487 |

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Contract costs incurred plus recognised profits less recognised losses to date | **23,774,987** | 20,578,799 |
| Less: Progress billings | **(22,304,028)** | (18,230,312) |
| | **1,470,959** | 2,348,487 |

The gross amounts due from/(to) contract customers for contract work include balances with fellow subsidiaries and a related company of the Company as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Fellow subsidiaries | | |
| 惠生(南京)清潔能源股份有限公司 (formerly known as 惠生(南京)化工有限公司 ("Wison Nanjing")) | **1,890** | 23 |
| 舟山惠生海洋工程有限公司 ("Zhoushan Wison") | **–** | 660,463 |
| Related company | | |
| 陝西長青能源化工有限公司 ("Shaanxi Changqing")* | **177,993** | 595,165 |

* Shaanxi Changqing is indirectly owned as to 13.2% by Mr. Hua Bangsong, a director and beneficial shareholder of the Company.

# Notes to Financial Statements

Year ended 31 December 2014

## 22. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit where payment in advance is normally required. Trade receivables are non-interest-bearing and on credit terms of a period of 90 days or the respective contracts' retention period. 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 management.

Trade and bills receivables are unsecured and non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date, and net of provision for doubtful debts, is as follows:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Trade and bills receivables: | | |
| Less than 3 months | **542,164** | 35,254 |
| 4 to 6 months | **7,640** | 52,483 |
| 7 to 12 months | **9,608** | 106,712 |
| Over 1 year | **455,845** | 67,118 |
| | **1,015,257** | 261,567 |

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

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| At 1 January | **765** | 765 |
| Impairment for the year | **–** | – |
| At 31 December | **765** | 765 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB725,000 (2013: RMB725,000) with a carrying amount before provision of RMB725,000 (2013: RMB725,000).

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

# Notes to Financial Statements

Year ended 31 December 2014

## 22. TRADE AND BILLS RECEIVABLES (CONTINUED)

The ageing analysis of the trade and bills receivables that are not considered to be impaired is as follows:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Neither past due nor impaired | **545,120** | 70,093 |
| Less than 3 months | **7,640** | 21,684 |
| 4 to 12 months | **9,608** | 105,864 |
| Over 1 year | **452,889** | 63,926 |
| | **1,015,257** | 261,567 |

The amounts due from fellow subsidiaries and a related company included in the trade receivables are as follows:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Fellow subsidiaries | | |
| Zhoushan Wison | **396,677** | – |
| Wison Offshore & Marine Ltd. | **3,850** | 2,956 |
| Related company | | |
| Shaanxi Changqing | **500** | 500 |

Receivables that were past due but not impaired relate to a number of 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. The Group does not hold any collateral or other credit enhancements over these balances.

# Notes to Financial Statements

Year ended 31 December 2014

## 23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

**Group**

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current portion of prepaid land lease payments | **4,453** | 4,453 |
| Prepayments | **1,637,938** | 750,816 |
| Deposits | **8,990** | 11,092 |
| Other receivables, net of provision for impairment | **105,976** | 140,511 |
| | **1,757,357** | 906,872 |
| Less: Non-current portion | **(382,551)** | (2,042) |
| | **1,374,806** | 904,830 |

In 2012, Wison Engineering entered into a joint venture agreement ("JV Agreement") with Hyundai Engineering & Construction Co., Ltd. ("HDEC") and Hyundai Engineering Co., Ltd. ("HEC") to form an investment consortium, where it was mutually agreed that the investment consortium will enter into construction agreements with PDVSA Petroleos, S.A. to undertake an overseas construction project for PDVSA Petroleos, S.A. (at an aggregate contract value of approximately USD2,994 million).

On 7 November 2014, HDEC, HEC and the Group entered into various amendment agreements (the "Amendment Agreements") which varied the original agreement such that the participation share of the Group under the contract has been adjusted from 31% to 8%.

Other receivables as at 31 December 2014 included an amount of RMB1,769,000 (2013: RMB809,000) for expense reimbursement from HDEC and HEC. The receivables from HDEC and HEC are unsecured, interest-free and repayment on demand.

**Company**

| | **2014** | 2013 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Other receivables | **460** | 391 |

Other receivables are unsecured, non-interest-bearing and have no fixed terms of repayment.

The fair values of other receivables approximated to their corresponding carrying amounts due to their relatively short maturity term.

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

# Notes to Financial Statements

Year ended 31 December 2014

## 24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

### Group

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Cash and bank balances | **440,919** | 394,390 |
| Time deposits with original maturity of less than three months | **230,853** | 553,720 |
| Time deposits with original maturity of more than three months | **170,684** | 136,430 |
| | **842,456** | 1,084,540 |
| Less: Pledged bank balances and time deposits | **(300,180)** | (791,030) |
| Unpledged cash and cash equivalents | **542,276** | 293,510 |
| Less: Frozen cash balances | **(145,844)** | (147,148) |
| Unpledged and unfrozen cash and cash equivalents | **396,432** | 146,362 |

At 31 December 2014, bank deposits of RMB149,328,000 (2013: RMB240,380,000) were placed as guarantee deposits for performance of certain construction contracts and for the tendering process.

At 31 December 2014, bank deposits of RMB12,187,000 (2013: RMB50,650,000) were pledged to a bank as security to obtain a letter of credit facility for the purchase of imported equipment.

At 31 December 2014, bank deposits of RMB138,665,000 (2013: Nil) were pledged to a bank as security to obtain certain forward currency contracts.

At 31 December 2013, bank deposits of RMB500,000,000 were pledged as security for bank loans (note 28).

At 31 December 2014, the cash and bank balances of the Group denominated in RMB amounted to RMB357,652,000 (2013: RMB1,065,244,000). 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.

As at 31 December 2014, certain bank accounts of Wison Engineering of RMB192,172,000 (2013: RMB193,312,000) were frozen by the PRC regulatory as part of their investigation, among the total frozen bank balances of which, RMB46,328,000 (2013: RMB46,164,000) of pledged bank balances and time deposits were frozen.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of cash and cash equivalents and the pledged bank balances and time deposits approximate to their fair values.

# Notes to Financial Statements

Year ended 31 December 2014

## 24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

**Company**

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Cash and bank balances | **1,834** | 9,496 |

## 25. TRADE AND BILLS PAYABLES

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

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Less than 1 year | **3,508,792** | 2,346,706 |
| 1 to 2 years | **314,057** | 116,006 |
| 2 to 3 years | **74,317** | 63,471 |
| Over 3 years | **43,887** | – |
| | **3,941,053** | 2,526,183 |

The amount due to a related company included in the trade payables is as follows:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| 江蘇新華化工機械有限公司<br>(Jiangsu Xinhua Chemical Engineering Co., Ltd. ("Jiangsu Xinhua")) | **4,334** | 1,984 |

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

## 26. OTHER PAYABLES, ADVANCE FROM CUSTOMERS AND ACCRUALS

**Group**

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Accruals | **7,068** | 7,536 |
| Advance from customers | **26,029** | 4,044 |
| Other payables | **314,504** | 479,422 |
| | **347,601** | 491,002 |

# Notes to Financial Statements

Year ended 31 December 2014

## 26. OTHER PAYABLES, ADVANCE FROM CUSTOMERS AND ACCRUALS (CONTINUED)

**Company**

| | **2014** **RMB'000** | 2013 RMB'000 |
|---|---:|---:|
| Accruals | **912** | 396 |
| Other payables | **–** | 46 |
| | **912** | 442 |

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

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

| | **2014** **RMB'000** | 2013 RMB'000 |
|---|---:|---:|
| Forward currency contracts | **725** | – |

The Group has entered into various forward currency contracts to manage its exchange rate exposures. These forward currency contracts are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging currency derivatives amounting to RMB725,000 were charged to the statement of profit or loss during the year (2013: Nil).

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | **2014** **RMB'000** | 2013 RMB'000 |
|---|---:|---:|
| **Current** | | |
| Bank loans repayable within one year | | |
| — secured | **539,849** | 1,417,997 |
| — unsecured | **–** | 135,825 |
| | **539,849** | 1,553,822 |
| Finance lease payables (note 29) | **122** | 227 |
| | **539,971** | 1,554,049 |
| **Non-current** | | |
| lease payables (note 29) | **49** | 171 |
| | **49** | 171 |
| | **540,020** | 1,554,220 |

# Notes to Financial Statements

Year ended 31 December 2014

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Bank and other borrowings at 31 December 2014 were denominated in RMB and bore interest at floating rates except for loans of RMB319,992,000 at 31 December 2014 (2013: RMB1,083,825,000) which bore interest at fixed rates.

The effective interest rates of the Group's bank and other borrowings ranged as follows:

| | |
|---|---|
| Year ended 31 December 2013 | 4.30% to 7.91% |
| Year ended 31 December 2014 | 5.70% to 7.80% |

Certain of the Group's bank loans are secured by the following assets:

| | Notes | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|---|
| Buildings | 14 | **116,033** | 118,288 |
| Leasehold interests on land | 16 | **11,146** | 11,444 |
| Time deposits | 24 | **–** | 500,000 |

During the year ended 31 December 2014, 惠生(中國)投資有限公司 ("Wison (China) Investment"), a fellow subsidiary of the Company, executed guarantees to a certain bank for bank facilities granted to the Group of RMB150,000,000 (2013: RMB450,000,000). As at 31 December 2014, the loans were drawn down to the extent of RMB150,000,000 (2013: RMB450,000,000).

In addition, certain banks have granted credit facilities to the Group for which the receivables from construction contracts with certain customers are pledged as security. As at 31 December 2014, the bank loans were drawn down to the extent of RMB310,849,000 (2013: RMB671,997,000).

The carrying amounts of the interest-bearing bank borrowings approximate to their fair values.

In September 2013, Agriculture Bank of China ("ABC") applied to the People Court of Shanghai against the Group's subsidiary in Shanghai to impose lien on the office buildings of the Group's subsidiary in Shanghai with a carrying value of RMB1,118,138,000 at 31 December 2014 (2013: RMB1,154,389,000) and the related parcels of land with a carrying value of RMB180,356,000 at 31 December 2014 (2013: RMB184,690,000) to demand the Group to repay the loans in an aggregate principal amount of RMB186,000,000 and all related interests. The Group repaid RMB107,000,000 during the year ended 31 December 2014 and the remaining amount of RMB79,000,000 bank loans has been extended up to 28 April 2015 and 20 May 2015, respectively, as agreed with ABC. ABC did not release the lien on the office buildings and the related parcels of land at 31 December 2014.

# Notes to Financial Statements

Year ended 31 December 2014

## 28. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

On 30 December 2013, the Group failed to settle the loans owned to CDB with aggregate amount of RMB250 million when they fell due and triggered a cross-default across the Group's bank borrowing facilities at that time. CDB also impose lien on the same office buildings and parcel of land of the Group as ABC above. During the year ended 31 December 2014, the Group settled RMB250 million to CDB. The Group had loan fall due on 20 October 2014 with an aggregate amount of RMB150 million. On 19 December 2014, the Group reached settlement agreement with CDB, pursuant to which the Group agreed to repay the remaining bank loan of RMB150 million before 20 December 2015. As at 31 December 2014, CDB did not release the lien on the office building and the related parcels of land.

Although CDB had not taken any enforcement action against the Company following the default on certain loans owing to CDB as at 31 December 2014, the Group's outstanding bank borrowings, which were subject to cross-default provisions, were in the aggregate principal amount of RMB540 million as of 31 December 2014.

In addition, because foregoing default of CDB's loan and that Mr. Hua and Wison Engineering have been filed charges for alleged criminal offences, the Group has breached loan covenants with certain banks as at 31 December 2014. As a possible consequence of the breaches, the banks may immediately demand repayment of loans advanced to the Group with an aggregate outstanding principal amount of RMB540 million at 31 December 2014.

## 29. FINANCE LEASE PAYABLES

During the years ended 31 December 2014 and 2013, the Group leased certain of its office machinery for its operation requirements. These leases are classified as finance leases and have remaining lease terms ranging from 3 to 5 years.

At 31 December 2014 and 2013, the total future minimum lease payments under finance leases and their present values were as follows:

| | Minimum lease payments 31 December 2014 RMB'000 | Present value of payments 31 December 2014 RMB'000 |
|---|---|---|
| Amounts payable: | | |
| Within one year | 130 | 122 |
| In the second year | 49 | 49 |
| Total minimum finance lease payments | 179 | 171 |
| Future finance charges | (8) | |
| Total net finance lease payables | 171 | |
| Portion classified as current liabilities (note 28) | (122) | |
| Non-current portion | 49 | |

# Notes to Financial Statements

Year ended 31 December 2014

## 29. FINANCE LEASE PAYABLES (CONTINUED)

| | Minimum lease payments 31 December 2013 RMB'000 | Present value of payments 31 December 2013 RMB'000 |
|---|---|---|
| Amounts payable: | | |
| Within one year | 246 | 227 |
| In the second year | 130 | 122 |
| In the third to fifth years, inclusive | 49 | 49 |
| Total minimum finance lease payments | 425 | 398 |
| Future finance charges | (27) | |
| Total net finance lease payables | 398 | |
| Portion classified as current liabilities (note 28) | (227) | |
| Non-current portion | 171 | |

## 30. DEFERRED TAX ASSETS AND LIABILITIES

The movements in deferred tax assets and liabilities during the year are as follows:

### Deferred tax assets

| | **2014 RMB'000** | 2013 RMB'000 |
|---|---|---|
| At 1 January | **–** | 4,752 |
| Deferred tax charged to profit or loss during the year | **–** | (4,752) |
| Gross deferred tax assets at 31 December | **–** | – |

# Notes to Financial Statements

Year ended 31 December 2014

## 30. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

### Deferred tax liabilities

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| At 1 January | **20,803** | 58,173 |
| Realised during the year | **(1,000)** | – |
| Deferred tax charged/(credited) to profit or loss during the year | **3,559** | (37,370) |
| Gross deferred tax liabilities at 31 December | **23,362** | 20,803 |

The Group's deferred tax assets and deferred tax liabilities are attributed to the following item, which is reflected in the statements of financial position:

### Deferred tax liabilities

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Withholding taxes arising from undistributed profits of the PRC subsidiaries | **23,362** | 20,803 |
| Deferred tax liabilities at year end | **23,362** | 20,803 |

Deferred tax assets have not been recognised in respect of the following items:

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Deductible temporary differences | **97,363** | 87,149 |
| Tax losses | **390,543** | 427,010 |
| | **487,906** | 514,159 |

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

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. According to the tax notice issued by Shanghai Tax Authority on 13 August 2014, commencing from 14 August 2014, the Group is subject to 5% withholding tax levied on dividends declared from a subsidiary established as foreign investment enterprise in Mainland China.

# Notes to Financial Statements

Year ended 31 December 2014

## 31. GOVERNMENT GRANTS

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Carrying amount at beginning of the year | **2,213** | 2,250 |
| Received during the year | **2,942** | 13,781 |
| Released to the profit or loss (note 6) | **(3,018)** | (13,818) |
| Carrying amount at end of the year | **2,137** | 2,213 |

## 32. ISSUED CAPITAL AND RESERVES

### (a) Shares

| | 2014 | 2013 |
|---|---|---|
| Number of ordinary shares | | |
| Authorised: | | |
| Ordinary shares of HK$0.1 each | **20,000,000,000** | 20,000,000,000 |
| Issued: | | |
| Ordinary shares of HK$0.1 each | **4,064,622,000** | 4,064,622,000 |

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HK$0.1 each | **1,622,757** | 1,622,757 |
| Issued: | | |
| Ordinary shares of HK$0.1 each | **329,803** | 329,803 |

On 22 January 2013, the Company issued 64,622,000 ordinary shares of HK$0.1 each at a subscription price of HK$2.79 per share pursuant to the exercise of over-allotment options upon the listing of the Company's shares at then open offer price, resulting in a share premium of RMB141,048,000, representing the difference between the subscription price and nominal value of the Company's ordinary shares of RMB5,243,000 in aggregate before netting off share issue cost.

### (b) Share premium account

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

# Notes to Financial Statements

Year ended 31 December 2014

## 32. ISSUED CAPITAL AND RESERVES (CONTINUED)

### (c) Statutory surplus reserve ("SSR") and expansion reserve

**Group**

In accordance with the Company Law of the PRC and the articles of association, Wison Engineering may make appropriation to its statutory surplus reserve fund and expansion reserve fund as a percentage of its profit after tax. The amount of the appropriation is subject to the approval of the board of directors of Wison Engineering in accordance with the articles of association of Wison Engineering. Subject to certain restrictions set out in the Company Law of the PRC and the articles of association, part of these reserves may be converted to increase the company's registered capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

In accordance with the Company Law of the PRC and the articles of association, Wison Yangzhou is required to transfer at least 10% of its profit after tax to its statutory surplus reserve fund, until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC and the articles of association of Wison Yangzhou, this reserve may be capitalised as the registered capital.

The SSR and the expansion reserve are non-distributable except in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

### (d) Reserves of the Company

| | Share option reserve RMB'000 | Share premium RMB'000 | Retained profits/ (accumulated losses) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2013 | 6,908 | 710,100 | 228,890 | 945,898 |
| Issue of new shares | – | 141,048 | – | 141,048 |
| Share issue expenses | – | (5,071) | – | (5,071) |
| Net profit and total comprehensive income for the year (note 13) | – | – | 145,062 | 145,062 |
| Equity-settled share option arrangements (note 33) | 78,401 | – | – | 78,401 |
| Dividend declared | – | – | (233,406) | (233,406) |
| At 31 December 2013 and 1 January 2014 | **85,309** | **846,077** | **140,546** | **1,071,932** |
| Net loss and total comprehensive income for the year (note 13) | **–** | **–** | **(82,024)** | **(82,024)** |
| Equity-settled share option arrangements (note 33) | **71,675** | **–** | **–** | **71,675** |
| At 31 December 2014 | **156,984** | **846,077** | **58,522** | **1,061,583** |

# Notes to Financial Statements

Year ended 31 December 2014

## 32. ISSUED CAPITAL AND RESERVES (CONTINUED)

### (e) Capital reserve

The Group acquired Wison Singapore Pte. Ltd. ("Wison Singapore") during 2011 from Wison Holding which was a business combination under common control and has been accounted for by applying the principle of merger accounting. The difference between the amount of shares then issued by Wison Energy Engineering (Hong Kong) Limited ("Wison Energy (HK)") and the net liabilities of Wison Singapore was charged to capital reserve. During the year ended 31 December 2014, Wison Singapore was wound up and the related capital reserve has been reversed.

## 33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Pre-IPO Scheme") prior to the public listing of its shares for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Pre-IPO Scheme are the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Pre-IPO Scheme was conditionally adopted on 30 November 2012 and became effective from 28 December 2012, 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 Pre-IPO 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 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, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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 of three to seven years and ends on a date which is not later than five years from the date of offer of the share options or the expiry date of the Pre-IPO Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the shares on the Stock Exchange as stated in the Stock Exchange's daily quotation sheet on the date of grant; (ii) the average of the closing prices of the shares on the Main Board as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares.

# Notes to Financial Statements

Year ended 31 December 2014

## 33. SHARE OPTION SCHEME (CONTINUED)

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 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 | **0.837** | **191,349** | 0.837 | 197,923 |
| Forfeited during the year | **0.837** | **(6,935)** | 0.837 | (6,574) |
| At 31 December | **0.837** | **184,414** | 0.837 | 191,349 |

No shares were exercised during the years ended 31 December 2014 and 2013.

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** | **Exercise price*** HK$ per share | **Exercise period** |
|---|---|---|
| 36,882,800 | 0.837 | 29/12/2015–28/12/2020 |
| 36,882,800 | 0.837 | 29/12/2016–28/12/2020 |
| 36,882,800 | 0.837 | 29/12/2017–28/12/2020 |
| 36,882,800 | 0.837 | 29/12/2018–28/12/2020 |
| 36,882,800 | 0.837 | 29/12/2019–28/12/2020 |
| 184,414,000 | | |

# Notes to Financial Statements

Year ended 31 December 2014

## 33. SHARE OPTION SCHEME (CONTINUED)

**2013**

| Number of options | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| 38,269,800 | 0.837 | 29/12/2015–28/12/2020 |
| 38,269,800 | 0.837 | 29/12/2016–28/12/2020 |
| 38,269,800 | 0.837 | 29/12/2017–28/12/2020 |
| 38,269,800 | 0.837 | 29/12/2018–28/12/2020 |
| 38,269,800 | 0.837 | 29/12/2019–28/12/2020 |
| 191,349,000 | | |

* 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 value of the share options granted during the year ended 31 December 2012 was RMB376,883,000 (RMB1.904 each), of which the Group recognised a share option expense of RMB71,675,000 (2013: RMB78,401,000) during the year ended 31 December 2014.

During the year ended 31 December 2014, amounted to 6,935,000 of options were lapsed as the employees have terminated their employment and the vesting conditions have not been satisfied. (2013: 6,574,000).

At the end of the reporting period and at the date of approval of these financial statements, the Company had 184,414,000 share options outstanding under the Pre-IPO Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 184,414,000 additional ordinary shares of HK$0.1 each of the Company and additional share capital of HK$18,441,400 (equivalent to RMB14,548,000) and share premium of HK$135,913,118 (equivalent to RMB107,222,000) (before issue expenses).

## 34. RELATED PARTY TRANSACTIONS

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

| | Notes | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|---|
| Related companies: | | | |
| Purchase of products | (a)(i) | **2,568** | 4,532 |
| Rental income | (a)(ii), (a)(iii) | **730** | 5,363 |
| Rendering of services | (a)(ii), (b)(i) | **54,235** | 135,870 |
| Fellow subsidiaries: | | | |
| Rental income | (a)(iv), (a)(v) | **13,140** | 486 |
| Rendering of services | (a)(iv), (a)(v), (a)(vi), (b)(i) | **43,592** | 438,901 |

# Notes to Financial Statements

Year ended 31 December 2014

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes:

(a) Recurring:

(i) The Group and Jiangsu Xinhua entered into a new framework agreement effective on 26 March 2014 based on the framework agreement entered into between the Group and Jiangsu Xinhua on 25 April 2011 for a term of three years whereby the Group will purchase anchor, refractory support plunge hook and other ancillary accessories from Jiangsu Xinhua. On 15 August 2013, the annual cap of the framework agreement for the years ended 31 December 2013 and 2014 were increased to RMB17 million and RMB18.5 million. During the year ended 31 December 2014, the Group's purchases of heat-resistant alloy pipes and other ancillary accessories from Jiangsu Xinhua amounted to RMB2,568,000 (2013: RMB4,532,000). The purchases were made by reference to the published prices and conditions offered by Jiangsu Xinhua to its customers.

(ii) During the year ended 31 December 2011, the Group leased out office space to 上海惠生通訊技術有限公司 (Wison (Shanghai) Telecommunication Technology Company Limited ("Wison Telecommunication")), a subsidiary of Jiangsu Xinhua, for RMB467,000 per annum for a three-year period commencing from 1 January 2011. On 12 December 2013, the Group and Wison Telecommunication entered into a lease agreement, under which the Group leased out office space in its office building to Wison Telecommunication for RMB730,000 per annum for a three-year period commencing from 1 January 2014. Rental income for the year ended 31 December 2014 from Wison Telecommunication amounted to RMB730,000 (2013: RMB467,000).

On 12 December 2013, the Group and Wison Telecommunication entered into a property management service agreement, under which the Group would provide property management service in relation to the premises leased to Wison Telecommunication for RMB132,000 per annum for a three-year period commencing from 1 January 2014. Service income for the year ended 31 December 2014 from Wison Telecommunication amounted to RMB132,000 (2013: Nil).

(iii) During the year ended 31 December 2011, the Group and 上海澤潤生物科技有限公司 (Shanghai Zerun Biotechnology Co., Ltd. ("Zerun Biotech")), a previous fellow subsidiary of the Company which became a related company of the Group in 2013, entered into two lease agreements, under which the Group leased out two office premises to Zerun Biotech at RMB4,579,000 per annum for a 30-month period commencing from 1 July 2011 and RMB317,000 per annum for a 24-month period commencing from 1 January 2012 respectively. Rental income for the year ended 31 December 2013 from Zerun Biotech amounted to RMB4,896,000.

(iv) During the year ended 31 December 2011, the Group leased out office spaces to 惠生(南通)重工有限公司 (Wison (Nantong) Heavy Industry Co., Ltd. ("Wison Nantong")), a fellow subsidiary of the Company, for RMB486,000 per annum for a three-year period commencing from 1 January 2011. On 12 December 2013, the Group and Wison Nantong entered into a lease agreement, for which the Group leased out office space in its office building to Wison Nantong for RMB10,220,000 per annum for a three-year period commencing from 1 January 2014. Rental income for the year ended 31 December 2014 from Wison Nantong amounted to RMB10,220,000 (2013: RMB486,000).

On 12 December 2013, the Group and Wison Nantong entered into a property management service agreement, under which the Group would provide property management service in relation to the premises leased to Wison Nantong for RMB1,848,000 per annum, respectively, for a three-year period commencing from 1 January 2014. Service income for the year ended 31 December 2014 from Wison Nantong amounted to RMB1,848,000 (2013: Nil).

(v) On 12 December 2013, the Group and Wison (China) Investment, a fellow subsidiary of the Company, entered into a lease agreement, under which the Group leased out office space in its office building to Wison (China) Investment for RMB2,920,000 per annum for a three-year period commencing from 1 January 2014. Rental income for the year ended 31 December 2014 for Wison (China) Investment amounted to RMB2,920,000 (2013: Nil).

On 12 December 2013, the Group and Wison (China) Investment entered into a property management service agreement, under which the Group would provide property management service in relation to the premises leased to Wison (China) Investment for RMB528,000 per annum, for a three-year period commencing from 1 January 2014. Service income for the year ended 31 December 2014 from Wison (China) Investment amounted to RMB528,000 (2013: Nil).

(vi) On 4 July 2014, the Group and Wison Nanjing entered into a framework agreement, pursuant to which the Group will provide miscellaneous engineering design and technology services to Wison Nanjing and/or its subsidiaries in relation to their manufacturing facilities, public utility engineering systems and ancillary production systems. The framework agreement shall expire on 31 December 2016. The annual cap for the amount payable by Wison Nanjing to the Group under the framework agreement is expected not to exceed RMB2 million for each of the three years ending 31 December 2014, 2015 and 2016, respectively. The Group recognised revenue of RMB1,254,000 during the year ended 31 December 2014.

# Notes to Financial Statements

Year ended 31 December 2014

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

(a) Recurring: (Continued)

(vii) Wison Holding, as licensor, entered into three trademark licensing agreements with the Group to grant the rights to use the trademarks by the Group on a perpetual and non-exclusive basis for nominal or nil consideration during the years ended 31 December 2013 and 2014.

(viii) On 18 May 2010, the Group entered into four separate patent licensing agreement, each for a term of six years, with Wison Nanjing, pursuant to which the Group agreed to grant an exclusive licence free of royalty fee to Wison Nanjing to use certain patented technology relating to the generation of carbon monoxide and methanol gas.

In the opinion of the directors of the Company, the transactions between the Group and Zerun Biotech, Wison Telecommunication, Jiangsu Xinhua, Wison Nantong, Wison Nanjing, Wison Holding and Wison (China) Investment were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties.

(b) Non-recurring:

(i) During the year ended 31 December 2011, the Group and Wison Nanjing entered into a design contract and a technology licensing agreement whereby Wison Nanjing engaged the Group to design and license the technology for its Butanol and Octanol projects including a 250kta Butanol and Octanol processing unit, a 300kta Propane processing unit and other ancillary facilities for an aggregate contract value of RMB51,053,000. No revenue on this contract was recognised during the year ended 31 December 2014 (2013: RMB1,703,000).

In 2012, the Group and Wison Nanjing entered into a series of service contracts for a total contract value of RMB53,730,000. No revenue on this contract was recognised during the year ended 31 December 2014 (2013: RMB5,421,000).

On 24 January 2014, the Group and Wison Nanjing entered into a design service contract whereby Wison Nanjing engaged the Group to provide basic and detailed project design for its 300kta methanol synthesis unit for a total consideration of RMB2,800,000. The Group recognised revenue of RMB2,642,000 on this contract during the year ended 31 December 2014 (2013: Nil).

On 24 January 2014, the Group and Wison Nanjing entered into five separate technology consultancy contracts, under which Wison Nanjing engaged the Group to provide a feasibility study report in relation to the relevant projects with a total consideration of RMB2,600,000. The Group recognised revenue of RMB2,453,000 on the above five contracts during the year ended 31 December 2014 (2013: Nil).

In the opinion of the directors of the Company, the transactions between the Group and Wison Nanjing were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties. The amount due from contract customers relating to Wison Nanjing is set out in note 21.

During the year ended 31 December 2013, the Group and Wison Offshore & Marine Ltd. ("Wison Marine Engineering") entered into a service contract for a total contract value of RMB3,850,000. The Group recognised revenue of RMB843,000 (2013: RMB2,789,000) on this contract during the year ended 31 December 2014. In the opinion of the directors of the Company, the transactions between the Group and Wison Marine Engineering were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties. The trade receivables relating to Wison Marine Engineering are set out in notes 22.

# Notes to Financial Statements

Year ended 31 December 2014

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

(b) Non-recurring: (Continued)

(i) (Continued)

During the year ended 31 December 2011, the Group and Shaanxi Changqing, in which Wison Holding has an indirect 13.2% equity interest, entered into a construction contract whereby Shaanxi Changqing engaged the Group to undertake the construction of its coal-to-chemicals production facilities for a contract value of RMB2,186,500,000. The Group and Shaanxi Changqing agreed to increase the contract consideration by RMB305,220,000 due to variation orders. The Group recognised revenue of RMB54,103,000 on this contract during the year ended 31 December 2014 (2013: RMB135,870,000). In the opinion of the directors of the Company, the transactions between the Group and Shaanxi Changqing were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties. The amount due from contract customers and trade receivables relating to Shaanxi Changqing are set out in notes 21 and 22, respectively.

On 16 May 2012, the Group and Zhoushan Wison, a fellow subsidiary of the Company, entered into a construction contract whereby Zhoushan Wison engaged the Group to procure all the equipment and materials and oversee quality assurance and completion of the construction of the Zhoushan marine engineering base for a contract value of RMB990,930,000. During the year ended 31 December 2013, the Group and Zhoushan Wison agreed to increase the contract consideration by RMB891,150,000 due to variation orders. On 11 November 2014, the Group and Zhoushan Wison entered into an interim settlement confirmation, whereby the parties confirmed that the total contract value for the work already carried out by the Group amounted to RMB1,390,160,000 and agreed to a deferral of the uncompleted work until Zhoushan Wison obtains necessary financing. The Group recognised revenue of RMB34,024,000 during the year ended 31 December 2014 (2013: RMB428,988,000). In the opinion of the directors of the Company, the transactions between the Group and Zhoushan Wison were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties. The amount due from contract customers and trade receivables relating to Zhoushan Wison are set out in notes 21 and 22, respectively.

(ii) On 24 January 2014, the Group and Wison Nanjing entered into the SNG cooperation agreement pursuant to which Wison Nanjing shall (1) provide the Group with the right to use the land and facilities owned by Wison Nanjing located at the Nanjing Chemical Industrial Park to a total consideration of RMB600,000; (2) provide the Group with certain gases such as hydrogen, carbon monoxide and carbon dioxide and utilities such as water and mid-pressure steam at a price which shall be either the actual costs to Wison Nanjing for such gases or utilities or the lowest price charged to other customers; and (3) second experienced staff to assist in Group's project at 1.5 times of the basic salary of such staff, which after taking into account insurance, pension and other staff benefits, represent the costs to Wison Nanjing. No such expenses were incurred on this contract during the year ended 31 December 2014 (2013: Nil). In the opinion of the directors of the Company, the transactions between the Group and Wison Nanjing were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties.

(iii) During the year ended 31 December 2014, Wison (China) Investment executed guarantees to certain banks for bank facilities to the Group of RMB150,000,000 (2013: RMB450,000,000) at nil consideration. As at 31 December 2014, the loans were drawn down to the extent of RMB150,000,000 (2013: RMB450,000,000) (note 28).

(iv) On 30 November 2012, Wison Holding and the Company entered into a domain name licence agreement (the "Domain Name Licence Agreement") in respect of the right to use the domain name "wison-engineering.com" registered under the name of Wison Holding (the "Domain Name"). Pursuant to the Domain Name Licence Agreement, Wison Holding has agreed to grant the Company, and the Company has accepted, a royalty-free licence to use the Domain Name on an exclusive basis. The Domain Name Licence Agreement is for a perpetual term and may be terminated in certain circumstances, such as if Wison Holding ceases to be a shareholder of the Company.

(v) On 30 November 2012, Wison Holding and the Company entered into an administrative services agreement (the "Administrative Services Agreement"), for which Wison Holding agreed to provide general legal services and legal consultation, information system management services, data management services, back-up services and other related support services to the Group that are charged by Wison Holding based on the cost incurred and the portion of actual time utilised by the staff of Wison Holding for the provision of such services. During the year ended 31 December 2014, no service fee was incurred (2013: Nil).

# Notes to Financial Statements

Year ended 31 December 2014

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

(c) Balances with related parties:

**Group**

| | **2014** **RMB'000** | 2013 RMB'000 |
|---|---|---|
| Due from a related company: | | |
| Wison Telecommunication | **646** | 117 |
| Due from fellow subsidiaries: | | |
| Wison Nantong | **12,189** | 121 |
| Wison (China) Investment | **2,586** | – |
| | **14,775** | 121 |
| Due from the ultimate holding company: | | |
| Wison Holding | **87** | 87 |
| Due to a related company: | | |
| Jiangsu Xinhua | **78** | 78 |
| Due to an associate: | | |
| Henan Chuangsite | **630** | 630 |

Mr. Hua is a director and the beneficial shareholder of the Company.

Jiangsu Xinhua is the Chinese joint venture partner of Wison Engineering. Wison Telecommunication is a subsidiary of Jiangsu Xinhua.

The balances with the ultimate holding company, fellow subsidiaries, an associate, a related company are unsecured, interest-free and repayable on demand. The carrying amounts of the balances with the related parties approximate to their fair values.

The amounts with fellow subsidiaries, a related company and the ultimate holding company are presented on a net basis in the consolidated statement of financial position.

# Notes to Financial Statements

Year ended 31 December 2014

## 34. RELATED PARTY TRANSACTIONS (CONTINUED)

Notes: (Continued)

(c) Balances with related parties: (Continued)

**Company**

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Due from subsidiaries: | | |
| Wison Engineering Technology Limited ("Wison Technology") | **61,781** | 61,387 |
| Wison Energy (HK) | **895,128** | 897,808 |
| | **956,909** | 959,195 |
| Due to subsidiaries: | | |
| Wison Engineering | **30,107** | 30,107 |
| Wison Yangzhou | **2** | 2 |
| | **30,109** | 30,109 |

The amounts with subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of the balances with the related parties approximate to their fair values.

(d) Compensation of key management personnel of the Group:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Short term employee benefits | **20,140** | 18,586 |
| Equity-settled share option expenses | **12,096** | 12,752 |
| Total compensation paid to key management personnel | **32,236** | 31,338 |

Further details of directors' and chief executive's emoluments are included in note 9 to the financial statements.

# Notes to Financial Statements

Year ended 31 December 2014

## 35. INVESTMENTS IN SUBSIDIARIES

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Unlisted shares, at cost | 1 | 1 |

Particulars of the subsidiaries are as follows:

| Name | Place of business/ incorporation/ establishment | Nominal value of issued and paid-up capital | Percentage of equity interest attributable to the Group |
|---|---|---|---|
| **Directly held:** | | | |
| Wison Technology (a)* | British Virgin Islands | United States dollar ("US$")1 | 100% |
| **Indirectly held:** | | | |
| Wison Energy (HK) (b)* | Hong Kong | HK$401,713,600 | 100% |
| Wison Engineering (c)* | Mainland China/PRC | RMB510,000,000/ RMB470,000,000 | 75% |
| Wison Yangzhou (d)* | Mainland China/PRC | US$13,000,000 | 100% |
| Wison Petrochemicals (NA), LLC (e)* | United States | Nil | 100% |

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

(a) Wison Technology's principal business is investment holding.

(b) Wison Energy (HK) acts principally as an investment holding company and is also engaged in import and export sales of equipment and parts.

(c) Wison Engineering is a Sino-foreign co-operative enterprise established in the PRC. The principal activities of Wison Engineering are the provision of solutions for renovating existing ethylene cracking furnaces and design building new ethylene cracking furnaces, and the provision of other chemical engineering processing system solutions in the Mainland China and overseas. Wison Engineering is treated as a subsidiary because the Company has unilateral control over Wison Engineering. The joint venture partners' profit sharing ratios of Wison Engineering are not in proportion to their equity ratios but are as defined in the joint venture contract and other relevant documents. Pursuant to the joint venture contract, Wison Energy (HK) and the joint venture partner share 90% and 10% of the profits of Wison Engineering, respectively.

As at the date of approval of these financial statements, the registered capital of Wison Engineering was RMB510,000,000. The remaining unpaid capital of RMB40,000,000 should be paid up before 16 February 2016.

# Notes to Financial Statements

Year ended 31 December 2014

## 35. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(d) As at the date of approval of these financial statements, the registered capital of Wison Yangzhou has been fully paid up.

Wison Yangzhou is a wholly-foreign-owned enterprise established in the PRC. The registered capital of Wison Yangzhou is US$13,000,000. As at 31 December 2014, the registered capital of Wison Yangzhou was fully paid up. The principal activities of Wison Yangzhou are the manufacture and sale of heat resistant alloy pipes and materials for cracking furnaces.

(e) Wison US has been dormant since incorporation.

As at 31 December 2014, the amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB959,909,000 (2013: RMB959,195,000) and RMB30,109,000 (2013: RMB30,109,000), respectively, are unsecured, interest-free and are repayable on demand or within one year.

Details of the Group's subsidiary that has material non-controlling interests are set out below:

Wison Engineering:

| | **2014** | 2013 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests | **25%** | 25% |

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Profit/(loss) for the year allocated to non-controlling interests | **31,656** | (42,371) |
| Dividends paid to non-controlling interests of Wison Engineering | **–** | 10,000 |
| Accumulated balances of non-controlling interests at the reporting dates | **118,624** | 86,968 |

# Notes to Financial Statements

Year ended 31 December 2014

## 35. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Revenue | **7,014,494** | 3,665,305 |
| Total expenses | **(6,697,930)** | (4,089,011) |
| Profit/(loss) for the year | **316,564** | (423,706) |
| Current assets | **6,971,256** | 5,285,005 |
| Non-current assets | **1,759,862** | 1,445,341 |
| Current liabilities | **(7,997,171)** | (6,431,217) |
| Non-current liabilities | **(2,187)** | (2,384) |
| Net cash flows from operating activities | **808,097** | 322,117 |
| Net cash flows used in investing activities | **(22,660)** | (481,497) |
| Net cash flows used in financing activities | **(573,541)** | (205,513) |
| Net increase/(decrease) in cash and cash equivalents | **211,896** | (364,893) |

## 36. OPERATING LEASE ARRANGEMENTS

### As lessor

The Group leases its properties under operating lease arrangements, with leases negotiated for a term of three years.

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

| | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Within one year | **36,686** | 17,574 |
| In the second to fifth years, inclusive | **45,233** | 31,135 |
| After five years | **1,393** | – |
| | **83,312** | 48,709 |

# Notes to Financial Statements

Year ended 31 December 2014

## 36. OPERATING LEASE ARRANGEMENTS (CONTINUED)

### As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from three to six years for a term of 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:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Within one year | **15,132** | 12,386 |
| In the second to fifth years, inclusive | **21,730** | 1,172 |
| After five years | **516** | – |
| | **37,378** | 13,558 |

## 37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

| | **2014**<br>**RMB'000** | 2013<br>RMB'000 |
|---|---|---|
| Contracted, but not provided: | | |
| Equipment and materials | **1,944,923** | 3,312,924 |

# Notes to Financial Statements

Year ended 31 December 2014

## 38. CONTINGENT LIABILITIES

On 20 November 2008, Wison Technology entered into an agreement with Wison Energy (HK) to transfer its entire 75% equity interest in Wison Engineering to Wison Energy (HK). This equity transfer was approved by the Shanghai Commerce Bureau on 25 December 2008 and was registered with the Shanghai Administration for Industry and Commerce on 29 December 2008. On 14 May 2010, Wison Technology entered into a supplementary agreement with Wison Energy (HK), pursuant to which Wison Technology and Wison Energy (HK) agreed that the purchase price would be settled in full via the issuance of one share in Wison Energy (HK) to Wison Technology.

On 20 November 2008, Wison Technology entered into an agreement with Wison Energy (HK) to transfer its entire 100% equity interest in Wison Yangzhou to Wison Energy (HK). This equity transfer was approved by the Yangzhou Foreign Trade and Economic Cooperation Bureau on 3 December 2008 and was registered with the Jiangsu Administration for Industry and Commerce on 17 December 2008. On 14 May 2010, Wison Technology entered into a supplementary agreement with Wison Energy (HK), pursuant to which Wison Technology and Wison Energy (HK) agreed that the purchase price would be settled in full via the issuance of one share in Wison Energy (HK) to Wison Technology.

According to the PRC tax rules, Wison Technology is subject to PRC income tax on such equity transfers and will be exempted from the PRC income tax if these equity transfers fulfil the criteria as laid down in Article 5 of the Ministry of Finance/State Administration of Taxation Circular of Caishui [2009] No. 59 titled "Circular on Certain Issues Regarding Corporate Income Tax Treatments for Business Reorganisation of Enterprises" (關於企業重組業務企業所得税務處理若干問題的通知) (hereinafter referred to as "Circular No. 59") and the equity transfers qualified for the special tax treatment as stipulated in Circular No. 59. Pursuant to the State Administration of Taxation Circular of Guoshuihan [2009] No. 698 titled "Circular on Strengthening the Corporate Income Tax Administration on Non-Resident Enterprise's Gain on Equity Transfer" (關於加強非居民企業股權轉讓所得企業所得税管理的通知), the qualification of the special tax restructuring treatment of a non-resident enterprise needs to be assessed and recognised by the provincial tax authority.

In 2010, the Group submitted its application for the above equity transfer transactions to qualify for the special tax treatment under Circular No. 59 to the relevant tax bureau. To the date of approval of these financial statements, the relevant tax bureau has not reverted on this application. In December 2011, the Group computed the tax liability in relation to the transfer of equity interests in Wison Engineering based on the relevant PRC tax regulations and submitted a payment of RMB10.4 million to the relevant tax bureau. As at 31 December 2011, the Group assessed and computed the tax liability in relation to the transfer of equity interests in Wison Yangzhou based on the relevant PRC tax regulations and made a provision of RMB4.4 million accordingly which has been considered by the Company's Directors to be adequate. In the opinion of the directors of the Company, the PRC tax authorities may not accept the Group's application and the Group may fail to obtain the preferential tax treatment under Circular No.59. and this could result in additional tax to be paid.

# Notes to Financial Statements

Year ended 31 December 2014

## 39. PENDING LITIGATION

As disclosed in the announcement of the Company dated 12 November 2014, the Company was informed on 10 November 2014 that Wison Engineering had received legal documents in connection with the PRC Investigations from a court in Mainland China, which stated that two charges had been instigated against Wison Engineering and Mr. Hua, the director and shareholder of the Company who is also the legal representative of Wison Engineering, in relation to the following alleged criminal offences:

(1) a bribery charge has been filed against Wison Engineering and Mr. Hua that they were involved in the offering of unlawful advantages, which mainly included Mr. Hua's real property valued at approximately RMB7.62 million being made available to a senior manager of a customer of Wison Engineering in 2009. The documents acknowledged that the relevant property was, in fact, returned to Mr. Hua before the commencement of the Investigations.

(2) a charge in relation to alleged conspiracy to commit a tender-offer fraud has been laid against Wison Engineering and Mr. Hua. The allegation concerned irregularities during the tender process for a project in 2004. It was alleged that this particular project generated revenues of approximately RMB69 million for Wison Engineering.

Based on PRC legal advice received by the Company, Wison Engineering could face a fine if convicted of either or both charges, in the worst case. To the date of approval of these financial statements, no judgment has been made by the relevant court in Mainland China on these charges.

# Notes to Financial Statements

Year ended 31 December 2014

## 40. 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:

### Group

**31 December 2014**

**Financial assets**

| | Loans and receivables RMB'000 | Total RMB'000 |
|---|---|---|
| Trade and bills receivables | 1,015,257 | 1,015,257 |
| Financial assets included in prepayments, deposits and other receivables (note 23) | 114,966 | 114,966 |
| Due from a related company | 646 | 646 |
| Due from fellow subsidiaries | 14,775 | 14,775 |
| Due from the ultimate holding company | 87 | 87 |
| Pledged bank balances and time deposits | 300,180 | 300,180 |
| Cash and bank balances | 542,276 | 542,276 |
| | 1,988,187 | 1,988,187 |

**Financial liabilities**

| | Fair value through profit or loss RMB'000 | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|---|
| Trade and bills payables | – | 3,941,053 | 3,941,053 |
| Financial liabilities included in other payables, advance from customers and accruals (note 26) | – | 321,572 | 321,572 |
| Due to a related company | – | 78 | 78 |
| Due to an associate | – | 630 | 630 |
| Dividends payable | – | 272,674 | 272,674 |
| Derivative financial instruments | 725 | – | 725 |
| Interest-bearing bank borrowings | – | 539,849 | 539,849 |
| Finance lease payables | – | 171 | 171 |
| | 725 | 5,076,027 | 5,076,752 |

# Notes to Financial Statements

Year ended 31 December 2014

## 40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

### Group (Continued)

**31 December 2013**

**Financial assets**

| | Loans and receivables RMB'000 | Total RMB'000 |
|---|---|---|
| Trade and bills receivables | 261,567 | 261,567 |
| Financial assets included in prepayments, deposits and other receivables (note 23) | 151,603 | 151,603 |
| Due from a related company | 117 | 117 |
| Due from a fellow subsidiary | 121 | 121 |
| Due from the ultimate holding company | 87 | 87 |
| Pledged bank balances and time deposits | 791,030 | 791,030 |
| Cash and bank balances | 293,510 | 293,510 |
| | 1,498,035 | 1,498,035 |

**Financial liabilities**

| | Financial liabilities at amortised cost RMB'000 | Total RMB'000 |
|---|---|---|
| Trade and bills payables | 2,526,183 | 2,526,183 |
| Financial liabilities included in other payables, advance from customers and accruals (note 26) | 486,958 | 486,958 |
| Due to a related company | 78 | 78 |
| Due to an associate | 630 | 630 |
| Dividends payable | 272,674 | 272,674 |
| Interest-bearing bank borrowings | 1,553,822 | 1,553,822 |
| Finance lease payables | 398 | 398 |
| | 4,840,743 | 4,840,743 |

# Notes to Financial Statements

Year ended 31 December 2014

## 40. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

### Company

#### Financial assets

| Loans and receivables | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Other receivables | **460** | 391 |
| Due from subsidiaries | **956,909** | 959,195 |
| Dividends receivables | **696,609** | 696,609 |
| Cash and cash equivalents | **1,834** | 9,496 |
| | **1,655,812** | 1,665,691 |

#### Financial liabilities

| **Financial liabilities at amortised cost** | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|---|---|
| Other payables and accruals | **912** | 442 |
| Due to subsidiaries | **30,109** | 30,109 |
| Dividends payable | **233,406** | 233,406 |
| | **264,427** | 263,957 |

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

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **Financial liabilities** | | | | |
| Derivative financial instruments | **725** | – | **725** | – |

# Notes to Financial Statements

Year ended 31 December 2014

## 41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Management has assessed that the fair values of cash and cash balances, pledged bank balances and time deposits, an amount due from a related company, amounts due from fellow subsidiaries, an amount due from the ultimate holding company, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables, advance from customers and accruals, derivative financial instruments, interest-bearing bank borrowings, dividends payable, an amount due to a related company and an amount due to an associate approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

### Fair value hierarchy

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

**Liability measured at fair value:**

**As at 31 December 2014**

| | 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 |
| Derivative financial instruments | 725 | – | – | – |

The Group did not have any financial liabilities measured at fair value as at 31 December 2013 and the Group did not have any financial assets measured at fair value as at 31 December 2013 and 2014.

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 both financial assets and financial liabilities (2013: Nil).

# Notes to Financial Statements

Year ended 31 December 2014

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist mainly of cash and bank balances, pledged bank balances and time deposits, an amount with a related company, amounts due from fellow subsidiaries, an amount due from the ultimate holding company, an amount due to an associate, interest-bearing bank and other borrowings and finance lease payables. 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, other receivables, trade and bills payables and other payables, which arise directly from its operations.

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines. Generally, the Group introduces conservative strategies on its risk management. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

### (a) Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's bank and other borrowings and finance lease payables set out in notes 28 and 29. The Group does not use derivative financial instruments to hedge interest rate risk. The Group manages its interest cost using a mix of variable rate bank and other borrowings.

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 profit before tax RMB'000** |
|---|---|---|
| **Year ended 31 December 2014** | | |
| — RMB denominated loans | **20** | **(1,085)** |
| — RMB denominated loans | **(20)** | **1,085** |

| | Increase/ (decrease) in basis points | Increase/ (decrease) in loss before tax RMB'000 |
|---|---|---|
| **Year ended 31 December 2013** | | |
| — RMB denominated loans | 20 | 3,108 |
| — RMB denominated loans | (20) | (3,108) |

# Notes to Financial Statements

Year ended 31 December 2014

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (b) Foreign currency risk

As a result of the foreign currency bank balances and long-term prepayment, the Group's statement of financial position can be affected significantly by movements in the exchange rates of US$, Euro ("EUR"), HK$ and Saudi Riyal ("SAR") against RMB.

The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates of US$/EUR/HK$/SAR against RMB, with all other variables held constant, of the Group's profit/loss before tax (due to changes in the fair values of US$/EUR/HK$/SAR denominated loans and other monetary assets and liabilities).

| | Increase/ (decrease) in US$/EUR/ HK$/SAR rate | Increase/ (decrease) in profit before tax RMB'000 |
|---|---|---|
| Year ended 31 December 2014 | +5% | 67,305 |
| | -5% | (67,305) |

| | Increase/ (decrease) in US$/EUR/ HK$/SAR rate | Increase/ (decrease) in loss before tax RMB'000 |
|---|---|---|
| Year ended 31 December 2013 | +5% | (951) |
| | -5% | 951 |

### (c) Credit risk

The Group's bank balances are maintained mainly with state-owned banks in Mainland China.

The carrying amounts of the trade and bills receivables, other receivables, an amount due from the ultimate holding company, an amount due from a related company and amounts due from fellow subsidiaries included in the financial statements represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk.

The credit risk of the Group's financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amount of their instruments.

The Group performs ongoing credit evaluation of its customers' financial condition and requires no collateral from its customers.

In addition to the Group's exposure to credit risk in relation to the Group's financial assets, the Group is exposed to credit risk from the guarantees which the Group has provided.

# Notes to Financial Statements

Year ended 31 December 2014

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings, trade and bills payables, other payables and accruals, derivative financial instruments, dividends payable, finance lease payables, an amount due to a related company and an amount due to an associate. Cash flows are closely monitored on an ongoing basis.

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

**Group**

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | |
| Interest-bearing bank and other borrowings | **–** | **9,066** | **553,324** | **–** | **562,390** |
| Trade and bills payables | **–** | **3,941,503** | **–** | **–** | **3,941,503** |
| Derivative financial Instruments | **–** | **725** | **–** | **–** | **725** |
| Other payables and accruals | **–** | **321,572** | **–** | **–** | **321,572** |
| Finance lease payables | **–** | **33** | **97** | **49** | **179** |
| Due to a related company | **78** | **–** | **–** | **–** | **78** |
| Due to an associate | **630** | **–** | **–** | **–** | **630** |
| Dividends payable | **272,674** | **–** | **–** | **–** | **272,674** |

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2013** | | | | | |
| Interest-bearing bank and other borrowings | – | 711,548 | 883,152 | – | 1,594,700 |
| Trade and bills payables | – | 2,526,183 | – | – | 2,526,183 |
| Other payables and accruals | – | 486,958 | – | – | 486,958 |
| Finance lease payables | – | 62 | 184 | 179 | 425 |
| Due to a related company | 78 | – | – | – | 78 |
| Due to an associate | 630 | – | – | – | 630 |
| Dividends payable | 272,674 | – | – | – | 272,674 |

# Notes to Financial Statements

Year ended 31 December 2014

## 42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (d) Liquidity risk (Continued)

**Company**

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2014** | | | | | |
| Other payables and accruals | **–** | **912** | **–** | **–** | **912** |
| Due to subsidiaries | **30,109** | **–** | **–** | **–** | **30,109** |
| Dividends payable | **233,406** | **–** | **–** | **–** | **233,406** |

| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2013** | | | | | |
| Other payables and accruals | – | 442 | – | – | 442 |
| Due to subsidiaries | 30,109 | – | – | – | 30,109 |
| Dividends payable | 233,406 | – | – | – | 233,406 |

### (e) 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 equity holders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is total debt divided by total equity. Total debt includes interest-bearing bank borrowings and finance lease payables. The gearing ratios as at the end of the reporting periods were as follows:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Interest-bearing bank borrowings | **539,849** | 1,553,822 |
| Finance lease payables | **171** | 398 |
| Total debt | **540,020** | 1,554,220 |
| Total equity | **1,785,355** | 1,503,179 |
| Gearing ratio | **30%** | 103% |

# Notes to Financial Statements

Year ended 31 December 2014

## 43. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2013, the Group recorded additional property, plant and equipment of RMB18,825,000 and the corresponding amount of decrease in long-term prepayments which did not result in any cash flows.

During the year ended 31 December 2014, the Group recorded additional property, plant and equipment of RMB439,000 and the corresponding amount of decrease in long-term prepayments which did not result in any cash flows.

## 44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2015.