中聖集團
SUNPOWER GROUP LTD.

# SUNPOWER GROUP LTD.

## Annual Report 2014

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# Corporate **Profile**

## A Specialist in Energy Saving, Energy-Efficiency and Environmental Protection Business

Sunpower Group was established in April 1997, listed on SGX-SESDAQ in March 2005 and was subsequently upgraded to the Mainboard in August 2007. The Group specialises in the designing, Research and Development ("R&D") and manufacture of customised energy saving, energy-efficient and environmental protection products and solutions, by using its proprietary heat-transfer technologies. These are tailored for industries, including petrochemical, coal chemical, chemical, polysilicon, Liquefied Natural Gas ("LNG"), sulfur recovery, pharmaceutical, tobacco, metallurgical and transportation.

Starting from making pipe supports, Sunpower enhanced its product variety by offering heat exchangers and pressure vessels in 1998. The Group went on to develop heat pipes and heat pipe exchangers in 1999 for the recovery of waste heat in petrochemical, steel and chemical projects; as well as proprietary environment-friendly and energy saving and environmental protection systems for the recovery of petrochemical by-products contained in the flare gas generated during the production process in a petrochemical refinery. The thermal pile developed by the Group possesses a one-way heat transfer capability that can be used vastly to solve existing frost soil problems in railways, highways, caves, tunnels, and fixed and moveable power stacks. In addition, the Group has also achieved favourable results in its expansion in the Zero Liquid Discharge ("ZLD") and sulphur recovery market.

Apart from its leading position in the domestic market with a reputable brand, the Group has established a well-diversified global customer base by exporting products to overseas countries and regions such as the United States, Europe, Australia, Southeast Asia, South Asia, Central Asia, North America, South America and the Middle East. Among Sunpower's key customers comprises international companies such as BP, BASF, Mobil, SABIC, Dow, Technip, Celanese, Shell, Lanxess, CTCI, Samsung, Hyundai, TOYO, Mitsubishi and their joint ventures in China; and domestic conglomerates such as CNPC, SINOPEC, CNOOC, ChemChina, CREC, Shenhua Group, HQCEC, GCL-Poly, etc. In particular, Sunpower has been designated as a supply network member of SINOPEC Materials and Equipment Department, and the first-tier supplier of CNPC.

After years of providing outstanding services, Sunpower has established a reputable brand name in the market. In 2010, the Group won the "Technology Innovation Achievement Award" from the China Association for Quality (CAQ) for its development and application of energy-efficient heat exchangers. In 2012, the Group's brand was awarded with the "China Renowned Trademark" by the Trademark Office of The State Administration for Industry & Commerce of the PRC. In 2013, the Group was honoured to be named as "2013 China's National Chemical Equipment Top Hundred Enterprises" and "China's Top Ten Chemical Heat Transfer Equipment Enterprises" by China Petroleum and Chemical Industry Federation ("CPCIF").

To satisfy clients' complex requirements, Sunpower has consistently engaged in R&D to introduce proprietary technology and innovative solutions, and has achieved many excellent results since. By the end of 2014, the Group had registered 119 technological patents and 4 products are used to set the benchmark for national standards.

In 2012, Sunpower was accredited as the "National Torch Plan High/New Technology Enterprise" by the Ministry of Science and Technology of the PRC. The "Research Institute for Industrial Energy Saving" was also established subsequently. In 2013, the Group's flare-gas recovery system qualified for "2013 China's Key National Product."

Moving forward, the Group will focus on high-end equipment manufacturing, design engineering, and improve its overall Engineering, Procurement and Construction ("EPC") contracting capability to penetrate more domestic and overseas markets which will bring high and sustainable growth to the Group. The Group will increase its investment in research and technology, especially in areas related to emerging prospective industries, as well as improve its product mix, shifting an emphasis to cater to more industrial wastewater and air pollution related industries.

# Sunpower's **Innovation**

## Heat Exchangers and Pressure Vessels

Heat exchangers and pressure vessels are widely used in industries including chemical, petrochemical, metallurgy, pharmaceutical, etc. They are used for completing the reaction, heat transfer, separation and storage during the process of industrial production. They can also withstand the pressure load from airtight containers. Sunpower focuses its research and efforts on developing corrosion-resistant and highly efficient heat exchangers, and higher value heat exchangers and pressure vessels made from non-ferrous metals.

While heat exchangers are commonly made of bare steel pipes, Sunpower uses specially designed pipes such as corrugated pipes and threaded pipes to increase the efficiency of the heat exchangers with greater surface area. Sunpower's heat exchangers are highly efficient, achieving energy saving by 30% to 50% and resulting in significant cost reductions. The products are also stable, durable and offer customers more flexibility. Due to the above accomplishments, Sunpower was invited to draft the national standards for effective heat transfer of special shaped heat exchangers that was eventually approved and promulgated in 2008.

Sunpower owns a number of patents that are involved in the development, design and manufacturing of heat exchangers and pressure vessels made of high grade non-ferrous metals such as carbon steel, stainless steel, titanium, copper, nickel, zirconium, tantalum, hastelloy and composite materials.

The Group has accumulated many successful experiences in supplying to the projects of Purified Terephthalic Acid ("PTA"), acetic acid, polysilicon, polyformaldehyde, etc. It has also penetrated into overseas markets such as the United States, Europe, Australia, Southeast Asia, South Asia, Central Asia, North America, South America and the Middle East.

## Heat Pipes and Heat Pipe Exchangers

Heat pipes are thermal transfer devices that are used in areas where heat is required to be transmitted immediately and effectively with less heat loss, while heat pipe exchangers consist of many heat pipes bundled together. Sunpower has developed heat pipes and heat pipe exchangers to achieve excellent heat transfer capacities and rates, with heat-transfer rate 3,000 times faster than that of conventional products.

Sunpower's heat pipes and heat pipe exchangers are mainly used to recover residual heat in the petrochemical, steel and chemical projects. They are also used to protect the permafrost foundation in the construction of roads, railways and oil pipelines. Examples in which our heat pipes have been used in significant projects include: the Qinghai-Tibet Railway, the power transmission project in the Golmud-Lhasa section of the Qinghai-Tibet Railway for State Grid Corporation of China, Gonghe-Yushu (Jiegu) Highway, the permafrost protection project at Yushu Jiang Luling Tunnel and the Sino-Russia oil pipeline. In 2011, Sunpower led the development of national standards for heat pipes and participated in drafting national standards for core and coreless heat pipes that were eventually approved and promulgated.

Leveraging on its heat-transfer technology, the Group developed its proprietary Residual Heat Recovering Systems which have been applied to a number of major domestic and international projects.

## Pipe Supports

Pipe supports and thermal insulation materials/engineering provide heat isolation from the environmental temperature change and minimise losses during transmission. In order to meet various client's requirements, the Group developed several types of pipe supports with varying characteristics, e.g. the BL series of ultra-low temperature cold insulating Pipe Supports, the BR series of high-efficiency heat insulating Pipe Supports, the JZ series of shock absorbing Pipe Supports, the PIR and PUR series of cold preservation Pipe Supports, the Spring Supports & Hangers and the Super Low-friction Support.

The Group's pipe supports products have been widely used in the connection of various pipes such as liquefied natural gas ("LNG") pipes, liquefied petroleum gas ("LPG") pipes, ethylene storage, steam pipes, pressure pipes, etc. These products have also penetrated into international markets.

Thermal insulation engineering is to provide engineering, fabrication, procurement, installation and renovation for energy conservation projects of cold and cryogenic applications which include ethylene units LNG, coal chemical and air separation engineering sector etc.

## Energy Saving and Environmental Protection Systems

Sunpower's energy saving and environmental protection systems are mainly used for treatment of industrial waste water, waste gas and residue in the petrochemical, chemical and coal chemical industries. The Group's products in this area include the flare-gas recovery system, sulfur recovery system and Zero Liquid Discharge ("ZLD") system.

The Flare-Gas Recovering System is used to recover useful petrochemical by-products from the flare gas/waste gas which are high temperature, flammable, poisonous and volatile, commonly generated in a petrochemical refinery during the production process. Sunpower provides a cost-saving and environment-friendly EPC solution as its products reduce the discharge of atmosphere pollutants, therefore reducing the penalties imposed on its customers by the government. The Group's engineering projects have successfully penetrated into markets such as Central Asia and Southeast Asia, and are primarily used in industries such as petrochemical, chemical, oil refining, coal chemical and natural gas.

The Sulfur Recovery System is carried out through Sunpower's engineer team, utilising advanced technology and Engineering, Procurement and Construction ("EPC") experiences to provide one-stop solution to the oil refining, natural gas and coal chemical industries.

The ZLD system, developed by the Group's key ZLD technology and high-efficiency heat transfer technology, provides various waste water treatment methods tailored to respective waste water group to provide the best suited solution for customers. Options include low-temperature heat recovery to generate low-pressure steam, energy conservation and operating costs reduction. This system helps customers meet the zero-emission requirements with less capital outlay and operating expenses.

# Chairman's **Statement**

## Dear Shareholders,

On behalf of the Board of Directors (the "Board"), it is my pleasure to present you our annual report for the financial year ended 31 December 2014 ("FY2014").

### FY2014 Year in Review

FY2014 continued to be a challenging year for the Group. The global economy has entered a new norm of slower growth and did not pick up as expected, expanding at a rate of 2.6 percent which reflects only a 0.1 percentage point from 2.5 percent in FY2013. The prevailing issues of slowing emerging economies coupled with inflationary pressures have taken a toll on global trade. China's domestic economy shows signs of weakening. China's Gross Domestic Product ("GDP") recorded a lower growth for FY2014 of 7.4 percent, representing the weakest expansion in the last 24 years. Future development remains uncertain as the PRC government continues to lay out plans for economic restructuring, hoping to optimise and upgrade the current system to focus more on consumer orientation for sustainable growth. Furthermore, downward pressure on the economy has led to slower investment growth, as financing difficulties have created a challenging environment for business to propel.

Despite the challenging macro-environment which resulted in a slight slip in its top-line in FY2014, the Group managed to achieve a positive growth in net profit attributable to its shareholders. Revenue decreased by 5.2% from RMB1.3 billion in FY2013 to RMB1.2 billion in FY2014, mainly due to a decrease in revenue from the Heat Exchangers and Pressure Vessels segment, which was affected by the sluggish global economy. Net profit attributable to shareholders increased 4.2% year-on-year ("yoy") from RMB53.8 million in FY2013 to RMB56.1 million in FY2014, mainly due to the absence of impairment allowance on property, plant and equipment, and reduction in impairment allowance on trade and non-trade receivables.

### New Technologies, New Local Markets

During the year, while strengthening its core business, the Group also proactively explored new local markets by placing more emphasis on research and development ("R&D"). In 2013, the Group developed its proprietary Low Temperature Distillation - Zero Liquid Discharge ("LTD-ZLD") technology to penetrate the Chinese petrochemical ZLD industry. In November 2014, the Group successfully secured another ZLD project contract from Sinopec Ningbo Engineering Co., Ltd. The awarded contract was to supply its LTD-ZLD technology, as well as service and key equipment for the evaporation and crystallisation unit of salty wastewater ZLD project for the Sinopec Group.

Subsequent to its first LTD-ZLD system project secured by the Group from Shenhua Group in September 2013, Sunpower has further invested time and resources to focus on the R&D and improvement of the LTE-ZLD technology. Through its marketing efforts, good company reputation, and significant contracts secured with various key industry players, the Group has successfully strengthened its foothold in the salty wastewater treatment market.

In 2014, the Group achieved the localisation of LNG vaporizer. This sets a new milestone for the Chinese domestic LNG key equipment manufacturing sector, which broke up the longstanding technology monopoly of foreign competitors.

As a result of the Group's continuous efforts in improving R&D, the total number of patents accumulated reached a record high of 119. The Group will continue to make concerted effort to enhance its R&D capabilities to maintain its position as an innovative leader in the industry.

### Exploring Overseas Markets

Besides exploring new markets in China, the Group is also keen on expanding its business to overseas markets. In July 2014, the Group established a new subsidiary in Texas, United States of America, to provide marketing and technical support for MNC clients in North America. With its strong track record and good relationships with prominent long-term customers such as BASF, BF and Shell, the Group is confident of its capabilities in delivering technology and service excellence to more overseas customers. This will also help establish a strong brand name for the Group internationally.

The Group looks forward to increasing brand recognition internationally by actively looking out for new plausible partnership and projects in the international market.

### Improving Operational Efficiency

In order to improve operational efficiency and market competitiveness, the Group has undergone organisational restructuring by setting up a new subsidiary, Sunpower Technology (Jiangsu) Co., Ltd. in China to provide a more unified management system for all the subsidiaries of the Group. In addition, it also aims to maximise enterprise value by providing strategic pointers for the future development of the Group and its subsidiaries.

## Outlook for FY2015

While the global economy continues on its path of recovery, existence of uncertainties and instability will persist. Given the present macroeconomic dynamics, growth in the global economy is expected to be slow but steady in FY2015 as compared to FY2014. That said, economic growth in the emerging markets is likely to be more promising.

Despite the support from strong domestic fundamentals and underlying reform factors, China's economic growth is facing downward pressure from its restructuring plans causing ambiguity in the macro-environment. Meanwhile, several short-term structural and long-term factors will create resistance for the growing economy. In addition, many companies in China have taken steps to prolong project advancements due to tightening credit. All these factors create more pressure on the Group to secure new orders.

China places immense attention to the country's environmental protection resulting in the introduction of new policies and law relating to environmental protection, such as the "New Environment Protection Law" ("新环保法"). This will encourage many enterprises to increase their investment in facilities and equipment for environmental protection. With increased activity in the industry, the market demand for energy saving and environmental protection equipment is expected to increase substantially.

In addition, the government has also introduced multiple supportive policies to assist in the recovery of businesses in the natural gas, coal chemicals and clean energy sector. Increased emphasis is placed on further improving independent R&D capabilities, as well as the localisation of key equipment manufacturing. These policies are crucial and helpful for the growth of the Group.

Structural adjustment will continue in China's equipment manufacturing sector. High-end equipment manufacturing will become the new pillar of the industry, especially businesses which focus on advanced technologies. The Group will continue to increase its investment in research and technology, especially in areas relating to emerging prospective industries. Meanwhile, the Group will also improve its product mix, and shift its emphasis to cater to more industrial wastewater and air pollution related industries.

Barring any unforeseen circumstances, we expect the Group to remain profitable in FY2015.

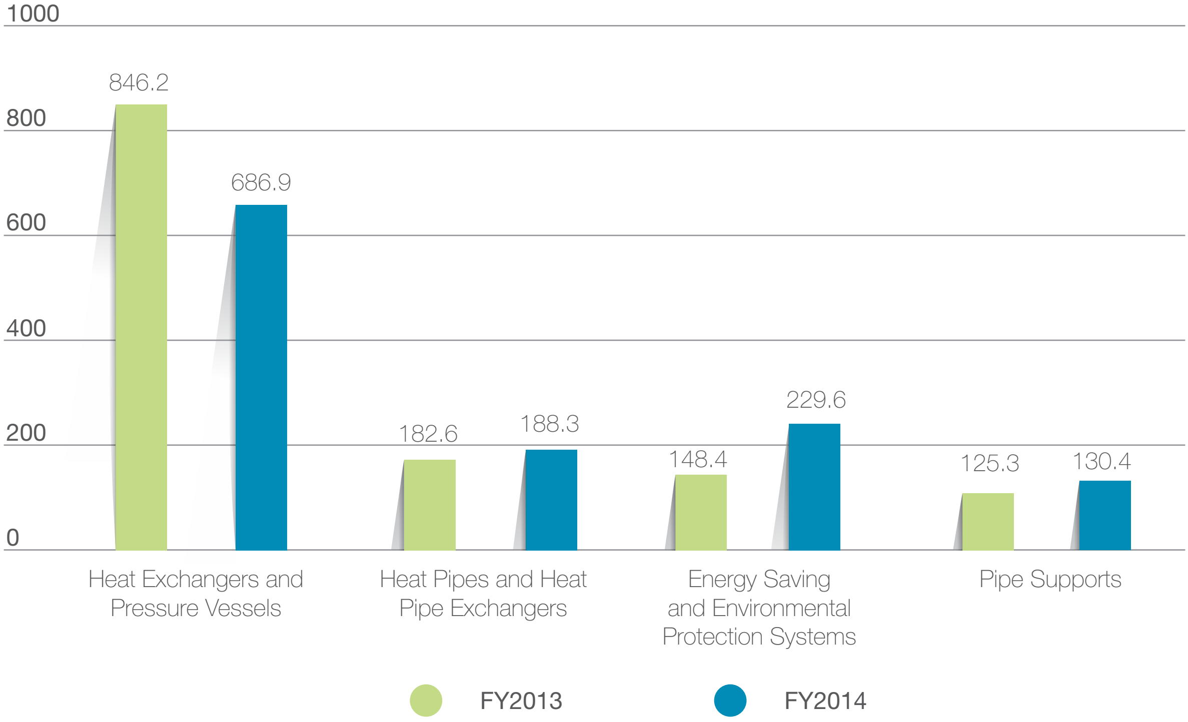
## Appreciation

On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude towards our esteemed customers, suppliers, shareholders and business partners for your continued support and confidence in us. I would also like to thank the management and employees for their efforts and contributions. Finally, I would like to thank my fellow Directors for their relentless support and guidance.

**Guo Hong Xin**
Executive Chairman

# Financial & Operations **Review**

## Revenue Breakdown (RMB'million)




### Financial Performance

Revenue decreased by 5.2% from RMB1.3 billion for FY2013 to RMB1.2 billion for FY2014. This was mainly due to an 18.8% decline in revenue from the Heat Exchangers and Pressure Vessels segment, which amounted to approximately RMB159.4 million. The revenue contribution from the Heat Exchangers and Pressure Vessels segment was impacted by the slowing global economy as well as the decreasing crude oil prices. Most of the order books for Heat Pipes and Heat Pipe Exchangers came from client operating in the petrochemical sector. This loss was offset by a 54.7% increase in revenue contribution from the Energy Saving and Environmental Protection Systems segment, which amounted to approximately RMB81.2 million. Heat Exchangers and Pressure Vessels segment remains as the Group's largest business segment.

In tandem with the decrease in revenue, the Group's gross profit decreased by 2.7% from RMB278.1 million for FY2013 to RMB270.4 million for FY2014, while its gross profit margin for FY2014 of 21.9% was fairly constant compared to 21.3% for FY2013.

Nevertheless, the Group's profit before tax increased by 5.7% year on year from RMB68.2 million for FY2013 to RMB72.0 million for FY2014 due mainly to the following factors:

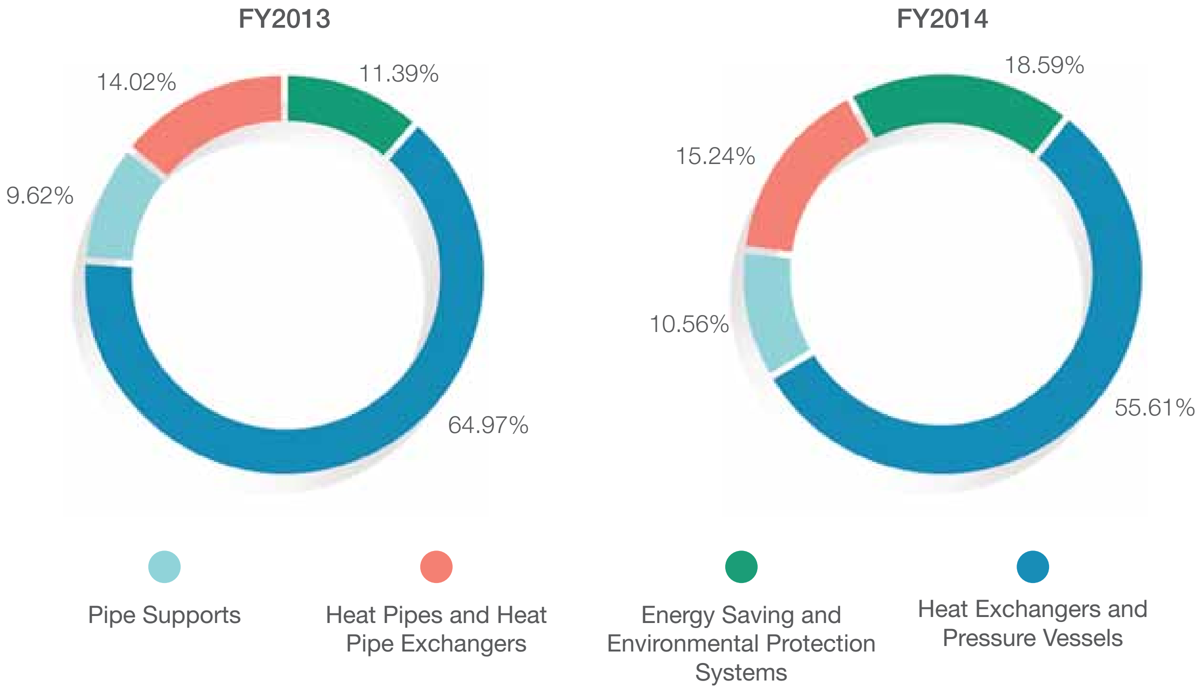
a. absence of impairment allowance on property, plant and equipment of RMB5.8 million in FY2013 due to the suspension of the Group's unprofitable foam glass production business; and

b. reduction in impairment allowance on trade and non-trade receivables of RMB7.7 million in FY2014.

On the other hand, administrative expenses increased marginally by 1.8% due to increased salaries for additional personnel recruited to fulfil the Group's business growth. The Group's depreciation expenses increased by 27.4% due to additional property, plant and equipment purchased during FY2014. In addition, other income decreased by 19.7% due to fewer government grants and lesser interest income received in FY2014.

As a result of the above, the Group reported a 4.2% growth in its net profit attributable to shareholders for FY2014.

## Revenue by Activities (%)




### Cash Flow and Liquidity

The Group's cash and cash equivalents at year end decreased by RMB8.3 million from RMB118.8 million for as at 31 December 2013 to RMB110.5 million as at 31 December 2014. Net cash generated from operating activities amounted to approximately RMB27.2 million for FY2014 mainly due to movements in working capital. Meanwhile, net cash used in investment activities amounted to RMB51.6 million, mainly due to the purchase of property, plant and equipment. Net cash generated from financing activities amounted to RMB16.1 million largely due to proceeds from bank loans and share issuance aggregating to RMB662.1 million, which were offset by the repayment of bank loans of RMB646.0 million. The proceeds from share issuance were utilised to purchase raw materials.

### Financial Position

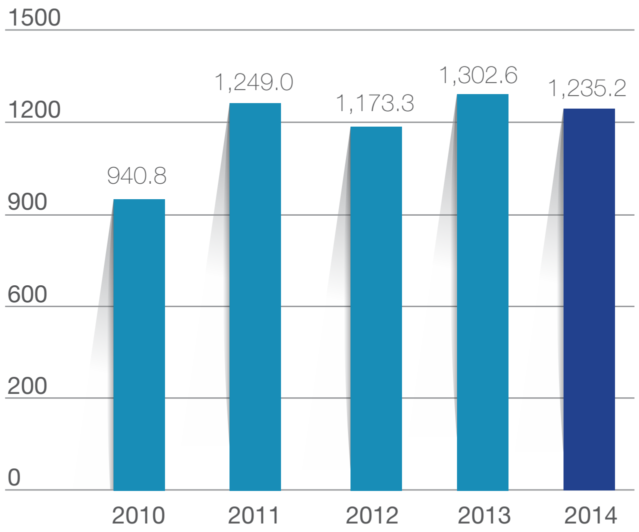
The shareholders' equity as at 31 December 2014 stood at RMB673.5 million, improved by 17.1% from RMB575.0 million as at 31 December 2013. Net asset value per share decreased by RMB4.16 cents to RMB170.60 cents as at 31 December 2014 due to a larger shareholder base.

The Group's short-term borrowings decreased by RMB28.1 million as at 31 December 2014 mainly due to the repayment of loans. As a result, the net gearing ratio[1] decreased from 41.2% as at 31 December 2013 to 32.8% as at 31 December 2014.

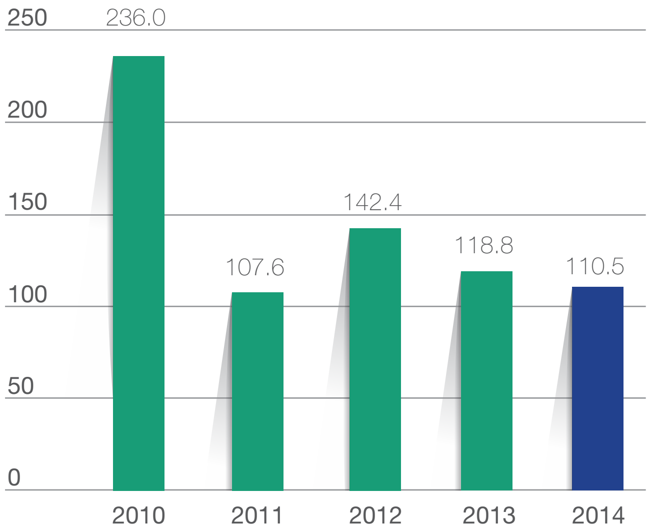
1. ((short/long-term bank borrowings – cash and cash equivalents – pledged bank deposits) / total equity)

# Financial **Highlights**

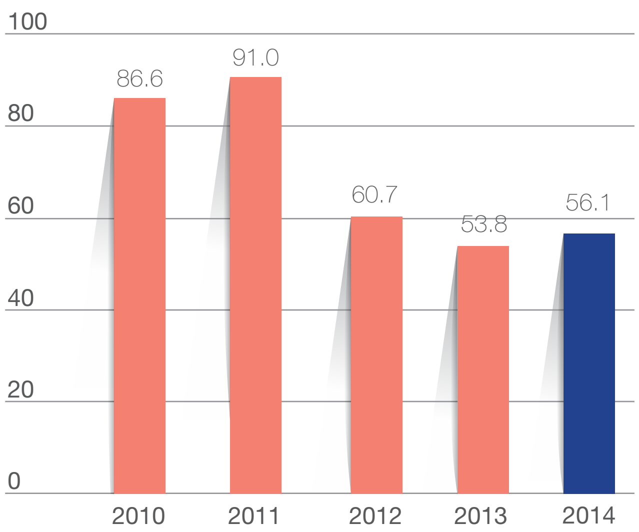
### Revenue (RMB'million)



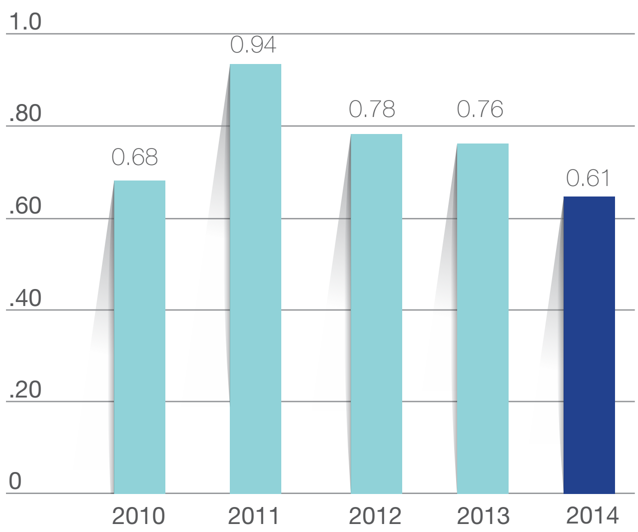

### Cash and Cash Equivalents (RMB'million)




### Net Profit Attributable to Shareholders (RMB'million)




### Debt Equity Ratio



# Board of **Directors**

Mr. Guo Hong Xin
Executive Chairman

Mr. Ma Ming
Executive Director

Mr. Jiang Ning
Lead Independent Director

Mr. Lau Ping Sum Pearce
Independent Director

Mr. Chin Sek Peng
Independent Director

# Board of **Directors**

### Mr. Guo Hong Xin
**Executive Chairman**

Mr. Guo Hong Xin was appointed as an Executive Director and Chairman of the Board in May 2004 and was last re-elected on 25 April 2014. Mr. Guo is responsible for the overall management and strategic plan for the development of the Group. Mr. Guo obtained his bachelor's degree in 1983; in 2010 he obtained his Ph.D in Geotechnical Engineering from Cold and Arid Regions Environmental and Engineering Research Institute of Chinese Academy of Sciences; in 2014 he obtained his EMBA (Executive Master of Business Administration) degree in Tsinghua University. He began his career as a Lab Director in Heat Pipe Research Centre of Nanjing Chemical Institute. In 1985, Mr. Guo left to join Nanjing Heat Pipe Technology Development Centre as a Business Development Manager. From 1993 to 1997, he worked in Shengnuo Group as a Director and Deputy General Manager and was responsible for sales and marketing. In 1994, he was awarded first prize in technological progress by Ministry of Education of the PRC. Between 1995 and 1997, he worked as a Vice Dean of Heat Pipe Technology Development Institute of Nanjing University of Technology and a Deputy Director of National Science and Technology Ministry Heat Pipe Technology Promotion Centre. In 1998, he joined Jiangsu Sunpower Petrochemical Engineering Co., Ltd. He has also been a part-time professor of Changzhou University (Originally named Jiangsu Polytechnic University) since 2003. In 2006, Mr. Guo was recognized as Great Contributor to Nanjing Science and Technology by Nanjing government. In 2008, he was appointed as the Team Leader of the National Standardization Technical Committee for heat pipes. In 2009, Mr. Guo was awarded second prize in technological progress by National Federation of Industry & Commerce and Jiangsu Province. In 2010, he was awarded second prize in technological progress by China Petroleum and Chemical Industry Federation, and was engaged as a part-time instructor of MBA Education Center of Nanjing University. In 2011, Mr. Guo was awarded as Jiangsu Top 10 Outstanding Entrepreneurs and Jiangsu Province Innovative and Entrepreneurial talents. Mr. Guo is also engaged as the first batch of industry professor in Jiangsu province. He was also elected as the expert of level 2 of "333 High Level Talents Training Programme" by the People's Government of Jiangsu Province. In 2012, Mr. Guo was awarded the special government allowance by the Central People's Government of the PRC for his outstanding contributions.

### Mr. Ma Ming
**Executive Director**

Mr. Ma Ming was appointed as an Executive Director in May 2004 and was last re-elected on 26 April 2013. Mr. Ma is responsible for the management of the financial affairs and external investment of the Group. Mr. Ma graduated from Nanjing Chemical Engineering Senior College (majoring in chemical engineering instruments) in July 1983. He graduated with a Master of Engineering Management degree from University of Shanghai for Science and Technology in March 2007. From 1983 to 1992, he worked as an engineer in Nanjing Chemical Industrial Company. In 1992, he left to join Hainan Lida Industrial Co., Ltd. as a Manager responsible for sales and marketing. In 1997, Mr. Ma joined Sunpower Petrochemical as a Deputy General Manager until he joined the Group in 2004. During the year 2008 to 2010, Mr. Ma was entrusted by the Chairman of the Board to perform, on his behalf, all the responsibilities as General Manager of Jiangsu Sunpower Technology Co., Ltd. and Jiangsu Sunpower Machinery Manufacture Co., Ltd. In 2010, Mr. Ma Ming was formally appointed as General Manager of the two companies. He is also General Manager of Sunpower Technology (Jiangsu) Co., Ltd.

### Mr. Jiang Ning
**Lead Independent Director**

Mr. Jiang Ning was appointed as an Independent Non-Executive Director in February 2005 and was last re-elected on 26 April 2012. In February 2014, he was appointed as Lead Independent Director of the Company. Mr. Jiang graduated with a Bachelor of Science degree in 1982 from Anhui Normal University. From September 1982 to September 1989, he was a lecturer in both Anhui Bengbu Education Institution and Anhui Bengbu Foodstuff College. From September 1989 to September 1992, he studied in Nanjing University and received his Master of Economics in 1992. Since September 1992, Mr. Jiang held various positions with Nanjing University such as lecturer, associate professor and professor; Vice Dean of Yangtze Delta Economic Social Development Research Centre of Nanjing University and Dean of Investment and Finance Research Centre of Nanjing University. His teaching curriculum includes: money and banking, investment and financial research, corporate mergers and acquisitions. Mr. Jiang also serves as an independent director in the following companies: Datcent Technology (Nanjing) Co., Ltd., Jiangsu Broadcasting Cable Information Network Co., Ltd., Chinasun Specialty Products Co., Ltd. and Suzhou Dongshan Precision Manufacturing Co., Ltd.

### Mr. Lau Ping Sum Pearce
**Independent Director**

Mr. Lau Ping Sum Pearce was appointed as an Independent Non-Executive Director in February 2005 and was last re-elected on 26 April 2013. Mr. Lau graduated from the Australian National University with a Degree in Economics and also holds a Diploma in Business Administration from the University of Singapore. Mr. Lau was a Member of Parliament for Yio Chu Kang Constituency from 1980 to 1991 and a Member of Parliament for Ang Mo Kio Group Representation Constituency from 1991 to 1996. He served as a Director of Ang Mo Kio Community Hospital from 1993 to 1999 and Chairman of the Medifund Committee of the hospital from 2001 to 2005. He was Head of Computer Services in a statutory board and two local banks from 1973 to 1996. Between 1997 and 2000, he was the General Manager of NTUC Link Pte Ltd. He was the Executive Director of People's Action Party/PAP Community Foundation from 2001 to 2012. He is currently an Independent Director of two other listed companies in Singapore and a member of the Singapore Institute of Directors.

### Mr. Chin Sek Peng
**Independent Director**

Mr. Chin Sek Peng was appointed as an Independent Non-Executive Director in February 2005 and was last re-elected on 25 April 2014. Mr. Chin is the co-founding Director of PKF-CAP Advisory Partners Pte Ltd, a company engaged in the provision of consultancy and business advisory services. He is also the Deputy Managing Partner responsible for running, managing and developing the assurance business of PKF-CAP LLP, a firm of chartered accountants in Singapore. Mr. Chin started his accountancy and audit training in Casson Beckman, a medium sized firm of chartered accountants in London. After qualifying as a chartered accountant, he joined legacy Price Waterhouse and worked in UK, Europe and Singapore from 1983 to 1994. In 1994, he joined the Institute of Singapore Chartered Accountants ("ISCA") as the first Practice Review Director, heading, running and regulating the compliance of work standards for all audit practices in Singapore. In 1999, Mr. Chin joined legacy Arthur Andersen as a partner in its Assurance and Business Advisory Division and in 2002 he left the firm to set up his own audit and consultancy practices together with another partner. He holds a Bachelor of Arts (Honours) degree in Accounting and Finance from Lancaster University in the United Kingdom and is a Fellow Member of the Institute of Chartered Accountants in England and Wales, as well as a Fellow (practising) Chartered Accountant of Singapore. Mr. Chin also serves as Independent Director mainly in the capacity as Audit Committee Chairman to three other public companies listed on the Singapore Exchange and is a member of the Institute of Internal Auditors of Singapore and a council member of ISCA. He is also the Deputy Chairman of the Public Accounting Practice Committee of ISCA and a member of the Audit Committee of the Council of Private Education which is the regulatory body for private school operators in Singapore.

# Key **Management**

### Ms. Ge Cui Ping
**Chief Financial Officer**

Ms Ge Cui Ping joined the Group in January 2004 as Financial Controller, responsible for the Group's financial reporting and management. In February 2015, she was re-designated as Chief Financial Officer of the Group. She graduated in 1998 from Nanjing Economic Institute (majoring in Accounting). She became a PRC Certified Public Accountant (CPA) in 1999 and PRC Certified Public Valuer in 2002. From October 2000 to January 2004, she was an Audit Manager in Jiangsu Tianheng CPA firm and was involved in auditing the accounts of various PRC listed companies. In September 2005, she was admitted as a member to the Institute of Financial Accountants. Between July 2007 and November 2007, she participated in the CFO programme conducted by China Europe International Business School. From March 2011, she served as a Director for Jiangsu Sunpower Technology Co., Ltd. and Jiangsu Sunpower Machinery Manufacturing Co., Ltd. From October 2011, she served as a Director for Nanjing Shengnuo Heat Pipe Co., Ltd. She is also director of Sunpower Technology (Jiangsu) Co., Ltd.

# Corporate **Information**

## BOARD OF DIRECTORS
Guo Hong Xin (Executive Chairman)
Ma Ming (Executive Director)
Jiang Ning (Lead Independent Director)
Lau Ping Sum Pearce (Independent Director)
Chin Sek Peng (Independent Director)

## AUDIT COMMITTEE
Chin Sek Peng (Chairman)
Jiang Ning
Lau Ping Sum Pearce

## NOMINATING COMMITTEE
Jiang Ning (Chairman)
Lau Ping Sum Pearce
Guo Hong Xin

## REMUNERATION COMMITTEE
Lau Ping Sum Pearce (Chairman)
Jiang Ning
Chin Sek Peng

## COMPANY SECRETARY
Ho Wui Mee Marian

## DEPUTY SECRETARY
Chew Bee Leng

## BERMUDA RESIDENT REPRESENTATIVE AND ASSISTANT SECRETARY
Appleby Services (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## PRINCIPAL PLACE OF BUSINESS
No. 2111 Chengxin Road
Nanjing Jiangning Science Park
Nanjing, 211112
P. R. China
www.sunpower.com.cn

## REGISTERED OFFICE
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## SINGAPORE SHARE TRANSFER AGENT
Boardroom Corporate & Advisory Services
Pte. Ltd.
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

## BERMUDA SHARE REGISTRAR AND TRANSFER AGENT
Appleby Management (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## AUDITORS
Deloitte & Touche LLP
Public Accountants and Chartered Accountants
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809
Audit Partner: Wong-Yeo Siew Eng
Appointed on 9 November 2012

## PRINCIPAL BANKERS
Bank of Communication
Jiangning Branch
No. 1 Zhongxin Road North
Jiangning Development Zone
Nanjing, Jiangsu, P. R. China

Nanjing City Commercial Bank
Guanghua Branch
No. 11 Daguang Road
Nanjing, Jiangsu, P. R. China

# CORPORATE GOVERNANCE REPORT

The Board of Directors (the "Board") and management of Sunpower Group Ltd. (the "Company" and together with its subsidiaries the "Group") are committed to upholding a high standard of corporate governance in order to safeguard the interests of all stakeholders and to promote investors' confidence. The Board has put in place various self-regulating and monitoring mechanisms, in accordance with the Code of Corporate Governance 2012 (the "Code") issued by the Monetary Authority of Singapore.

This report describes the Company's corporate governance processes and activities with specific references to the Code.

## 1. BOARD MATTERS

### Board's Conduct of Affairs

*Principle 1: Effective Board to lead and control the Company*

(i) Apart from its statutory duties and responsibilities, the Board oversees the management and affairs of the Group. It focuses on strategies and policies, with particular attention paid to growth and financial performance. The Board is responsible for approving annual budgets, financial plans, financial statements, business strategies and material transactions such as major acquisitions, divestments, funding and investment proposals. The Group has put in place financial authorisation and approval limits for operating expenditure and procurement of goods and services. It delegates the formulation of business policies and day-to-day management to the Executive Directors.

The principal functions of the Board are:

(a) Provide entrepreneurial leadership, review and approve the Group's key business strategies and financial objectives, including major investments/divestments and financing of projects;

(b) Oversee the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance with regulatory authorities and the Group's internal control policies and procedures to safeguard the shareholders' interests and the Company's assets;

(c) Review management performance;

(d) Identify key stakeholder groups and recognise that their perceptions could affect the Company's reputation;

(e) Set the Company's values and standards (including ethical standards), and ensure that obligations to shareholders and other stakeholders are understood and met; and

(f) Consider sustainability issues e.g. environmental and social factors, as part of its strategic formulation.

(ii) The Board discharges its responsibilities either directly or indirectly through various Board committees. These committees ("Board Committees") include the Nominating Committee ("NC"), Remuneration Committee ("RC") and Audit Committee ("AC"). Each of the Board Committees functions within its terms of reference. The NC is tasked with the responsibility of carrying out annual reviews of the effectiveness of the Board and each individual Director. If authority to make decisions on certain board matters is delegated by the Board to any Board Committee, such delegation would be disclosed.

(iii) The Board has also established a Risk Management Committee ("RMC") to assist the Board on the governance of risk. The membership and key functions of the RMC are set out in the later section of this report.

(iv) The Board meets once a year to review and deliberate on the key activities and business strategies of the Group. The Board meets at least four times a year to approve the release of the first and third quarters, half-year and full-year results and performance. Additional meetings of the Board will be held when circumstances require. The Company's Bye-Laws allows a Board meeting to be conducted by way of teleconference and video-conference.

(v) During the financial year, the attendance of each Director at every Board and Board Committee meeting is as follows:

| | Board | | AC | | NC | | RC | |
|---|---|---|---|---|---|---|---|---|
| | Number | Attended | Number | Attended | Number | Attended | Number | Attended |
| Guo Hong Xin | 5 | 5 | N/A | N/A | 1 | 1 | N/A | N/A |
| Ma Ming | 5 | 5 | N/A | N/A | N/A | N/A | N/A | N/A |
| Jiang Ning | 5 | 5 | 4 | 4 | 1 | 1 | 1 | 1 |
| Lau Ping Sum Pearce | 5 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |
| Chin Sek Peng | 5 | 5 | 4 | 4 | N/A | N/A | 1 | 1 |

(vi) Each new and existing Director receives appropriate training to develop individual skills in order to discharge his duties. The Group also provides information about its history, mission and values to the Directors. Where necessary, the Directors will be updated regarding new legislation, regulations and changing commercial risks which are relevant to the Group.

### Board Composition and Guidance

*Principle 2: Strong and independent element on the Board*

(i) The Board comprises the following members:

| Name of Director | Position held on the Board | Date of first appointment to the Board | Date of last re-election as Director | Nature of appointment |
|---|---|---|---|---|
| Guo Hong Xin | Chairman | 12 May 2004 | 25 April 2014 | Executive/Non-Independent |
| Ma Ming | Director | 12 May 2004 | 26 April 2013 | Executive/Non-Independent |
| Jiang Ning | Director | 02 February 2005 | 26 April 2012 | Non-executive/Independent |
| Lau Ping Sum Pearce | Director | 02 February 2005 | 26 April 2013 | Non-executive/Independent |
| Chin Sek Peng | Director | 02 February 2005 | 25 April 2014 | Non-executive/Independent |

(ii) The Independent Directors make up more than half of the Board and the independence of each Director is reviewed by the NC. The NC adopts the guidelines of the Code in its review of who can be considered as an Independent Director. The NC is of the view that the non-executive Directors are independent.

(iii) Mr Jiang Ning, Mr Lau Ping Sum Pearce and Mr Chin Sek Peng were first appointed as Directors of the Company on 2 February 2005 and have held their office as Directors for more than nine (9) years. In compliance with the Code, the Board conducted a rigorous review of their independence. The Board sought written feedback from all Directors for the review of the independence of each of the three (3) abovementioned Directors. The criteria applied by the Board for the review included whether each of the three (3) abovementioned Director (a) demonstrated the essential characteristics of independence expected by the Board; (b) expressed his views on matters discussed and debated issues objectively; (c) sought clarification and explanation when necessary; (d) scrutinised and challenged management on salient issues raised at meetings; and (e) acted objectively at all times, in the interests of the Company and its shareholders.

The Board has determined that Mr Jiang Ning, Mr Lau Ping Sum Pearce and Mr Chin Sek Peng be considered independent notwithstanding that they have served on the Board beyond nine (9) years. Further, Mr Jiang Ning, Mr Lau Ping Sum Pearce and Mr Chin Sek Peng have in-depth understanding of the Group's business and are well qualified and experienced and have the ability to make impartial and well balanced decisions and to act in the best interests of the Company and shareholders.

(iv) The Board has examined its size and is of the view that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Company. The NC is of the view that no individual or small group of individuals dominate the Board's decision-making process.

(v) The NC is of the view that the current Board consists of the appropriate mix of expertise and experience to meet the Company's targets. Qualifications and experiences of the Board members are set out on pages 10 and 11 of the Annual Report. Particulars of interests of Directors who held office at the end of the financial year in shares of the Company and its related corporations (other than wholly-owned subsidiary companies) are set out in the Report of the Directors.

## Chairman and Chief Executive Officer

*Principle 3: Clear division of responsibilities at the top of the Company*

(i) The roles of Executive Chairman and Chief Executive Officer are undertaken by Mr Guo Hong Xin who is primarily responsible for overseeing the overall management and strategic development of the Group as well as the effective working of the Board. The responsibilities of the Executive Chairman and Chief Executive Officer include:

- Leading the Board to ensure its effectiveness on all aspects of its role;
- Scheduling of meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Group's operations;
- Preparing meeting agenda in consultation with other Directors;
- Promoting culture of openness and debate at the Board;
- Ensure that the Directors receive complete, adequate and timely information;
- Ensure effective communication with shareholders;
- Encourage constructive relations within the Board and between the Board and management;

- Assisting in ensuring the Group's compliance with the Code and promoting high standards of corporate governance;
- Ensuring that Board meetings are held when necessary; and
- Reviewing key proposals by management before they are presented to the Board.

The Company Secretary may be called to assist the Executive Chairman and Chief Executive Officer in any of the above.

In view that the Chairman is not an independent Director, the Company has appointed Mr Jiang Ning as Lead Independent Director. Shareholders of the Company with concerns that could have a material impact on the Group, for which contact through the normal channels of the Executive Chairman or Chief Financial Officer have failed to resolve or is inappropriate, shall be able to contact the Lead Independent Director.

## Board Membership

*Principle 4: Formal and transparent process for the appointment of new directors to the Board*

(i) The NC comprises Mr Jiang Ning, Mr Lau Ping Sum Pearce and Mr Guo Hong Xin, a majority of whom are Independent Directors. The Chairman of the NC, Mr Jiang Ning is an independent Director. The NC meets at least once a year and at other times as required.

(ii) The NC performs the following functions in accordance with its terms of reference:

(a) Reviewing and making recommendations to the Board on all candidates nominated for appointment to the Board, having regard to their background, potential contribution to the Group based on their experience and expertise, and ability to exercise independent business judgement;

(b) Reviewing all candidates nominated for appointment as senior management staff;

(c) Reviewing and recommending to the Board, the Board structure, size and composition, taking into account the balance between executive and non-executive, independent and non-independent Directors and having regard at all times to the principles of corporate governance and the Code;

(d) Identifying and making recommendations to the Board as to the Directors who are to retire by rotation and to be put forward for re-election at each annual general meeting (the "AGM") of the Company, having regard to the Directors' contribution and performance, including Independent Directors;

(e) Assessing the independence of the Directors (taking into account the circumstances set out in the Code and other salient factors); and

(f) Proposing a set of objective performance criteria to the Board for approval and implementation, and to evaluate the effectiveness of the Board, its Board Committees and Directors as a whole and the contribution of each Director to the effectiveness of the Board, its Board Committees and Directors.

(iii) Pursuant to the Company's Bye-Laws, all Directors are required to submit themselves for re-nomination and re-election at least once every three years.

(iv) As a Director's ability to commit time to the Group's affairs is essential for his contribution and performance, the Board has determined that the maximum number of listed company board representations which any Director of the Company may hold is six and all Directors have complied.

(v) Since the Company was first listed in 2005, the Group has not admitted any new Directors to its Board. In the event that the Board decides to appoint new Directors, the NC will conduct an assessment to review the candidate's qualifications, attributes and past experience followed by interviewing short-listed candidates. The proposed candidates' independence, expertise, background and skill sets will be considered before the NC makes its recommendations to the Board.

### Board Performance

*Principle 5: Formal assessment of the effectiveness of the Board and contributions of each Director*

(i) The Board has established a formal assessment process which will be carried out annually for evaluation of the performance of the Board and the individual Directors on the basis of the following performance criteria:

- Attendance at Board meetings;
- Level of participation at Board meetings and overall commitment;
- Ability to strategise and propose sound business direction; and
- Contribution of specialised knowledge.

(ii) The appraisal process requires the Directors to complete appraisal forms which will be collated by an independent coordinator who will compile the results of the appraisal for review by the NC. The NC will thereafter report to the Board. Such an appraisal process was carried out in respect of FY2014.

### Access to information

*Principle 6: Board members to have complete, adequate and timely information*

(i) The Board is provided with management reports, and papers containing relevant background or explanatory information required to support the decision making process on an on-going basis and in a timely manner.

(ii) Board papers are circulated to the Directors before the scheduled meetings so as to allow for a better understanding of the issues and to achieve a more effective discussion time for questions that the Directors may have.

(iii) The Directors have separate and independent access to senior management and the Company Secretaries. The Company Secretaries administer, attend and prepare minutes of meetings of the Board and of the Board Committees which are circulated. The Company Secretaries ensure that the Company complies with the corporate secretarial aspects of the Bye-Laws and the applicable sections of the rules of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST") and the applicable sections of the Companies Act (Cap. 50, Singapore Statutes).

(iv) In carrying out their duties, the Directors, whether individually or as a group, have direct access to the independent professional advisors to obtain advice, at the Company's expense.

## 2. REMUNERATION MATTERS

### Procedures for developing Remuneration Policies

*Principle 7: Formal and transparent procedure for fixing remuneration packages of Directors and key management executives*

(i) The RC comprises Mr Lau Ping Sum Pearce, Mr Jiang Ning and Mr Chin Sek Peng all of whom are Independent Directors. The Chairman of the RC is Mr Lau Ping Sum Pearce. The RC meets at least once a year and at other times as required.

(ii) The key terms of reference of the RC are as follows:

(a) The RC shall consist of not less than three Directors, a majority of whom shall be Independent Directors. At least one member should be knowledgeable in executive compensation, and if there is a need, expert advice may be obtained internally or externally;

(b) The Chairman of the RC shall be appointed by the Board and shall be an Independent Director; and

(c) The Board shall appoint a new member within three months of the date of cessation so that the number of members does not fall below three if a member, for any reason, ceases to be a member.

(iii) The duties and responsibilities of the RC include ensuring that there is a formal, transparent and objective procedure for fixing the remuneration packages of the Directors and key executives. Such level of remuneration should serve to attract, retain and motivate the Directors and key executives needed to manage the Company successfully. A proportion of such remuneration, should be linked to performance of the Company as well as the individual incumbent.

(iv) The RC performs the following functions in accordance with its terms of reference:

(a) Reviewing and recommending to the Board a framework of remuneration for the Board and the key executives of the Group covering all aspects of remuneration such as Director's fees, salaries, allowances, bonuses, options and benefits-in-kind;

(b) Proposing to the Board, appropriate and meaningful measures for assessing the Directors' and key executives' performance;

(c) Reviewing and recommending the specific remuneration package to the Board for each Executive Director and the key executives;

(d) Considering the eligibility of directors, executives and employees for benefits under long-term incentive schemes; and

(e) Considering and recommending to the Board the disclosure of details of the Company's remuneration policy.

(v) Each member of the RC shall abstain from voting on any resolution concerning his own remuneration.

(vi) The RC shall review the Company's obligations arising in the event of termination of the Executive Directors and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses.

(vii) The RC may from time to time, and where necessary or required, seek professional advice internally and/ or externally pertaining to remuneration of all Directors.

*Principle 8: Remuneration of Directors should be adequate, not excessive and linked to performance*

(i) All Independent Directors have no service agreements with the Company. They are each paid a Director's fee which is determined by the Board based on the effort and time spent as well as responsibilities as member of the AC, NC and RC. The fees are subject to approval by the shareholders at each AGM. Except as disclosed, the Independent Directors do not receive any remuneration from the Company.

(ii) According to the respective service agreements of the Executive Directors:

- Each service agreement is valid for an initial period of three years which commenced from 1 January 2008 and shall be automatically renewed annually thereafter;
- The remuneration of the Executive Directors include a fixed salary and a variable performance related bonus which is designed to align their interests with those of the shareholders; and
- The service agreement may be terminated by either the Company or the Executive Director giving not less than six months' notice in writing.

(iii) The Company does not use contractual provisions to allow the Company to reclaim incentive component of remuneration from Executive Directors and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company.

### Directors' Fees

The proposed fees for non-executive Directors to compensate their time and effort comprise a basic retainer fee and additional fees for appointment to Board Committees and involvement in ad hoc projects.

No Director decides his own fees. Directors' fees are recommended by the RC and are submitted for endorsement by the Board. Directors' fees are subject to the approval of shareholders at the AGM.

Currently, Directors' fees for each financial year are paid in arrears, in the following financial year, after obtaining shareholders' approval at the AGM.

*Principle 9: Clear disclosure of remuneration policy, level and mix of remuneration, and procedure for setting remuneration*

(i) The Company has a staff remuneration policy which comprises a fixed component and a variable component. The fixed and variable components are in the form of a base salary and variable bonus that is linked to the performance of the Company and individual.

(ii) Our remuneration framework is made up of three key components:

- Base/fixed salary
- Variable or performance related income/bonuses
- Other benefits

Base/fixed salary

Fixed pay comprises a base salary.

Variable or performance related income/bonuses

Variable bonus payouts are based on actual achievement against corporate, business unit and individual performance objectives.

Other benefits

Social insurance fund comprising housing fund, old-age retirement pension, unemployment compensation, medical fund and car allowance.

(iii) A breakdown, showing the level and mix of each individual Director's and Key Executive's remuneration in FY2014 is reflected in the section on "Disclosure on Directors' and Key Executive's Remuneration".

(iv) The Company does not have any employees who are immediate family members of a Director or the Chief Executive Officer and whose remuneration exceeded S$50,000 during the financial year ended 31 December 2014.

(v) The Company has an employee share option scheme ("Share Option Scheme") which had expired on 2 February 2015. No options have been granted under the Share Option Scheme. Details of the Share Option Scheme can be found in the Report of the Directors. The Directors are proposing to adopt a new employee share option scheme and/or a performance share plan.

### Disclosure on Directors' and Key Executive's Remuneration

The Board has not disclosed the remuneration of the Company's individual Directors and key executives of the Group in full in view of the competitive nature of the industry which the Group operates in and to maintain confidentiality on remuneration matters of the Group.

The variable or performance related income/bonus is to recognise the efforts and contributions and performance of the Executive Directors and key executives, whether as a whole and/or on an individual basis, in particular where such efforts and contributions and/or performance may not be directly or immediately reflected in or attributable to the financial performance of the Company and the Group.

The level and mix of each Director's and Key Executive's remuneration in FY2014 is as follows:

| Remuneration Band & Name of Director | Base/fixed salary | Variable or performance related income/ bonuses | Director's fees | Other benefits* | Total |
|---|---|---|---|---|---|
| | | | | | % |
| *Executive Directors* | | | | | |
| *Above $500,000 to $750,000* | | | | | |
| Mr Guo Hong Xin | 30% | 68% | – | 2% | 100 |
| Mr Ma Ming | 28% | 70% | – | 2% | 100 |
| *Independent Directors* | | | | | |
| *Below $250,000* | | | | | |
| Mr Jiang Ning | – | – | 100% | – | 100 |
| Mr Lau Ping Sum Pearce | – | – | 100% | – | 100 |
| Mr Chin Sek Peng | – | – | 100% | – | 100 |
| *Key Executive* | | | | | |
| *Below $250,000* | | | | | |
| Ms Ge Cui Ping | 47% | 44% | – | 9% | 100 |

* *Other benefits include social insurance fund and car allowance.*

## 3. ACCOUNTABILITY AND AUDIT

### Accountability

*Principle 10: Board's accountability to shareholders*

The Board provides the shareholders with a detailed and balanced explanation and analysis of the Company's and Group's performance, position and prospects on a quarterly basis.

In addition, the Board has obtained a written confirmation from the CEO (or equivalent) and the CFO (or equivalent) that:

a) The financial records of the Group have been properly maintained and the financial statements are prepared in accordance with Singapore Financial Reporting Standards to give a true and fair view of the Group's financial position as at reporting date and its performance for the year then ended; and

b) The risk management and internal control systems that are in place in the Group are adequate and effective to address the key risks in the Group.

## Risk Management and Internal Controls

*Principle 11: Sound system of internal controls*

(i) The Group has put in place a system of risk management and internal controls to respond to financial, operational and compliance risks that are significant to the achievement of the Group's business objectives.

(ii) The Board reviews the effectiveness of the Group's risk management and internal controls, including operational controls and is responsible for the overall internal control framework annually. The Board acknowledges that no cost effective internal control system will preclude all errors and irregularities. A system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

(iii) Based on the representation from the CEO and CFO as described above, review of the findings from the auditors on the Group's internal control and the management's responses to the auditors' recommendation for improvements to the Group's internal controls and discussions with the auditors and management, the Board with the concurrence of the AC is satisfied that there are adequate internal controls to address the key financial, operational and compliance risks of the Group.

(iv) To strengthen its risk management processes and framework, the RMC was formed in 2011. The members of RMC are Executive Directors, Mr Guo Hong Xin and Mr Ma Ming, Independent Director, Mr Jiang Ning and the CFO (formerly Financial Controller), Ms Ge Cui Ping. The RMC shall meet no less than two times a year and at other times as required.

(v) The RMC shall perform the following key functions in accordance with its terms of reference:

  (a) Evaluate and provide advice on the business risks (strategic, financial, and compliance with laws and regulations);

  (b) Study and identify internal controls and risk management strategies to manage the identified risks;

  (c) Design and implement new controls and strategies to address identified business risks;

  (d) Study and analysed material investments, financing and other operational management activities, and advise the Board; and

  (e) Any other functions as authorised by the Board.

## Audit Committee

*Principle 12: Establishment of Audit Committee with written terms of reference*

(i) The AC of the Company comprises Mr Chin Sek Peng, Mr Lau Ping Sum Pearce and Mr Jiang Ning, all of whom are Independent Directors. The Chairman of the AC is Mr Chin Sek Peng. The Board considers that the members of the AC have sufficient financial management expertise and experience to discharge the function of the AC.

(ii) The key terms of reference of the AC include the following:

(a) The AC shall consist of not less than three Directors appointed by the Board, all of whom shall be non-executive Directors with the majority being independent Directors. At least two members of the AC shall have accounting or related financial management expertise or experience and its membership, details of its activities, number of meetings and attendance at such meetings, shall be disclosed annually; and

(b) The Board shall appoint a new member within three months of cessation so that the number of members does not fall below three.

(iii) The AC performs, *inter alia*, the following key functions:

(a) Reviewing with internal and external auditors their audit plans, their evaluation of the system of internal controls and the reports on their findings including recommendations for improvement;

(b) Reviewing and reporting to the Board at least annually the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls which are carried out internally and/or with the assistance of professional service firms;

(c) Reviewing the Group's financial results and the announcements and annual financial statements of the Company and its subsidiaries before submission to the Board for approval;

(d) Reviewing the scope and results of the external audit and the independence and objectivity of the external auditors;

(e) Reviewing significant findings of internal investigations, if any;

(f) Recommending to the Board the appointment or re-appointment of the external auditors and approving the remuneration and terms of engagement of the external auditors;

(g) Reviewing interested person transactions; and

(h) Any other functions as required by law or the Code.

(iv) The AC is authorised to investigate any matters in its terms of reference, and has full access to and co-operation of management. The AC has full discretion to invite any Director or executive officer to attend its meetings, as well as access to reasonable resources to enable it to discharge its function properly.

(v) The AC will meet with the external auditors and internal auditors without the presence of management annually. The AC also met with the external auditors to discuss matters relating to internal accounting controls as well as the results of their audit of the Group.

(vi) The AC annually reviews, *inter alia*, the independence and objectivity of the external auditors, taking into consideration the nature and extent of any non-audit services provided to the Company by the external auditors. The AC seeks to maintain objectivity by reviewing all non-audit services provided by the external auditors to the Group, seeks to maintain objectivity, and is satisfied that the nature and extent of such services would not affect the independence of the external auditors.

(vii) The Group has complied with Rule 712, Rule 715 and Rule 716 of the listing Manual of the SGX-ST in relation to its auditors.

(viii) The AC read technical newsletters as appropriate and was updated by the auditors during the AC meeting to keep abreast of changes in accounting standards and issues.

### Whistle-blowing Policy

The Board undertakes to investigate complaints of suspected fraud in an objective manner and has put in place a whistle-blowing policy and procedures which provide employees with well-defined and accessible channels within the Group, including a direct channel to the AC, for reporting suspected fraud, corruption, dishonest practices or other similar matters.

The policy aims to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will be treated fairly and, to the extent possible, be protected from reprisal.

### Internal Audit

*Principle 13: Setting up independent internal audit function*

(i) The Group has an in-house internal audit function comprising four staff, which includes an Internal Audit Manager, Ms Zhang Hui Hui, a certified internal auditor. Ms Zhang graduated from Nanjing University of Finance and Economics in 2007 and becomes a certified internal auditor in 2009.

Based on the internal controls established, the internal audit department is responsible for ensuring that the Company has a comprehensive and sound management system, conduct proper internal checks and propose appropriate recommendations from time to time on a regular basis.

The in-house internal audit team will conduct regular checks and has an annual audit plan focusing on the high risk issues within the operating subsidiaries of the Group. This includes areas that the AC are particularly concerned and/or not audited for more than two years and new businesses that are in operation for more than one year. The in-house internal audit team will also carry out prompt internal audit work if there are any high risk concerns by the AC.

Besides this, the Company has also engaged an external professional service firm, Nexia TS Risk Advisory Pte Ltd ("Nexia TS"), to perform review and test of controls of critical processes, including the review of interested person transactions, on an annual basis. The management will seek to ensure that there is no duplication of work performed by Nexia TS and the in-house internal audit team.

Both the in-house internal audit team and Nexia TS have unfettered access to all the Company's documents, records, properties and personnel, and have unrestricted access to the AC.

The AC reviewed the scope of internal audit work and the key audit procedures, including any findings during the year and the management's responses thereto; and ensured the adequacy of the internal audit function annually.

## 4. SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights, Communication with Shareholders and Conduct of Shareholder Meetings

*Principle 14: Regular, effective and fair communication with shareholders*

(i) The Board is mindful of the obligation to keep shareholders informed of all major developments that affect the Group in accordance with the rules of the Listing Manual of the SGX-ST.

(ii) Information is communicated to shareholders on a timely basis through:

- Annual reports that are prepared and issued to all shareholders within the mandatory period;
- Public announcements via SGXNet system, the press and analysts;
- Notices of annual general meetings; and
- The Company's website and investor relations channel on financial portal at http://www.sunpower.com.cn at which shareholders can access information on the Group.

*Principle 15: Shareholders' participation at AGM*

(i) The Board will support and encourage active shareholders' participation at AGMs as it believes that general meetings serve as an opportune forum for shareholders to meet the Board and key management, and to interact with them.

(ii) General meetings have been and are still the principal forum for dialogue with the shareholders. They offer opportunities for the Board to interact with shareholders, understand their views, gather feedback as well as address concerns. Enquiries by shareholders are dealt with as promptly as practicably possible.

(iii) The Company is committed to upholding high standards of corporate transparency and disclosure, whilst safeguarding its commercial interests.

(iv) The Group does not practise selective disclosure. The Company makes every effort to ensure that shareholders have easy access to clear, meaningful and timely information on the Company in order to make informed investment decisions. All material information and presentation slides (if any) would be released via SGXNet on the timely basis.

(v) The Group does not have a fixed dividend policy at present. However, the Board would consider the recommending of dividend as they may deem fixed after considering the Group's profit, cash position and projected capital requirements for its operation and business growth.

*Principle 16: Conduct of Shareholders Meetings*

(i) At AGMs, shareholders are given the opportunity to air their views and ask Directors or management questions regarding the Company. Shareholders are encouraged to attend the AGMs to ensure a high level of accountability and to stay informed of the Group's strategies and goals. The AGM is the principal forum for dialogue with shareholders. The Board supports the Code's principle to encourage shareholder participation. The Bye-Laws allow a shareholder of the Company to appoint one or two proxies to attend the AGM and vote in place of the shareholder. Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the identity of shareholders via the internet is not compromised.

(ii) The members of the AC, NC and RC will be present at the AGM to address queries relating to the work of these committees. The Company's auditors are also invited to attend the AGM.

(iii) All resolutions tabled at the general meetings are voted by poll for which the procedures are clearly explained by the scrutineers thereat. The voting results of each resolutions tabled are announced at the meeting and in an announcement released after the meeting to SGX-ST via SGXNet.

(iv) The resolutions at general meetings are on each substantially separate issue. All the resolutions at the general meetings are in single item resolutions.

(v) The Company Secretary prepare minutes of general meetings that include substantial and relevant comments or queries from shareholders relating to the agenda of the meetings, and responses from the Board and Management, and is make available to shareholders upon their request.

(vi) The Company has not implemented electronic voting at general meetings in view of the cost involved, but will consider implementing it in future if electronic voting is more cost efficient to do so.

## 5. DEALINGS IN SECURITIES

(Listing Manual Rule 1207 (19))

Directors and officers of the Group are advised not to deal in the Company's shares on short-term considerations or when they are in possession of unpublished price-sensitive information. They are not allowed to deal in the Company's shares during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of the financial year and one month before the announcement of the Company's full year financial statements, and ending on the date of the announcement of the relevant results.

The Company has complied with the SGX-ST's rules on best practices on dealings in the Company's securities in FY2014.

## 6. INTERESTED PERSON TRANSACTIONS

(Listing Manual Rule 907)

The Group has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

There are no transactions with interested persons for the financial year ended 31 December 2014 that are above $100,000 to be disclosed.

## 7. MATERIAL CONTRACTS

(Listing Manual Rule 1207(8))

Save for the service agreements between the Executive Directors and the Company, there are no material contracts of the Company or its subsidiaries involving the interest of any Director or controlling shareholders subsisting at the end of the financial year ended 31 December 2014.

# FINANCIAL CONTENTS

# REPORT OF THE DIRECTORS

The directors present their report together with the audited consolidated financial statements of the Group and the audited statement of financial position and statement of changes in equity of the Company for the financial year ended December 31, 2014.

## 1 DIRECTORS

The directors of the Company in office at the date of this report are:

Guo Hong Xin
Ma Ming
Jiang Ning
Lau Ping Sum Pearce
Chin Sek Peng

## 2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

## 3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the share capital and debentures of the Company and related corporations except as follows:

| Name of directors and companies in which interests are held | At January 1, 2014 | At December 31, 2014 | At January 21, 2015 |
|---|---|---|---|
| *Interest in Sunpower Group Ltd.* | | | |
| *Ordinary shares of US$0.01 each* | | | |
| Guo Hong Xin (deemed interest) | 76,287,983 | 76,287,983 | 76,287,983 |
| Ma Ming (deemed interest) | 57,113,166 | 57,113,166 | 57,113,166 |

## 4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in the financial statements.

## 5 SHARE OPTIONS

(a) The Sunpower Employee Share Option Scheme (the "Share Option Scheme") is administered by the Remuneration Committee which comprises:

Lau Ping Sum Pearce (Chairman)
Jiang Ning
Chin Sek Peng

Under the Share Option Scheme, an option entitles the option holder to subscribe for a specific number of new ordinary shares of US$0.01 each in the Company. The option has an exercise price per share determined with reference to the market price of the shares at the time of grant of the option. The Remuneration Committee may at its discretion, fix that exercise price at a discount up to 20% off market price but not lower than the par value of the shares. The consideration for the grant of an option is RMB1.00. Options granted with the exercise price set at the market price shall only be exercised after the first anniversary but before the fifth anniversary of the date of grant of that option. Options granted with the exercise price set at a discount to the market price shall only be exercised after the second anniversary but before the fifth anniversary of the date of grant of that option. The shares under option may be exercised in whole or in part on the payment of the relevant exercise price (provided that an option may be exercised in part only in respect of 1,000 shares or any multiple thereof). Options granted will lapse when the option holder ceases to be a full-time employee of the Company or any company of the Group subject to certain exceptions at the discretion of the Remuneration Committee.

The Share Option Scheme had expired on February 2, 2015.

There were no unissued shares of the Company under options granted pursuant to the Share Option Scheme.

(b) During the financial year, no options to take up unissued shares of the Company were granted and there were no shares issued by virtue of the exercise of an option to take up unissued shares of the Company or any related corporation.

(c) At the end of the financial year, there were no unissued shares of the Company or any related corporation under option.

## 6 AUDIT COMMITTEE

The Board has adopted the principles of corporate governance as described in the Code of Corporate Governance 2012 (the "Code") with regards to the Audit Committee.

Members of the Audit Committee are:

Chin Sek Peng (Chairman)
Jiang Ning
Lau Ping Sum Pearce

The Audit Committee meets periodically to perform, *inter alia*, the following functions:

a. reviewing the audit plans of the external and internal auditors and their audit reports;

b. reviewing with the auditors their evaluation of the internal accounting controls arising from their audit or review together with management's responses;

c. reviewing the Group's quarterly, half-yearly and year-end financial results and the announcements as well as the year-end financial statements of the Company and its subsidiaries before submission to the Board for approval;

d. reviewing significant findings of internal investigations, if any; or

e. recommending to the Board of Directors the appointment or re-appointment of the external auditors and approving the remuneration and terms of engagement of the external auditors;

f. reviewing interested person transactions; and

g. other functions as required by the law or the Code.

The Audit Committee has full access to and co-operation of the management and has been given the resources required for it to discharge its functions properly. It also has full discretion to invite any director and executive officer to attend its meetings. The auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors of the Group at the forthcoming annual general meeting of the Company.

## 7 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE BOARD

Guo Hong Xin

Ma Ming

March 25, 2015

# STATEMENT OF DIRECTORS

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company as set out on pages 33 to 90 are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2014 and of the results of the business, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

ON BEHALF OF THE BOARD

Guo Hong Xin

Ma Ming

March 25, 2015

# INDEPENDENT AUDITORS' REPORT

**To the Members of Sunpower Group Ltd.**

## Report on the Financial Statements

We have audited the accompanying financial statements of Sunpower Group Ltd. (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at December 31, 2014, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 33 to 90.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

## Auditors' Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at December 31, 2014 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

Wong-Yeo Siew Eng
Partner
March 25, 2015

# STATEMENTS OF FINANCIAL POSITION

As at December 31, 2014

| | Note | GROUP 2014 RMB'000 | GROUP 2013 RMB'000 | COMPANY 2014 RMB'000 | COMPANY 2013 RMB'000 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 6 | 110,486 | 118,798 | 5,262 | 23 |
| Pledged bank deposits | 7 | 72,616 | 74,377 | – | – |
| Trade receivables | 8 | 1,035,494 | 1,162,734 | – | – |
| Other receivables, deposits and prepayments | 9 | 64,871 | 81,241 | 8,989 | 133 |
| Inventories | 10 | 265,325 | 252,257 | – | – |
| Land use rights | 12 | 1,411 | 1,412 | – | – |
| Total current assets | | 1,550,203 | 1,690,819 | 14,251 | 156 |
| **Non-current assets** | | | | | |
| Land use rights | 12 | 47,599 | 49,010 | – | – |
| Property, plant and equipment | 13 | 282,672 | 276,761 | – | – |
| Other receivables, deposits and prepayments | 9 | – | – | 40,000 | – |
| Investment in subsidiaries | 14 | – | – | 112,084 | 160,984 |
| Intangible assets | 15 | 8,700 | 11,274 | – | – |
| Deferred tax assets | 16 | 11,065 | 10,208 | – | – |
| Total non-current assets | | 350,036 | 347,253 | 152,084 | 160,984 |
| **Total assets** | | 1,900,239 | 2,038,072 | 166,335 | 161,140 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Trade payables | 17 | 652,233 | 812,157 | – | – |
| Other payables | 18 | 126,038 | 172,283 | 28,727 | 61,935 |
| Borrowings | 19 | 410,994 | 439,120 | – | – |
| Income tax payable | | 12,608 | 15,246 | – | – |
| Total current liabilities | | 1,201,873 | 1,438,806 | 28,727 | 61,935 |
| **Non-current liabilities** | | | | | |
| Deferred tax liabilities | 16 | 2,824 | 2,487 | – | – |
| **Capital and reserves** | | | | | |
| Share capital | 20 | 31,281 | 27,230 | 31,281 | 27,230 |
| Share premium | 21 | 75,379 | 35,275 | 75,379 | 35,275 |
| General reserves | 22 | 51,642 | 46,567 | – | – |
| Foreign currency translation reserve | | (12) | – | – | – |
| Accumulated profits | | 515,254 | 465,888 | 30,948 | 36,700 |
| Equity attributable to equity holders of the Company | | 673,544 | 574,960 | 137,608 | 99,205 |
| Non-controlling interest | | 21,998 | 21,819 | – | – |
| Total equity | | 695,542 | 596,779 | 137,608 | 99,205 |
| **Total liabilities and equity** | | 1,900,239 | 2,038,072 | 166,335 | 161,140 |

See accompanying notes to financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**For year ended December 31, 2014**

| | Note | GROUP 2014 RMB'000 | GROUP 2013 RMB'000 |
|---|---|---|---|
| **Revenue** | 23 | 1,235,162 | 1,302,577 |
| Cost of sales | | (964,713) | (1,024,496) |
| **Gross profit** | | 270,449 | 278,081 |
| Other operating income | 24 | 6,510 | 8,108 |
| Selling and distribution expenses | | (39,542) | (39,157) |
| Administrative expenses | | (134,508) | (132,167) |
| Other operating expenses | | (3,611) | (16,990) |
| Finance costs | 25 | (27,281) | (29,724) |
| **Profit before income tax** | 26 | 72,017 | 68,151 |
| Income tax expense | 27 | (15,754) | (17,431) |
| **Profit for the year** | | 56,263 | 50,720 |
| **Other comprehensive income** | | | |
| ***Items that may be reclassified subsequently to profit or loss*** | | | |
| Exchange difference on translation of foreign operation | | (12) | – |
| **Total comprehensive income for the year** | | 56,251 | 50,720 |
| Profit for the year attributable to: | | | |
| Equity holders of the Company | | 56,084 | 53,821 |
| Non- controlling interest | | 179 | (3,101) |
| Profit for the year | | 56,263 | 50,720 |
| Total comprehensive income for the year attributable to: | | | |
| Equity holders of the Company | | 56,072 | 53,821 |
| Non- controlling interest | | 179 | (3,101) |
| Profit for the year | | 56,251 | 50,720 |
| **Earnings per share (RMB cents)** | | | |
| - Basic | 28 | 15.11 | 16.36 |
| - Diluted | 28 | 15.11 | 16.36 |

See accompanying notes to financial statements.

# STATEMENTS OF CHANGES IN EQUITY

For year ended December 31, 2014

| | Share capital RMB'000 | Share premium RMB'000 | General reserves RMB'000 | Foreign currency translation reserve RMB'000 | Accumulated profits RMB'000 | Equity attributable to equity holders of the Company RMB'000 | Non-controlling interest RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| GROUP | | | | | | | | |
| **Balance at January 1, 2013** | 27,230 | 35,275 | 39,102 | – | 421,998 | 523,605 | 24,920 | 548,525 |
| Profit for the year, representing total comprehensive income for the year | – | – | – | – | 53,821 | 53,821 | (3,101) | 50,720 |
| Transactions with owners, recognised directly in equity | | | | | | | | |
| Dividend paid (Note 29) | – | – | – | – | (2,466) | (2,466) | – | (2,466) |
| Transfer to general reserves (Note 22) | – | – | 7,465 | – | (7,465) | – | – | – |
| Total | – | – | 7,465 | – | (9,931) | (2,466) | – | (2,466) |
| **Balance at December 31, 2013** | 27,230 | 35,275 | 46,567 | – | 465,888 | 574,960 | 21,819 | 596,779 |
| Total comprehensive income for the year | | | | | | | | |
| Profit for the year | – | – | – | – | 56,084 | 56,084 | 179 | 56,263 |
| Other comprehensive income for the year | – | – | – | (12) | – | (12) | – | (12) |
| Total | – | – | – | (12) | 56,084 | 56,072 | 179 | 56,251 |
| Transactions with owners, recognised directly in equity | | | | | | | | |
| Ordinary shares issued (Notes 20 and 21) | 4,051 | 40,104 | – | – | – | 44,155 | – | 44,155 |
| Dividend paid (Note 29) | – | – | – | – | (1,643) | (1,643) | – | (1,643) |
| Transfer to general reserves (Note 22) | – | – | 5,075 | – | (5,075) | – | – | – |
| Total | 4,051 | 40,104 | 5,075 | – | (6,718) | 42,512 | – | 42,512 |
| **Balance at December 31, 2014** | 31,281 | 75,379 | 51,642 | (12) | 515,254 | 673,544 | 21,998 | 695,542 |

See accompanying notes to financial statements.

# STATEMENTS OF CHANGES IN EQUITY

For year ended December 31, 2014

| | Share capital RMB'000 | Share premium RMB'000 | Accumulated profits RMB'000 | Equity attributable to equity holders of the Company RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **COMPANY** | | | | | |
| **Balance at January 1, 2013** | 27,230 | 35,275 | 40,708 | 103,213 | 103,213 |
| Loss for the year, representing total comprehensive loss for the year | – | – | (1,542) | (1,542) | (1,542) |
| Transactions with owners, recognised directly in equity | | | | | |
| Dividend paid (Note 29) | – | – | (2,466) | (2,466) | (2,466) |
| **Balance at December 31, 2013** | 27,230 | 35,275 | 36,700 | 99,205 | 99,205 |
| Loss for the year, representing total comprehensive loss for the year | – | – | (4,109) | (4,109) | (4,109) |
| Transactions with owners, recognised directly in equity | | | | | |
| Ordinary shares issued (Notes 20 and 21) | 4,051 | 40,104 | – | 44,155 | 44,155 |
| Dividend paid (Note 29) | – | – | (1,643) | (1,643) | (1,643) |
| Total | 4,051 | 40,104 | (1,643) | 42,512 | 42,512 |
| **Balance at December 31, 2014** | 31,281 | 75,379 | 30,948 | 137,608 | 137,608 |

See accompanying notes to financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For year ended December 31, 2014

| | GROUP 2014 RMB'000 | GROUP 2013 RMB'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before income tax | 72,017 | 68,151 |
| Adjustments for: | | |
| Depreciation expense | 26,102 | 20,489 |
| Interest expense | 27,281 | 29,724 |
| Amortisation of land use rights | 1,412 | 1,413 |
| Exchange differences arising on foreign currency translation | 144 | 514 |
| Amortisation of intangible assets | 2,574 | 1,307 |
| (Gain) Loss on disposal of property, plant and equipment | (6) | 216 |
| (Reversal of) Impairment allowance on inventories | (2,531) | 8,837 |
| Interest income | (1,584) | (2,293) |
| Impairment allowance on trade and non-trade receivables | 3,352 | 11,038 |
| Impairment allowance on property, plant and equipment | – | 5,770 |
| Operating cash flows before movements in working capital | 128,761 | 145,166 |
| Trade receivables | 123,803 | (113,976) |
| Other receivables and prepayments | 16,359 | 24,838 |
| Inventories | (10,537) | (32,316) |
| Trade payables | (159,924) | 20,198 |
| Other payables | (26,618) | 15,149 |
| Cash generated from operations | 71,844 | 59,059 |
| Income tax paid | (18,912) | (16,144) |
| Interest received | 1,584 | 2,293 |
| Interest paid | (27,281) | (27,959) |
| Net cash from operating activities | 27,235 | 17,249 |
| **Investing activities** | | |
| Purchase of property, plant and equipment | (43,931) | (70,610) |
| Acquisition of intangible asset (Note 15) | – | (3,111) |
| Payment for land use rights acquired in 2013 | (8,098) | – |
| Proceeds from disposal of property, plant and equipment | 394 | 775 |
| Net cash used in investing activities | (51,635) | (72,946) |
| **Financing activities** | | |
| Proceeds from new borrowings | 617,895 | 547,370 |
| Proceeds of share issuance | 44,155 | – |
| Pledged bank deposits | 1,761 | 5,996 |
| Payment of dividend | (1,643) | (2,466) |
| Repayment of borrowings | (646,021) | (518,300) |
| Net cash from financing activities | 16,147 | 32,600 |
| Net decrease in cash and cash equivalents | (8,253) | (23,097) |
| Cash and cash equivalents at beginning of year | 118,798 | 142,409 |
| Effects of foreign exchange rate changes | (59) | (514) |
| **Cash and cash equivalents at end of year (Note 6)** | 110,486 | 118,798 |

See accompanying notes to financial statements.

## 1 GENERAL

The Company (Registration Number 35230) is incorporated in Bermuda, under the Companies Act 1981 of Bermuda, with its registered office at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and principal place of business at No. 2111 Chengxin Road, Nanjing Jiangning Science Park, Nanjing, China 211112. The Company is listed on the Singapore Exchange Securities Trading Limited. The financial statements are expressed in Chinese Renminbi ("RMB").

The principal activity of the Company is that of investment holding.

The principal activities of the subsidiaries are detailed in Note 14 to the financial statements.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended December 31, 2014 were authorised for issue by the Board of Directors on March 25, 2015.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements have been prepared in accordance with the historical cost basis, except as disclosed below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS").

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of FRS 102 *Share-based Payment*, leasing transactions that are within the scope of FRS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in FRS 2 *Inventories* or value in use in FRS 36 *Impairment of Assets*.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

ADOPTION OF NEW AND REVISED STANDARDS - On January 1, 2014, the Group adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are effective from that date and are relevant to its operations. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**New and revised standards on consolidation, joint arrangements, associates and disclosures**

In September 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising FRS 110 *Consolidated Financial Statements*, FRS 111 *Joint Arrangements*, FRS 112 *Disclosure of Interests in Other Entities*, FRS 27 (as revised in 2011) *Separate Financial Statements* and FRS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to FRS 110, FRS 111 and FRS 112 were issued to clarify certain transitional guidance on the first-time application of these standards.

In the current year, the Group has applied for the first time FRS 110, FRS 112 and FRS 27 (as revised in 2011) together with the amendments to FRS 110 and FRS 112 regarding the transitional guidance.

The impact of the application of these standards is set out below.

***Impact of the application of FRS 110***

FRS 110 replaces the parts of FRS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and INT FRS 12 *Consolidation – Special Purpose Entities*. FRS 110 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in FRS 110 to explain when an investor has control over an investee. Some guidance included in FRS 110 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

The Group has assessed that there is no impact on application of FRS 110 to have a material impact on the financial statements of the Group in the period of its initial adoption, taking into account the new definition of control and the additional guidance on control set out in FRS 110.

***Impact of the application of FRS 112***

FRS 112 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of FRS 112 has resulted in more extensive disclosures in Note 14 to the consolidated financial statements.

Amendments to FRS 111, FRS 27 and FRS 28 do not have any effect on the Group's consolidated financial statements.

At the date of authorisation of these financial statements, the following new/revised FRSs, INT FRSs and amendments to FRS that are relevant to the Group and the Company were issued but not effective:

- FRS 109 *Financial Instrument*[4]
- FRS 115 *Revenue from Contracts with Customer*[3]
- Amendments to FRS 1 *Presentation of Financial Statements: Disclosure Initiative*[2]
- Improvements to Financial Reporting Standards (January 2014)[1]

1 Applies to annual periods beginning on or after July 1, 2014, with early application permitted.
2 Applies to annual periods beginning on or after January 1, 2016, with early application permitted.
3 Applies to annual periods beginning on or after January 1, 2017, with early application permitted.
4 Applies to annual periods beginning on or after January 1, 2018, with early application permitted.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

*Impact of the application of FRS 112 (cont'd)*

Consequential amendments were also made to various standards as a result of these new/revised standards.

The management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption except for the following:

**FRS 109 *Financial Instruments***

FRS 109 was issued in December 2014 to replace FRS 39 Financial Instruments: Recognition and Measurement and introduced new requirements for (i) the classification and measurement of financial assets and financial liabilities (ii) derecognition (iii) general hedge accounting (iv) impairment requirements for financial assets.

Key requirements of FRS 109:

- All recognised financial assets that are within the scope of FRS 39 are now required to be subsequently measured at amortised cost or fair value through profit or loss (FVTPL).

  Debt investments held within a business model whose objective is to collect the contractual cash flows, comprising solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments held within a business model whose objective is achieved both by collecting the above contractual cash flows and selling financial assets, are measured at fair value through other comprehensive income (FVTOCI).

  All other debt investments and equity investments are measured at FVTPL at the end of subsequent accounting periods.

  Under FRS 109, entities may make an irrevocable election, at initial recognition, to measure an equity investment (that is not held for trading) at FVTOCI, with only dividend income generally recognised in profit or loss.

- With some exceptions, financial liabilities are generally subsequently measured at amortised cost. For financial liabilities designated as at FVTPL, FRS 109 requires the change in fair value attributable to changes in the credit risk of the liability to be presented in other comprehensive income, unless presentation in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. In contrast, under the existing FRS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL is presented in profit or loss.

- In relation to the impairment of financial assets, FRS 109 requires an expected credit loss model, as opposed to an incurred credit loss model under FRS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is no longer necessary for a credit event to have occurred before credit losses are recognised.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**FRS 109 *Financial Instruments (cont'd)***

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in FRS 39. Under FRS 109, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The management is evaluating the impact of the amendments to FRS 109 on the financial instruments in its initial adoption.

**FRS 115 *Revenue from contracts with customers***

In November 2014, FRS 115 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. FRS 115 will supersede the current revenue recognition guidance including FRS 18 Revenue, FRS 11 Construction Contracts and the related Interpretations when it becomes effective. The Standard introduces a 5-step approach to revenue recognition:

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

Under FRS 115, an entity recognises revenue when "control" of the goods is transferred to the customer or service underlying the particular performance obligation is delivered to the customer. Prescriptive guidance has been added in FRS 115 to deal with specific scenarios. Extensive disclosures are required by FRS 115.

The Group is currently estimating the effects of FRS 115 on its revenue contracts in the period of initial adoption.

**Amendments to FRS 1 *Presentation of Financial Statements: Disclosure Initiative***

The amendments have been made to the following:

- Materiality and aggregation - An entity shall not obscure useful information by aggregating or disaggregating information and materiality considerations apply to the primary statements, notes and any specific disclosure requirements in FRSs.

- Statement of financial position and statement of profit or loss and other comprehensive income - The list of line items to be presented in these statements can be aggregated or disaggregated as relevant. Guidance on subtotals in these statements has also been included.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Amendments to FRS 1 *Presentation of Financial Statements: Disclosure Initiative (cont'd)***

- Presentation of items of other comprehensive income ("OCI") arising from equity-accounted investments - An entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single items based on whether or not it will subsequently be reclassified to profit or loss.

- Notes - Entities have flexibility when designing the structure of the notes and guidance is introduced on how to determine a systematic order of the notes.

The Group is currently estimating the effect of Amendments to FRS 1 *Presentation of Financial Statements: Disclosure Initiative* in the period of initial adoption.

**Improvements to Financial Reporting Standards (January 2014)**

Standard included in this cycle of the improvements project which is relevant to the Group comprised the following. Amendments apply for annual periods beginning on or after July 1, 2014, unless otherwise stated.

| Standard | Topic | Key amendment |
|---|---|---|
| *FRS 102 Share Based Payments* | Definition of vesting Condition | Amended definitions of 'vesting condition' and 'market condition' and added definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'.<br><br>Amendments apply prospectively to share-based payment transactions with a grant date on or after July 1, 2014, with earlier application permitted. |
| *FRS 108 Operating Segments* | Aggregation of Operating Segments | Amendments require an entity to disclose the judgement made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'. |
| | Reconciliation of the total of the Reportable segments' assets to the entity's assets | Clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker. |

The management is currently evaluating the impact of the above Improvements to Financial Reporting Standards (January 2014).

BASIS OF CONSOLIDATION - The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

FINANCIAL INSTRUMENTS - Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or where appropriate, a shorter period. Income and expense is recognised on an effective interest basis for debt instruments other than those financial instruments "at fair value through profit or loss".

**Financial assets**

*Trade and other receivables*

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "trade" and "other receivables" respectively. These are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest method, except for short-term receivables when the effect of discounting is immaterial.

*Cash and cash equivalents in the statement of cash flows*

Cash and cash equivalents in the statement of cash flows comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

*Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets (cont'd)**

*Impairment of financial assets (cont'd)*

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

*Derecognition of financial assets*

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial liabilities and equity instruments**

*Classification as debt or equity*

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instruments*

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

*Financial liabilities*

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis.

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described below.

*Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognition with FRS 18 *Revenue*.

*Derecognition of financial liabilities*

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

INVENTORIES - Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

*Offsetting arrangements*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial positon when the Company and the Group has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. A right to set-off must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankrupt.

PROPERTY, PLANT AND EQUIPMENT - Property, plant and equipment are carried at cost, less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

Properties in the course of construction for production, rental or administration purpose, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, on the following bases:

| | | |
|---|---|---|
| Buildings | - | 5% |
| Leasehold improvements | - | 20% |
| Plant and machinery | - | 10% |
| Furniture, fixtures and equipment | - | 20% |
| Motor vehicles | - | 20% |

No depreciation is provided on construction-in-progress.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

INTANGIBLE ASSETS

*Intangible assets acquired separately*

Intangible assets acquired separately are reported at cost less accumulated amortization (where they have finite useful lives) and accumulated impairment losses. Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives are not amortised. Each period, the useful lives of such assets are reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment in accordance with the policy below.

TECHNICAL KNOW-HOW AND TRADEMARK - The technical know-how and trademark are measured initially at purchase cost and are amortised on a straight-line basis over its estimated useful life of 5 years and 10 years respectively.

LAND USE RIGHTS - Leasehold land premiums are up-front payments to acquire long term interest in lessee-occupied properties. The premiums are stated at cost and are amortised over the period of the lease of between 30 to 50 years on a straight-line basis to profit or loss.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL - At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

WORK-IN-PROGRESS - Work-in-progress is stated at cost plus recognised profits or losses less progress billings made. Cost includes materials, direct labour and sub-contract costs. Provision is made for anticipated losses, if any, on work-in-progress when the possibility of loss is ascertained.

When it is probable that the total project costs will exceed the total project revenue, the expected loss is recognised as an expense immediately.

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

GOVERNMENT GRANTS - Government grants are not recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the profit or loss in the period in which they become receivable.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

*Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

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

*Rendering of services*

Revenue from rendering of other services is recognised when the services are provided.

*Construction contracts*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as expense immediately.

*Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

*Dividend income*

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

BORROWING COSTS - Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

RETIREMENT BENEFIT COSTS - Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered the services entitling them to the contributions. Payments made to state-managed retirement benefit schemes, such as the Singapore Provident Fund, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

EMPLOYEE LEAVE ENTITLEMENT - Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and subsidiaries operate by the end of the reporting period.

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

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

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION - The individual financial statements of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Chinese Renminbi ("RMB"), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's non-PRC foreign operations (including comparatives) are expressed in RMB using exchange rates prevailing on the end of the reporting period. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated foreign currency translation reserves which is a component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

RESERVES - Pursuant to relevant laws and regulations in the People's Republic of China ("PRC") applicable to foreign investment enterprises and the Articles of Association of the PRC subsidiaries, the subsidiaries are required to maintain three statutory reserves, being a statutory surplus reserve fund, an enterprise fund and a staff welfare and bonus fund which are non-distributable. Appropriations to such reserves are made out of profit after taxation of the statutory financial statements of the subsidiaries. The subsidiaries are required to transfer 10% of their profit after taxation as reported in its PRC statutory financial statements to the statutory surplus reserve fund until the fund reaches 50% of its registered capital. The statutory surplus reserve fund can be used to make up prior year losses incurred and, with approval from relevant government authority, to increase capital.

The subsidiaries are also required to make appropriation from profit after taxation as reported in the PRC statutory financial statements to the enterprise expansion fund at rates determined by the Board of Directors. The enterprise expansion fund, subject to approval by relevant government authority, may also be used to increase capital.

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

### 3.1 Critical judgements in applying the Group's accounting policies

In the application of the Group's accounting policies, which are described in Note 2, management has not made critical judgements in applying the Group's accounting policies that may have a significant effect on the amounts recognised in financial statements except for the use of accounting estimates which are described below.

### 3.2 Key sources of 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 material adjustments to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Recoverable amounts of trade and other receivables

Allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Specific allowance is made for trade receivables that are unlikely to be collected.

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

3.2 Key sources of estimation uncertainty (cont'd)

(a) Recoverable amounts of trade and other receivables (cont'd)

These estimates are evaluated and revised when there are new developments or information received in the course of monitoring and collecting outstanding debts.

Management makes judgement relating to collection prospects and estimates the recoverable amounts as part of the credit risk management procedures described in Note 4(c)(iv).

Based on the most current assessment, management is of the view that the allowances made for doubtful debts are adequate and the carrying amount of the trade and other receivables as disclosed in Notes 8 and 9 to the financial statements are recoverable.

(b) Recoverable amounts of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

Slow moving or aged inventories are identified by management. This is in followed by an assessment of sales or usage prospects and a comparison of realisable values with carrying cost. Allowance is made for cost of inventories which are not expected to be recovered through usage or sales. Physical counts of inventories are carried out on a periodic basis and any identified defective inventory would be written off.

Based on the most current assessment, management is of the view that the allowances made for inventories are adequate and the carrying amount of the inventories as disclosed in Note 10 to the financial statements is recoverable.

(c) Recoverable amounts of property, plant and equipment

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method. Management exercises judgement and make accounting estimates when estimating the useful lives of the depreciable assets.

During the financial year ended December 31, 2013, a subsidiary suspended the production of foam glass due to unprofitable operations from lower demand and pricing after a change in regulations in PRC which lowered the standard of heat insulation materials used in civil buildings. Management engaged an independent external valuer to estimate the net realisable value of the plant and equipment of that subsidiary. Based on this estimate, an impairment loss allowance of RMB5,770,000 (2013: RMB5,770,000) has been made to reduce the plant and equipment to their estimated net realisable value. Actual realised values from any future disposal on a willing buyer, willing seller basis may differ from such estimates.

The carrying amount of the property, plant and equipment is disclosed in Note 13 to the financial statements.

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

3.2 Key sources of estimation uncertainty (cont'd)

(d) Revenue and costs of construction for long term contracts

As described in Note 2 to the financial statements, revenue and costs associated with a project are recognised as revenue and expenses respectively by reference to the stage of completion of a project activity at the end of the reporting period (measured as the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs) except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When it is probable that the total project costs will exceed the total project revenue, the expected loss is recognised as an expense immediately. These computations are based on the presumption that the outcome of a project can be estimated reliably.

Total cost to completion are subject to judgement and estimation by management. Management performed cost studies, taking into account the costs to date and estimated cost to complete each project. Management also reviewed the status and the physical proportion of work completed for projects. Based on these procedures, management is satisfied that estimates of cost to complete projects are realistic, and the estimates of total project costs compared with expected revenues indicate full project recovery.

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

(a) Capital risk management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Management ensures that all externally imposed capital requirements are compiled with.

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising paid up capital, accumulated profits and other reserves; and debt, which comprise bank borrowings.

Management reviews the capital structure on an on-going basis. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The Group's overall strategy remains unchanged from prior year. As at the end of the reporting period, the Group is in compliance with all capital requirements on its external borrowings.

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(b) Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| **Financial assets** | | | | |
| Loans and receivables (including cash and bank balances and pledged bank deposits) | 1,149,010 | 1,206,203 | 54,251 | 156 |
| Financial guarantee contracts | – | – | 1,850 | 1,850 |
| **Financial liabilities** | | | | |
| Trade and other payables | 503,215 | 559,201 | 28,727 | 61,935 |
| Bank loans | 410,994 | 439,120 | – | – |

(c) Financial risk management policies and objectives

The management of the Group monitors and manages the financial risks relating to the operations of the Group to minimise the potential adverse effects of such risks on financial performance. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

(i) Market risk

The Group's activities expose it to changes in foreign currency exchange rates and interest rates. The management monitors risks associated with changes in foreign currency exchange rates and interest rates, and will consider appropriate measures involving adjustment of pricing and timing of transactions should the need arise.

There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(c) Financial risk management policies and objectives (cont'd)

(ii) Foreign exchange risk management

The main foreign currencies which the Group's transactions are denominated comprise United States dollars ("US$"), Singapore dollars ("S$") and Euro.

The carrying amounts of monetary assets and liabilities denominated in currencies other than the respective group entities' functional currencies at the reporting date are as follows:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | US$ RMB'000 | S$ RMB'000 | Euro RMB'000 | US$ RMB'000 | S$ RMB'000 | Euro RMB'000 |
| **GROUP** | | | | | | |
| Cash and bank balances | 13,875 | 6,095 | 84 | 16,620 | 977 | 885 |
| Trade receivables | 4,870 | – | 95 | 16,965 | – | 10,393 |
| Trade payables | (404) | – | (636) | (235) | – | (304) |
| **COMPANY** | | | | | | |
| Cash and bank balances | 14 | 5,072 | – | 17 | 5 | – |

*Foreign currency sensitivity*

The following table details the sensitivity to strengthening of the exchange rate of Renminbi ("RMB") against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates.

The negative impact on operating results arising from strengthening of the RMB exchange rate by 5% is as follows:

| | US$ impact | | S$ impact | | Euro' impact | |
|---|---|---|---|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| **GROUP** | 917 | 1,668 | 305 | 49 | (23) | 549 |
| **COMPANY** | 1 | 1 | 254 | – | – | – |

Should the exchange rate for RMB against the relevant foreign currencies weaken by 5%, the positive impact on operating results would be an equal amount.

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(c) Financial risk management policies and objectives (cont'd)

(iii) Interest rate risk management

Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider restructuring the Group's credit facilities should the need arise.

The Group's exposures to interest rate risk arising from its financial liabilities are detailed in the liquidity risk management section set out below.

*Interest rate sensitivity*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

If interest rate had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the financial year ended December 31, 2014 would decrease/increase by RMB370,577 (2013 : decrease/increase by RMB1,334,000) respectively, and the Company's loss for the financial year ended December 31, 2014 will decrease/increase by RMB188,000 (2013: N.A.). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings and the Company's loan to a subsidiary.

The Group's sensitivity to interest rates has decreased mainly due to the reduction in borrowings with variable interest rates.

(iv) Credit risk management

Credit risk refers to the risk that counterparties may default on their contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining upfront deposits where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by credit limits that are reviewed and approved by management. Information on counterparties supplied by independent rating agencies where available, other publicly available financial information and the Group's own historical transactions with these counterparties are used to make decisions relating to credit granted to customers or advances made to suppliers. The Group's exposure to credit risk, concentration risk and the credit terms granted to counterparties are monitored continuously.

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(c) Financial risk management policies and objectives (cont'd)

(iv) Credit risk management (cont'd)

The Group's credit risk primarily relates to the Group's trade and other receivables, trade prepayments and bank balances. Trade receivables account for 55% (2013 : 57%) of total assets. For contract related work, collection of debts including retention sums can involve extended period of time. Management closely monitors overdue trade debts. The recoverable amount of each individual trade debt is reviewed at the end of each reporting period. Such review takes into consideration the due date, the period the payment is overdue, the results of communications with debtors, adherence to installment payment plans or otherwise and current commercial information of debtors where available. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on results of recovery actions and recovery prospects. Management is of the view that adequate allowance for doubtful debts has been made for irrecoverable amounts.

The Group is exposed to significant concentration of credit risk. The five largest customers accounted for approximately 16.4% (2013 : 21.0%) of the Group's total trade receivables as at December 31, 2014.

Other receivables, comprising substantially advance payments to suppliers and deposits account for 3% (2013 : 4%) of total assets. In order to minimise the risk, trade prepayments are generally made to suppliers with good credit ratings and with good trading history with the Group. At December 31, 2014, there is no concentration of credit risk with any particular supplier.

The credit risk in relation to the Group's bank balances is not significant as the banks are reputable banking institutions in the PRC.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial period in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the statement of financial position.

Further details of credit risks on trade and other receivables are disclosed in Notes 8 and 9 to the financial statements respectively.

(v) Liquidity risk management

In the management of the liquidity risk, the Group maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors cash flows utilisation of bank borrowings and compliance with financial covenants relating to credit facilities.

The Company has access to cash from the Group whenever needed to meet payment obligations.

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(c) Financial risk management policies and objectives (cont'd)

(v) Liquidity risk management (cont'd)

**Liquidity and interest risk analyses**

Non-derivative financial assets

The following table details the expected maturity for non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The adjustment column represents the difference between aggregate cash flows in the maturity table below and the amounts of the financial asset carried at amortised cost in the statement of financial position.

| | Weighted average effective interest rate % | On demand or less than 1 year RMB'000 | More than 1 to 5 years RMB'000 | Adjustment RMB'000 | Carrying amount RMB›000 |
|---|---|---|---|---|---|
| **GROUP** | | | | | |
| **2014** | | | | | |
| Non-interest bearing | – | 973,480 | – | – | 973,480 |
| Variable interest rate | 0.35 | 103,274 | – | (360) | 102,914 |
| Fixed interest rate | 3.06 | 74,838 | – | (2,222) | 72,616 |
| Total | | 1,151,592 | – | (2,582) | 1,149,010 |
| **2013** | | | | | |
| Non-interest bearing | – | 1,014,559 | – | – | 1,014,559 |
| Variable interest rate | 0.35 | 117,678 | – | (410) | 117,268 |
| Fixed interest rate | 2.88 | 76,594 | – | (2,218) | 74,376 |
| Total | | 1,208,831 | – | (2,628) | 1,206,203 |
| **COMPANY** | | | | | |
| **2014** | | | | | |
| Non-interest bearing | – | 10,251 | – | – | 10,251 |
| Variable interest rate | 6.20 | 6,480 | 43,720 | (6,200) | 44,000 |
| Total | | 16,731 | 43,720 | (6,200) | 54,251 |
| **2013** | | | | | |
| Non-interest bearing | – | 156 | – | – | 156 |

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(c) Financial risk management policies and objectives (cont'd)

(v) Liquidity risk management (cont'd)

**Liquidity and interest risk analyses (cont'd)**

Non-derivative financial liabilities

The following table details the remaining contractual maturity for non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company is required to pay. The table includes both interest and principal cash flows. The adjustment column represents the difference between aggregate cash flows in the maturity table below and the amounts of the financial liabilities carried at amortised cost on the statement of financial position.

| | Weighted average effective interest rate % | On demand or less than 1 year RMB'000 | More than 1 to 5 years RMB'000 | Adjustment RMB'000 | Carrying amount RMB›000 |
|---|---|---|---|---|---|
| **GROUP** | | | | | |
| **2014** | | | | | |
| Non-interest bearing | – | 503,215 | – | – | 503,215 |
| Variable interest rate | 5.41 | 144,800 | – | (4,829) | 139,971 |
| Fixed interest rate | 6.04 | 275,315 | – | (4,292) | 271,023 |
| Total | | 923,330 | – | (9,121) | 914,209 |
| **2013** | | | | | |
| Non-interest bearing | – | 559,201 | – | – | 559,201 |
| Variable interest rate | 6.32 | 259,557 | – | (8,917) | 250,640 |
| Fixed interest rate | 6.22 | 192,931 | – | (4,451) | 188,480 |
| Total | | 1,011,689 | – | (13,368) | 998,321 |
| **COMPANY** | | | | | |
| **2014** | | | | | |
| Non-interest bearing | – | 28,727 | – | – | 28,727 |
| **2013** | | | | | |
| Non-interest bearing | – | 61,935 | – | – | 61,935 |

## 4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (cont'd)

(d) Fair value of financial assets and financial liabilities

The carrying amounts of cash and bank balances, trade and other current receivables, trade and other payables and bank loans approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair value of other classes of financial assets and liabilities are disclosed in the respective notes to the financial statements.

(e) Fair value of guarantees given by the Company

Management considered the nature of the guarantees given by the Company to banks which have provided loans to a subsidiary (Note 31) and the reliance on assets of other subsidiaries as support for the financial guarantee and determined that there is no significant fair value of the guarantee to be accounted for by the Company.

## 5 RELATED PARTY TRANSACTIONS

(a) Some of the Group's transactions and arrangements are with related parties and the effects of these, on the basis determined between the parties are reflected in these financial statements. The balances are unsecured, receivable or repayable on demand and interest-free unless stated otherwise.

| Name of related party | Relationship |
|---|---|
| Jiangsu Sunpower Petrochemical Engineering Co., Ltd | A company in which two of the Company's directors have control. |
| Sinocalci Technology Corporation | A company in which two of the Company's directors have significant influence. |
| Wuhan Sunpower Energy Environmental Engineering Co., Ltd | A company in which two of the Company's directors have significant influence. |
| Nanjing University of Technology | A non-controlling shareholder of the subsidiary Nanjing Shengnuo Heat Pipe Co., Ltd. (Note 14) |
| Wuxi Chengguang Refactory Materials Co., Ltd | A non-controlling shareholder of the subsidiary Jiangsu Sunpower Energy-Saving Technology Co., Ltd. (Note 14) |
| Nanjing Top Chemical Co., Ltd | A company in which two of the Company's directors have control. |

## 5 RELATED PARTY TRANSACTIONS (cont'd)

(b) Significant related party transactions:

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| With Jiangsu Sunpower Petrochemical Engineering Co., Ltd: | | |
| Interest expense on advances | – | 1,136 |
| With Sinocalci Technology Corporation: | | |
| Sales of goods | 368 | 444 |
| With Nanjing Top Chemical Co., Ltd: | | |
| Sales of goods | 359 | – |
| With Nanjing University of Technology: | | |
| Technology development fee expense | 1,592 | 1,526 |
| Staff costs and benefits | 1,066 | 1,081 |
| Purchase of raw materials | – | 87 |
| Rental expense | 3,036 | 2,142 |
| Service fee | – | 75 |
| With Wuhan Sunpower Energy Environmental Engineering Co., Ltd: | | |
| Technology development fees | 380 | – |
| Technology service fees | 38 | – |
| With Wuxi Chengguang Refactory Materials Co., Ltd: | | |
| Purchase of building materials | 176 | – |
| With directors | | |
| Interest expense on advances | 253 | – |

The sales and purchases made are conducted on terms mutually agreed among the parties involved. The expenses charged are paid in accordance with the terms of the agreement entered into among the parties involved.

The nature and terms of transactions with related parties are reviewed by the Board of Directors.

## 5 RELATED PARTY TRANSACTIONS (cont'd)

(c) Related party balances:

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Trade receivables (Note 8) | | |
| Sinocalci Technology Corporation | 425 | 607 |
| Other receivables (Note 9) | | |
| Nanjing University of Technology | 770 | 795 |
| Trade payables (Note 17) | | |
| Wuhan Sunpower Energy Environmental Engineering Co., Ltd | 91 | 53 |
| Nanjing University of Technology | 266 | 426 |
| Wuxi Chengguang Refactory Materials Co., Ltd | 1,257 | 1,105 |
| Total | 1,614 | 1,584 |
| Other payables (Note 18) | | |
| Due to directors | | |
| Mr Guo Hong Xin | – | 11,972 |
| Mr Ma Ming | – | 9,407 |
| Nanjing University of Technology | 7,316 | 8,599 |
| Total | 7,316 | 29,978 |

## 6 CASH AND CASH EQUIVALENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| Cash and bank balances | 110,486 | 118,798 | 5,262 | 23 |

Cash and bank balances comprise cash held by the Group and the Company and short-term bank deposits with maturity of three months or less. The average interest rate is 0.33% (2013 : 0.35%) per annum.

## 7 PLEDGED BANK DEPOSITS

| | GROUP | |
|---|---|---|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Pledged bank deposits | 72,616 | 74,377 |

The above deposits are pledged to certain banks to secure the Group's bank loans. The deposits carry fixed interest rate ranging from 0.30% to 3.30% (2013 : 0.35% to 3.30%) per annum.

## 8 TRADE RECEIVABLES

| | GROUP | |
|---|---|---|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Outside parties | 977,456 | 1,027,955 |
| Less: Allowances for doubtful receivables | (31,903) | (29,108) |
| Net | 945,553 | 998,847 |
| Due from customers for contract works (Note 11) | 89,516 | 163,280 |
| Related parties (Note 5) | 425 | 607 |
| Total | 1,035,494 | 1,162,734 |

Movement in the allowances for doubtful trade receivables:

| | 2014 | 2013 |
|---|---|---|
| Balance at beginning of year | 29,108 | 23,904 |
| Charge to profit and loss | 3,342 | 11,341 |
| Utilised | (547) | (6,137) |
| Balance at end of year | 31,903 | 29,108 |

Trade receivables include notes receivable of RMB160,338,000 (2013 : RMB183,206,000) which are endorsed for settlement of trade payable, with recourse to the Group in the event of non-payment by trade debtors.

The average credit period for trade receivables is 180 days (2013 : 180 days). No interest is charged on the overdue trade receivables.

Allowances made for irrecoverable amounts of trade receivables are estimated on the basis set out in Note 3.2 (a) and Note 4(c)(iv).

## 8 TRADE RECEIVABLES (cont'd)

The table below is an analysis of trade receivables as at December 31:

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Not past due and not impaired | 832,960 | 943,681 |
| Past due but not impaired (i) | 202,534 | 219,053 |
| | 1,035,494 | 1,162,734 |
| Impaired receivables - collectively assessed (ii) | 31,903 | 29,108 |
| Less: Allowance for doubtful receivables | (31,903) | (29,108) |
| | – | – |
| Total trade receivables, net | 1,035,494 | 1,162,734 |

(i) Ageing of receivables that are past due but not impaired:

| | | |
|---|---|---|
| 180 days to 360 days | 64,308 | 99,037 |
| 1 to 2 years | 83,136 | 60,191 |
| 2 to 3 years | 24,340 | 50,263 |
| Over 3 years | 30,750 | 9,562 |
| Total | 202,534 | 219,053 |

(ii) These receivables are not secured by any collateral or credit enhancements.

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The directors believe that there are no further credit allowances required in excess of the allowance for doubtful debts.

Retention sums receivable for contract work collectable within the normal operating cycles (which may be more than one year) amounted to RMB54,998,596 (2013 : RMB88,343,000).

## 9 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Advance payments for purchases | 43,266 | 53,187 | – | – |
| Deposits and prepayments | 13,983 | 15,691 | – | – |
| Dividend receivable | – | – | 4,640 | – |
| Loan to a subsidiary | – | – | 44,000 | – |
| Advances to: | | | | |
| Staff | 7,429 | 7,434 | – | – |
| Non-controlling shareholder of a subsidiary (Note 5) | 770 | 795 | – | – |
| Third party | – | 4,030 | – | – |
| Others | 1,638 | 2,309 | 349 | 133 |
| Total | 67,086 | 83,446 | 48,989 | 133 |
| Less: | | | | |
| Allowance for doubtful receivables | (2,215) | (2,205) | – | – |
| Net | 64,871 | 81,241 | 48,989 | 133 |

Presentation on statement of financial position:

| | | | | |
|---|---|---|---|---|
| Current assets | 64,871 | 81,241 | 8,989 | 133 |
| Non-current assets | – | – | 40,000 | – |
| Total | 64,871 | 81,241 | 48,989 | 133 |

Movement in the allowance for doubtful receivables:

| | | | | |
|---|---|---|---|---|
| Balance at beginning of year | 2,205 | 2,508 | – | – |
| Charge (Credited) to profit and loss | 10 | (303) | – | – |
| Balance at end of year | 2,215 | 2,205 | – | – |

Staff advances and advances to non-controlling interest shareholders are non-trade in nature, unsecured, interest-free and repayable on demand.

In determining the recoverability of other receivables the Group considers any change in the credit quality of the other receivable from the date credit was initially granted up to the reporting date. Accordingly, the management believe that there is no allowance required.

Loan to a subsidiary is unsecured, bears variable interest which is referenced to the rate quoted by the People's Bank of China and has a 5 years' maturity period, out of which the first RMB4,000,000 is due on January 20, 2015, with RMB10,000,000 due annually on January 20 of each subsequent year. The carrying amount of the loan approximates its fair value.

## 10 INVENTORIES

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| At cost less allowances for irrecoverable amounts: | | |
| Raw materials and consumables | 51,049 | 49,887 |
| Work-in-progress | 207,610 | 190,485 |
| Finished goods | 6,666 | 11,885 |
| Total | 265,325 | 252,257 |

Inventories are stated net of allowances for irrecoverable amounts.

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Movement in allowances for inventories: | | |
| At beginning of year | 14,101 | 5,264 |
| Reversal of allowance, upon sale | (2,531) | 8,837 |
| Utilised | (272) | – |
| At end of year | 11,298 | 14,101 |

## 11 CONTRACT WORK IN PROGRESS

Contract work in progress at end of the reporting period:

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Contract costs incurred plus recognised profits (less recognised losses to date) | 183,138 | 304,457 |
| Less: Progress billings | (93,622) | (141,177) |
| Trade receivables - Due from customers for contract works (Note 8) | 89,516 | 163,280 |

Progress billings include advances received from customers for contract work amounting to RMB57,014,286 (2013 : RMB110,560,000).

## 12 LAND USE RIGHTS

| | GROUP | |
|---|---|---|
| | 2014<br>RMB'000 | 2013<br>RMB'000 |
| Cost: | | |
| At January 1, 2014 and December 31, 2014 | 57,178 | 57,178 |
| Accumulated amortisation: | | |
| At January 1, 2014 | 6,756 | 5,343 |
| Charge | 1,412 | 1,413 |
| At December 31, 2014 | 8,168 | 6,756 |
| Carrying amount | 49,010 | 50,422 |
| Presentation in statement of financial position: | | |
| Current assets | 1,411 | 1,412 |
| Non-current assets | 47,599 | 49,010 |
| Total | 49,010 | 50,422 |

Land use rights are amortised over 30 years for Nanjing Shengnuo Heat Pipe Co., Ltd and over 50 years for Jiangsu Sunpower Technology Co., Ltd and Jiangsu Sunpower Machinery Manufacture Co., Ltd. The amortisation periods are in line with the business license of each of the subsidiaries.

At the end of the reporting period, land use rights with carrying amount of RMB20,639,833 (2013 : RMB28,034,000) are pledged to secure banking facilities granted to the subsidiaries.

## 13 PROPERTY, PLANT AND EQUIPMENT

| GROUP | Buildings | Leasehold improvements | Plant and machinery | Furniture, fixtures and equipment | Motor vehicles | Construction–in–progress | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cost: | | | | | | | |
| At January 1, 2013 | 130,877 | 10,057 | 91,054 | 17,399 | 16,870 | 30,343 | 296,600 |
| Additions (Note) | 1,547 | – | 20,567 | 2,013 | 4,353 | 55,642 | 84,122 |
| Disposal | – | (117) | (2,193) | (391) | (1,974) | – | (4,675) |
| Transfer | 58,535 | 7,845 | 3,839 | – | – | (70,219) | – |
| At December 31, 2013 | 190,959 | 17,785 | 113,267 | 19,021 | 19,249 | 15,766 | 376,047 |
| Additions (Note) | 1,183 | 110 | 10,195 | 3,292 | 2,699 | 16,649 | 34,128 |
| Disposal | – | – | (6) | (952) | (1,208) | – | (2,166) |
| Reduction of cost through government grant | – | – | (1,728) | – | – | – | (1,728) |
| Transfer | 8,742 | 3,918 | – | 616 | – | (13,276) | – |
| At December 31, 2014 | 200,884 | 21,813 | 121,728 | 21,977 | 20,740 | 19,139 | 406,281 |
| Accumulated depreciation: | | | | | | | |
| At January 1, 2013 | 19,330 | 6,626 | 30,577 | 10,374 | 9,804 | – | 76,711 |
| Depreciation | 6,585 | 1,625 | 8,508 | 1,842 | 1,929 | – | 20,489 |
| Disposal | – | (4) | (1,552) | (351) | (1,777) | – | (3,684) |
| At December 31, 2013 | 25,915 | 8,247 | 37,533 | 11,865 | 9,956 | – | 93,516 |
| Depreciation | 9,350 | 2,765 | 9,250 | 2,092 | 2,645 | – | 26,102 |
| Disposal | – | – | (7) | (694) | (1,078) | – | (1,779) |
| At December 31, 2014 | 35,265 | 11,012 | 46,776 | 13,263 | 11,523 | – | 117,839 |
| Impairment loss recognised in the year, at December 31, 2013 and December 31, 2014 | – | – | 5,759 | 11 | – | – | 5,770 |
| Carrying amount: | | | | | | | |
| At December 31, 2014 | 165,619 | 10,801 | 69,193 | 8,703 | 9,217 | 19,139 | 282,672 |
| At December 31, 2013 | 165,044 | 9,538 | 69,975 | 7,145 | 9,293 | 15,766 | 276,761 |

Note

Acquisition of property, plant and equipment included in the statement of cash flows amounted to RMB43,931,000 (2013: RMB70,610,000) with the difference of RMB9,803,000 (2013: RMB13,512,000) between cash paid and cost of acquisition arise from short term credit from suppliers not paid within the same year of acquisition.

## 13 PROPERTY, PLANT AND EQUIPMENT (cont'd)

At the end of the reporting period:

(i) buildings with carrying amount of RMB46,925,776 (2013 : RMB50,367,000) are pledged to secure banking facilities and loans granted to the Group; and

(ii) the property ownership certificate of one (2013 : three) of the subsidiaries' buildings with a carrying amount of RMB65,288,717 (2013 : RMB98,807,000) has yet to be issued by the authorities.

## 14 INVESTMENT IN SUBSIDIARIES

| | COMPANY | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Unquoted equity shares, at cost | * | * |
| Financial guarantee contracts | 1,850 | 1,850 |
| Amount due from subsidiaries | 110,234 | 159,134 |
| Total | 112,084 | 160,984 |

* *Amount less than RMB1,000*

Amounts due from subsidiaries are unsecured, interest-free and not expected to be repayable within one year. As the amounts due from subsidiaries have no definite repayment period, it is not possible for management to calculate what the fair values of these balances are at the end of the reporting period.

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in these financial statements.

Details of the subsidiaries are as follows:

| Subsidiaries | Cost of investments | | Effective equity interest and voting power held | | Place of incorporation/ operation | Principal activities |
|---|---|---|---|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 % | 2013 % | | |
| Held by Company: | | | | | | |
| Sunpower International Holding (Singapore) Pte. Ltd. | * | * | 100.0 | 100.0 | Singapore | Investment holding |
| Sun Superior Holdings Pte. Ltd. | * | * | 100.0 | 100.0 | Singapore | Investment holding |

## 14 INVESTMENT IN SUBSIDIARIES (cont'd)

| Subsidiaries | Cost of investments | | Effective equity interest and voting power held | | Place of incorporation/ operation | Principal activities |
|---|---|---|---|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 % | 2013 % | | |
| Held by subsidiaries: | | | | | | |
| Jiangsu Sunpower Machinery Manufacture Co., Ltd. (Shares held by Sunpower International Holding (Singapore) Pte. Ltd.) | – | – | 100.0 | 100.0 | PRC | Manufacture and sale of pressure vessels products |
| Sunpower Technology (Jiangsu) Co., Ltd. (1) (Shares held by Sunpower International Holding (Singapore) Pte. Ltd.) | – | – | 100.0 | – | PRC | Investment holding |
| Sino-Sunpower Technology Inc. (1) (Shares held by Sunpower International Holding (Singapore) Pte. Ltd.) | – | – | 100.0 | – | United States of America ("U.S.A") | Sales, technical support and after–sale service |
| Jiangsu Sunpower Technology Co., Ltd. (2) | – | – | 100.0 | 100.0 | PRC | Manufacturing and sale of pressure vessels, designing, manufacturing and sale of pipe racks and hangers, provision of installation and commissioning of projects and provision of technical and consultation services |

## 14 INVESTMENT IN SUBSIDIARIES (cont'd)

| Subsidiaries | Cost of investments | | Effective equity interest and voting power held | | Place of incorporation/ operation | Principal activities |
|---|---|---|---|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 % | 2013 % | | |
| Nanjing Shengnuo Heat Pipe Co., Ltd. (Shares held by Sun Superior Holdings Pte. Ltd.) | – | – | 64.5 | 64.5 | PRC | Manufacturing and trading of heat pipes and heat pipe exchangers, provision of installation and commissioning of relevant projects and provision of technical and consultation services |
| Jiangsu Sunpower Energy-Saving Technology Co., Ltd. (3) | – | – | 70.0 | 70.0 | PRC | Production and sale of foam glass products |
| Jiangsu Sunpower Pressure Vessels Equipment Manufacturing Co., Ltd. (Shares held by Jiangsu Sunpower Technology Co., Ltd.) | – | – | 100.0 | 100.0 | PRC | Manufacturing and sale of pressure vessels products |
| Jiangsu Sunpower Pipe-line Engineering Technology Co., Ltd. (Shares held by Jiangsu Sunpower Technology Co., Ltd.) | – | – | 100.0 | 100.0 | PRC | Designing, manufacturing and sale of pipe racks and hangers |

* *Cost of investment amounted to S$1.00 (equivalent to RMB5.07).*

(1) *Newly incorporated in 2014.*

(2) *Shares were held by Sunpower International Holding (Singapore) Pte. Ltd. as at December 31, 2013 and prior to internal restructuring in November 2014. After the internal restructuring, the shares are held by Sunpower Technology (Jiangsu) Co., Ltd.*

(3) *Shares were held by Jiangsu Sunpower Technology Co., Ltd. as at December 31, 2013 and prior to internal restructuring in November 2014. After the internal restructuring, the shares are held by Jiangsu Sunpower Machinery Manufacture Co., Ltd.*

The PRC subsidiaries are audited by Deloitte Touche Tohmatsu CPA LLP, Nanjing Branch for consolidation purposes.

The companies incorporated in Singapore and U.S.A are audited/reviewed by Deloitte & Touche LLP, Singapore for consolidation purposes.

## 14 INVESTMENT IN SUBSIDIARIES (cont'd)

Information about the composition of the Group at the end of the financial year is as follows:

| Principal activity | Place of incorporation and operation | Number of wholly-owned subsidiaries 2014 | Number of wholly-owned subsidiaries 2013 |
|---|---|---|---|
| Held by Company: | | | |
| Investment holding | Singapore | 2 | 2 |
| Held by subsidiaries: | | | |
| Manufacture and sales of pressure vessels products | PRC | 2 | 2 |
| Investment holding | PRC | 1 | – |
| Sales, technical support and after sale services | U.S.A | 1 | – |
| Designing, manufacturing and sale of pipe racks and hangers | PRC | 2 | 2 |
| | | 8 | 6 |

| Principal activity | Place of incorporation and operation | Number of non wholly-owned subsidiaries 2014 | Number of non wholly-owned subsidiaries 2013 |
|---|---|---|---|
| Held by subsidiaries: | | | |
| Manufacturing and trading of heat pipes | PRC | 1 | 1 |
| Production and sale of foam glass products | PRC | 1 | 1 |
| | | 2 | 2 |

## 14 INVESTMENT IN SUBSIDIARIES (cont'd)

Details of non-wholly owned subsidiary that have material non-controlling interest to the Group are disclosed as below.

**Details of non-wholly owned subsidiary that has material non-controlling interest**

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

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Profit (loss) allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| Nanjing Shengnuo Heat Pipe Co., Ltd | PRC | 35.5% | 35.5% | 758 | 134 | 20,954 | 20,196 |

The following summarised financial information of Nanjing Shengnuo Heat Pipe Co., Ltd is presented before intragroup eliminations.

| | Nanjing Shengnuo Heat Pipe Co Ltd | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Current assets | 310,519 | 302,688 |
| Non-current assets | 48,142 | 50,353 |
| Current liabilities | (299,638) | (296,152) |
| Non-current liabilities | – | – |
| Equity attributable to owners of the Company | 38,069 | 36,693 |
| Non-controlling interests | 20,954 | 20,196 |

## 14 INVESTMENT IN SUBSIDIARIES (cont'd)

| | Nanjing Shengnuo Heat Pipe Co Ltd | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Revenue | 185,293 | 182,026 |
| Expenses | (183,159) | (181,648) |
| Profit for the year, representing total comprehensive income for the year | 2,134 | 378 |
| Profit attributable to owners of the Company | 1,376 | 244 |
| Profit attributable to the non-controlling interests | 758 | 134 |
| Profit for the year | 2,134 | 378 |
| Total comprehensive income attributable to owners of the Company | 1,376 | 244 |
| Total comprehensive income attributable to the non-controlling interests | 758 | 134 |
| Total comprehensive income for the year | 2,134 | 378 |
| Dividends paid to non-controlling interests | – | – |
| Net cash outflow from operating activities | (1,972) | (11,379) |
| Net cash outflow from investing activities | (5,065) | (90) |
| Net cash inflow (outflow) from financing activities | 2,285 | 10,103 |
| Net cash outflow | (4,752) | (1,366) |

## 15 INTANGIBLE ASSETS

| Group | Technical know-how | Trademark | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Cost: | | | |
| At January 1, 2013 | – | 2,924 | 2,924 |
| Addition* | 12,142 | – | 12,142 |
| At December 31, 2013 and December 31, 2014 | 12,142 | 2,924 | 15,066 |
| Accumulated amortisation: | | | |
| Amortisation: | | | |
| At January 1, 2013 | – | 2,485 | 2,485 |
| Amortisation for the year | 1,015 | 292 | 1,307 |
| At December 31, 2013 | 1,015 | 2,777 | 3,792 |
| Amortisation for the year | 2,427 | 147 | 2,574 |
| At December 31, 2014 | 3,442 | 2,924 | 6,366 |

* This includes a transfer of RMB9,031,000 of deposit paid on 2012 from deposit (Note 9) to intangible assets in 2013 upon completion of acquisition of the technical know-how in 2013.

## 15 INTANGIBLE ASSETS (cont'd)

| Group | Technical know-how RMB'000 | Trademark RMB'000 | Total RMB'000 |
|---|---|---|---|
| Carrying amount: | | | |
| At December 31, 2013 | 11,127 | 147 | 11,274 |
| At December 31, 2014 | 8,700 | – | 8,700 |

The trademark "SHENGNUO" has been registered for exclusive use until December 31, 2017.

## 16 DEFERRED TAX ASSETS (LIABILITIES)

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| (a) Deferred tax assets | | |
| At beginning of year | 10,208 | 7,424 |
| Credit to profit or loss (Note 27) | 857 | 2,784 |
| At end of year | 11,065 | 10,208 |

The following are the major deferred tax assets recognised by the Group, and the movements thereon, during the current and prior reporting periods:

| | Allowance for doubtful debts RMB'000 | Allowance for inventories RMB'000 | Government grant related assets RMB'000 | Unutilised tax losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At January 1, 2013 | 3,962 | 925 | 2,537 | – | 7,424 |
| Credit to profit or loss for the year | 735 | 1,198 | 809 | 42 | 2,784 |
| At December 31, 2013 | 4,697 | 2,123 | 3,346 | 42 | 10,208 |
| Credit (Charge) to profit or loss for the year | 421 | (401) | 879 | (42) | 857 |
| At December 31, 2014 | 5,118 | 1,722 | 4,225 | – | 11,065 |

## 16 DEFERRED TAX ASSETS (LIABILITIES) (cont'd)

| | GROUP | |
|---|---|---|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| (b) Deferred tax liabilities | | |
| At beginning of year | (2,487) | (2,158) |
| Charge to profit or loss (Note 27) | (337) | (329) |
| At end of year | (2,824) | (2,487) |

This relates to unremitted income from overseas subsidiaries.

## 17 TRADE PAYABLES

| | GROUP | |
|---|---|---|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Outside parties | 411,372 | 397,911 |
| Deposits from customers | 209,829 | 339,672 |
| Notes payables | 29,418 | 72,990 |
| Related parties (Note 5) | 1,614 | 1,584 |
| Total | 652,233 | 812,157 |

The average credit period on purchases of goods is 180 days (2013 : 180 days).

## 18 OTHER PAYABLES

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Related parties (Note 5) | 7,316 | 29,978 | – | – |
| Third party | 22,601 | 19,123 | – | – |
| Accruals and other liabilities | 5,608 | 13,061 | 9,108 | 8,668 |
| Accruals for payroll | 25,286 | 24,554 | – | – |
| Value-added taxes and other other tax liabilities | 22,857 | 54,577 | – | – |
| Government grant received yet to be applied for qualifying purposes | 42,370 | 30,990 | – | – |
| Subsidiaries | – | – | 19,619 | 53,267 |
| Total | 126,038 | 172,283 | 28,727 | 61,935 |

The amount due to subsidiaries, related parties and directors are non-trade in nature, unsecured, interest-free and repayable on demand.

## 19 BORROWINGS

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Bank loans of: | | |
| Subsidiary A - Jiangsu Sunpower Technology Co., Ltd | 297,846 | 274,120 |
| Subsidiary B - Nanjing Shengnuo Heat Pipe Co., Ltd | 78,148 | 80,000 |
| Subsidiary C - Jiangsu Sunpower Machinery Manufacture Co., Ltd | 35,000 | 85,000 |
| Total borrowings | 410,994 | 439,120 |
| Presentation in statement of financial position: | | |
| Current liabilities payable within one year | 410,994 | 439,120 |
| Non-current liabilities | – | – |
| Total | 410,994 | 439,120 |

(a) The bank loans of Subsidiary A, which are repayable within 12 months, are:

| | | |
|---|---|---|
| Secured by building and land use rights of the subsidiary and guaranteed by the Company | 30,000 | 30,000 |
| Guaranteed by another subsidiary | 139,601 | 156,022 |
| Guaranteed by Company | 40,000 | 60,000 |
| Guaranteed by the Company and a subsidiary | 20,000 | – |
| Pledged by bank deposits | 62,500 | 25,000 |
| Pledged by undiscounted notes receivables | 5,745 | – |
| Unsecured | – | 3,098 |
| Total | 297,846 | 274,120 |

The bank loans bear weighted average effective interest rate of 5.81% (2013 : 6.15%) per annum.

(b) The bank loans of Subsidiary B which are repayable within 12 months are:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Secured by land use rights and building and guaranteed by another subsidiary | 20,000 | 20,000 |
| Secured by land use rights and guaranteed by another subsidiary | 20,000 | 20,000 |
| Guaranteed by other subsidiaries | 18,000 | 36,000 |
| Jointly guaranteed by two subsidiaries | 10,000 | – |
| Undue discounted notes receivables | 10,148 | 4,000 |
| Total | 78,148 | 80,000 |

The bank loans bear weighted average effective interest rate of 6.54% (2013 : 6.68%) per annum

## 19 BORROWINGS (cont'd)

(c) The bank loans of Subsidiary C, which are repayable within 12 months, are:

| | 2014 RMB'000 | 2013 RMB'000 |
|---|---|---|
| Secured by buildings and land use rights of the subsidiary | 35,000 | 35,000 |
| Guaranteed by another subsidiary | – | 25,000 |
| Undue discounted notes receivables | – | 25,000 |
| Total | 35,000 | 85,000 |

The bank loans bear weighted average effective interest rate at 6.30% (2013 : 6.36%) per annum.

The carrying amount of the bank loans approximates their fair value.

## 20 SHARE CAPITAL

| | GROUP AND COMPANY | | | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| | Number of ordinary shares of US$0.01 each '000 | '000 | RMB'000 | RMB'000 |
| Authorised share capital: | | | | |
| At the beginning and end of year | 800,000 | 800,000 | 66,355 | 66,355 |
| Issued and fully paid up: | | | | |
| At the beginning of the year | 329,000 | 329,000 | 27,230 | 27,230 |
| Issued for cash | 65,800 | – | 4,051 | – |
| At the end of the year | 394,800 | 329,000 | 31,281 | 27,230 |

Fully paid ordinary shares, which have no par value, carry one vote per share and a right to dividends as and when declared by the Company.

During the year, the Company issued 65,800,000 ordinary shares of an issue price of S$0.14 per share through a private placement exercise.

## 21 SHARE PREMIUM

| | GROUP AND COMPANY | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| At the beginning of the year | 35,275 | 35,275 |
| Additions during the year arising from issuance of ordinary shares at premium above the par value (Note 20) | 40,104 | – |
| At the end of the year | 75,379 | 35,275 |

## 22 GENERAL RESERVES

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Statutory surplus reserve fund: | | |
| At the beginning of the year | 42,563 | 35,098 |
| Transfer during the year from accumulated profits | 4,981 | 7,465 |
| At the end of the year | 47,544 | 42,563 |
| Enterprise expansion fund: | | |
| At the beginning of the year | 4,004 | 4,004 |
| Transfer during the year from accumulated profits | 94 | – |
| At the end of the year | 4,098 | 4,004 |
| Total | 51,642 | 46,567 |

## 23 REVENUE

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Sales of goods | 962,888 | 1,088,474 |
| Construction contracts | 257,144 | 204,710 |
| Provision of other services | 15,130 | 9,393 |
| Total | 1,235,162 | 1,302,577 |

## 24 OTHER OPERATING INCOME

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Government grant | 4,080 | 5,270 |
| Interest income | 1,584 | 2,293 |
| Foreign exchange gain | – | 105 |
| Others | 846 | 440 |
| Total | 6,510 | 8,108 |

## 25 FINANCE COSTS

| | GROUP 2014 RMB'000 | GROUP 2013 RMB'000 |
|---|---|---|
| Interest expenses: | | |
| - On bank loans | 26,838 | 27,289 |
| - On related parties advance (Note 5) | 253 | 1,136 |
| - On term note | 190 | 1,299 |
| Total | 27,281 | 29,724 |

## 26 PROFIT BEFORE INCOME TAX

(a) This has been arrived at after charging (crediting):

| | GROUP 2014 RMB'000 | GROUP 2013 RMB'000 |
|---|---|---|
| Amortisation of land use rights * | 1,412 | 1,413 |
| Amortisation of intangible assets * | 2,574 | 1,307 |
| Audit fees: | | |
| - to auditors of the Company | 617 | 585 |
| - to other auditors | 940 | 940 |
| Cost of inventories sold included in cost of sales | 958,377 | 1,015,659 |
| Defined contribution plans | 23,010 | 25,725 |
| Depreciation of property, plant and equipment | 26,102 | 20,489 |
| Directors' fees - Directors of the Company | 864 | 847 |
| Directors' remuneration - Directors of the Company | 8,702 | 8,246 |
| (Gain) Loss on disposal of property, plant and equipment | (6) | 216 |
| Non-audit fees: | | |
| - to auditors of the Company | – | 27 |
| (Reversal of) Impairment allowance on inventories | (2,531) | 8,837 |
| Impairment of allowance on trade and non-trade receivables * | 3,352 | 11,038 |
| Impairment allowance on property, plant and equipment | – | 5,770 |
| Research and development expenses | 45,410 | 31,267 |
| Salaries and wages | 169,623 | 171,995 |

* included in other operating expenses

## 26 PROFIT BEFORE INCOME TAX (cont'd)

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the financial year were as follows:

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Short-term benefits | 9,842 | 9,398 |
| Other staff benefits | 192 | 161 |
| Total | 10,034 | 9,559 |

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

## 27 INCOME TAX EXPENSE

Income tax recognised in profit or loss

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Tax expense comprises: | | |
| Current tax expense | 16,943 | 19,842 |
| Adjustments recognised in the current year in relation to the current tax of prior year | (669) | 44 |
| Deferred tax (Note 16) | (520) | (2,455) |
| Total tax expense | 15,754 | 17,431 |

The income tax expense varied from the amount of income tax expense determined by applying the PRC income tax rate of 25% to profit before income tax as a result of the following differences:

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Profit before income tax | 72,017 | 68,151 |
| Income tax expense calculated at PRC income tax rate of 25% | 18,004 | 17,038 |
| Tax effect of non-deductible items | 6,708 | 7,929 |
| Tax effect of taxable temporary difference previously not recognised | – | 1,950 |
| Effect of tax exemption and tax incentives | (8,289) | (9,530) |
| (Over) Underprovision of current tax in prior years | (669) | 44 |
| Income tax expense | 15,754 | 17,431 |

## 27 INCOME TAX EXPENSE (cont'd)

(a) Jiangsu Sunpower Technology Co., Ltd and Nanjing Shengnuo Heat Pipe Co., Ltd

The above subsidiaries are foreign investment enterprises located in Jiangning Science Park, Nanjing, Jiangsu Province, PRC, where the statutory tax rate is 25%. In 2009, the two subsidiaries received official approval for a preferential tax rate of 15%, for three years beginning 2009, under the "New and High Tech Enterprises" scheme. In 2011 and 2014, the subsidiaries renewed the scheme to enjoy the same preferential tax rate for a further three financial years starting from January 1, 2012 and January 1, 2015.

(b) Jiangsu Sunpower Machinery Manufacture Co., Ltd

Jiangsu Sunpower Machinery Manufacture Co., Ltd is a foreign investment enterprise located in Nanjing Chemical Industry Park, Jiangsu Province, PRC where the statutory tax rate is 25%.

The effective income tax rate of Jiangsu Sunpower Machinery Manufacture Co., Ltd for the financial year is 25% (2013 : 25%).

(c) Jiangsu Sunpower Energy-Saving Technology Co., Ltd

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate is 25% from January 1, 2008 onwards. No provision for income tax has been made as the subsidiary has no assessable profit for the financial years ended December 31, 2014 and 2013.

## 28 EARNINGS PER SHARE

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Earnings: | | |
| Profit attributable to equity holders of the Company (RMB'000) | 56,084 | 53,821 |
| Number of shares: | | |
| Weighted average number of ordinary shares ('000) | 371,184 | 329,000 |
| Earnings per share (RMB cents) | 15.11 | 16.36 |

There is no dilution of earnings per above as no share options were granted during the financial year or were outstanding as at the end of the financial year.

## 29 DIVIDENDS

Subsequent to the end of the reporting period, the directors of the Company recommended that a first and final tax exempt dividend of S$0.001 per ordinary share totalling S$394,800 (equivalent to RMB1,832,000) for the financial year just ended be paid. In accordance with FRS 10 – Events after the Reporting Period, the amount is not taken up as a liability.

In 2014, a first and final tax exempt dividend of S$0.001 per ordinary share totalling S$329,000 (equivalent to RMB1,643,000) was paid to shareholders in respect on the financial year ended December 31, 2013.

In 2013, a first and final tax exempt dividend of S$0.0015 per ordinary share totalling S$493,500 (equivalent to RMB2,466,000) was paid to shareholders in respect on the financial year ended December 31, 2012.

## 30 OPERATING LEASE COMMITMENTS

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Minimum lease payments paid under operating leases recognised as an expense in the year | 5,480 | 3,277 |

At the end of the reporting period, the Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

| | GROUP | |
|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 |
| Within one year | 3,244 | 3,276 |
| In the second to fifth years inclusive | 6,684 | 8,682 |
| Total | 9,928 | 11,958 |

Operating lease payments represent rentals payable by the Group for premises with rates fixed for 2 to 3 years (2013 : 1 to 3 years). Leases are negotiated for initial terms from 1 to 20 (2013 : 1 to 20) years.

As at December 31, 2014 and 2013, the Company did not have any outstanding commitments under non-cancellable operating leases.

## 31 CONTINGENT LIABILITIES

| | COMPANY | |
|---|---|---|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Unsecured guarantees given to banks for facilities granted to a subsidiary | 90,000 | 90,000 |

## 32 SEGMENT INFORMATION

The Group determines its operating segments based on internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The Group is organised into business units based on their products and services, based on which information is prepared and reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance.

The Group's operations are organised into the following operating divisions namely:

(1) Heat pipes and heat pipe exchangers;

(2) Pipes supports;

(3) Heat exchangers and pressure vessels; and

(4) Energy saving and environmental protection systems.

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 2 to the financial statements. Segment results represent the profits earned by each segment without allocation of central administration costs, director's remuneration, interest income, foreign exchange gains and losses, income tax and finance costs at corporate level.

Inter-segment transfers: Segment revenue and expenses include transfers between business segments. Inter-segment sales are charged at prevailing market prices. These transfers are eliminated on consolidation.

## 32 SEGMENT INFORMATION (cont'd)

Segment information about the Group's operating segment is presented below:

| | Heat pipes and heat pipe exchangers RMB'000 | Pipes supports RMB'000 | Heat exchangers and pressure vessels RMB'000 | Energy saving and environmental protection systems RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **2014** | | | | | |
| **REVENUE** | 188,293 | 130,357 | 686,899 | 229,613 | 1,235,162 |
| **RESULT** | | | | | |
| Segment result | 10,150 | 18,493 | 62,350 | 17,204 | 108,197 |
| Unallocated corporate expenses | | | | | (10,483) |
| Interest income | 228 | 148 | 1,028 | 180 | 1,584 |
| Finance cost | (5,260) | (2,406) | (17,331) | (2,284) | (27,281) |
| Profit before income tax | | | | | 72,017 |
| Income tax expense | | | | | (15,754) |
| Profit after income tax | | | | | 56,263 |
| **2013** | | | | | |
| **REVENUE** | 182,580 | 125,323 | 846,247 | 148,427 | 1,302,577 |
| **RESULT** | | | | | |
| Segment result | 5,745 | 15,718 | 71,240 | 11,447 | 104,150 |
| Unallocated corporate expenses | | | | | (8,568) |
| Interest income | 376 | 201 | 1,473 | 243 | 2,293 |
| Finance cost | (3,477) | (2,667) | (21,080) | (2,500) | (29,724) |
| Profit before income tax | | | | | 68,151 |
| Income tax expense | | | | | (17,431) |
| Profit after income tax | | | | | 50,720 |

Segment assets represent property, plant and equipment, land use rights, intangible assets, deferred tax assets, inventories, trade receivables, other receivables, deposits and prepayments, pledged bank deposits and bank balances and cash, which are attributable to each operating segments. Segment liabilities represent trade and other payables, tax payables, bank borrowings, amount due to customers for contract work and deferred tax liabilities, which are attributable to each operating segments.

## 32 SEGMENT INFORMATION (cont'd)

| Statement of Net Assets | Heat pipes and heat pipe exchangers RMB'000 | Pipes supports RMB'000 | Heat exchangers and pressure vessels RMB'000 | Energy saving and environmental protection systems RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| 2014 | | | | | |
| **Assets:** | | | | | |
| Segment assets | 380,526 | 230,266 | 1,042,109 | 239,234 | 1,892,135 |
| Unallocated assets | | | | | 8,104 |
| Total assets | | | | | 1,900,239 |
| **Liabilities:** | | | | | |
| Segment liabilities | 299,165 | 119,712 | 573,952 | 202,665 | 1,195,494 |
| Unallocated liabilities | | | | | 9,203 |
| Total liabilities | | | | | 1,204,697 |
| 2013 | | | | | |
| **Assets:** | | | | | |
| Segment assets | 363,290 | 179,941 | 1,286,872 | 206,272 | 2,036,375 |
| Unallocated assets | | | | | 1,697 |
| Total assets | | | | | 2,038,072 |
| **Liabilities:** | | | | | |
| Segment liabilities | 283,660 | 79,998 | 892,021 | 174,397 | 1,430,076 |
| Unallocated liabilities | | | | | 11,217 |
| Total liabilities | | | | | 1,441,293 |

Unallocated corporate assets mainly represent bank balances and cash, other receivables, deposits and prepayments at corporate level.

Unallocated corporate liabilities represent other payable at corporate level.

## 32 SEGMENT INFORMATION (cont'd)

| OTHER INFORMATION | Heat pipes and heat pipe exchangers RMB'000 | Pipes supports RMB'000 | Heat exchangers and pressure vessels RMB'000 | Energy saving and environmental protection systems RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Capital expenditure | | | | | |
| - Property, plant and equipment | 2,698 | 1,595 | 27,979 | 1,856 | 34,128 |
| - Land use rights | 98 | 942 | 5,405 | 1,653 | 8,098 |
| Depreciation expense | 2,582 | 2,442 | 20,211 | 867 | 26,102 |
| Impairment (Reversal) of allowance on: | | | | | |
| - trade and non-trade receivables | 1,594 | (615) | 3,765 | (1,392) | 3,352 |
| - inventories | (1,290) | 86 | (1,327) | – | (2,531) |
| Amortisation of intangible assets | 146 | – | – | 2,428 | 2,574 |
| Amortisation of land use rights | 650 | 120 | 622 | 20 | 1,412 |
| **2013** | | | | | |
| Capital expenditure | | | | | |
| - Property, plant and equipment | 3,812 | 6,898 | 70,786 | 2,626 | 84,122 |
| Depreciation expense | 2,998 | 2,765 | 14,052 | 674 | 20,489 |
| Impairment (Reversal) of allowance on: | | | | | |
| - trade and non-trade receivables | (2,393) | 1,389 | 10,840 | 1,202 | 11,038 |
| - inventories | 380 | 4,015 | 4,442 | – | 8,837 |
| Impairment allowance on property, plant and equipment | – | 5,770 | – | – | 5,770 |
| Amortisation of intangible assets | 292 | – | – | 1,015 | 1,307 |
| Amortisation of land use rights | 650 | 120 | 623 | 20 | 1,413 |

***Geographical information***

The geographical locations of the customers of the Group principally comprise the People's Republic of China ("PRC"), United States of America ("USA"), Europe, Middle East, Asia (except PRC), South East Asia and South America.

## 32 SEGMENT INFORMATION (cont'd)

*Geographical information (cont'd)*

The Group's revenue from external customers and information about its segment assets by geographical location are detailed below:

| | Revenue from external customer | | Non-current assets | |
|---|---|---|---|---|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| PRC | 1,153,347 | 1,137,958 | 350,036 | 347,253 |
| America | 7,577 | 36,370 | – | – |
| South East Asia | 59,764 | 23,749 | – | – |
| Middle East | 6,195 | 50,650 | – | – |
| Europe | 6,063 | 36,910 | – | – |
| South America | 2,216 | 16,940 | – | – |
| Total | 1,235,162 | 1,302,577 | 350,036 | 347,253 |

**Information about major customers**

There is no single customer which contributes 10% or more of the revenue in 2014 and 2013 respectively.

# STATISTICS OF SHAREHOLDINGS

As at 19 March 2015

## DISTRIBUTION OF SHAREHOLDINGS

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | % | NO. OF SHARES | % |
|---|---|---|---|---|
| 1 - 99 | 1 | 0.09 | 49 | 0.00 |
| 100 - 1,000 | 33 | 3.01 | 29,484 | 0.01 |
| 1,001 - 10,000 | 378 | 34.43 | 2,757,150 | 0.70 |
| 10,001 - 1,000,000 | 665 | 60.56 | 44,054,850 | 11.16 |
| 1,000,001 AND ABOVE | 21 | 1.91 | 347,958,467 | 88.13 |
| **TOTAL** | **1,098** | **100.00** | **394,800,000** | **100.00** |

## TWENTY LARGEST SHAREHOLDERS

| NO. | NAME | NO. OF SHARES | % |
|---|---|---|---|
| 1 | UOB KAY HIAN PRIVATE LIMITED | 142,310,347 | 36.05 |
| 2 | CITIBANK NOMINEES SINGAPORE PTE LTD | 67,076,120 | 16.99 |
| 3 | DBS NOMINEES (PRIVATE) LIMITED | 19,041,000 | 4.82 |
| 4 | LIAO JIANQIN | 16,450,000 | 4.17 |
| 5 | LIN YUCHENG | 16,450,000 | 4.17 |
| 6 | PAN SHUHONG | 16,450,000 | 4.17 |
| 7 | ASDEW ACQUISITIONS PTE LTD | 13,404,000 | 3.40 |
| 8 | DBS VICKERS SECURITIES (SINGAPORE) PTE LTD | 13,226,000 | 3.35 |
| 9 | WATERWORTH PTE LTD | 12,000,000 | 3.04 |
| 10 | PHILLIP SECURITIES PTE LTD | 7,821,000 | 1.98 |
| 11 | RAFFLES NOMINEES (PTE) LIMITED | 4,456,000 | 1.13 |
| 12 | CIMB SECURITIES (SINGAPORE) PTE. LTD. | 3,350,000 | 0.85 |
| 13 | OCBC SECURITIES PRIVATE LIMITED | 3,212,000 | 0.81 |
| 14 | MAYBANK KIM ENG SECURITIES PTE. LTD. | 2,881,000 | 0.73 |
| 15 | LUI YEN LI (LI YANLI) | 1,839,000 | 0.47 |
| 16 | XIE YU | 1,462,000 | 0.37 |
| 17 | TEO CHIANG CHAI | 1,400,000 | 0.35 |
| 18 | LIM & TAN SECURITIES PTE LTD | 1,394,000 | 0.35 |
| 19 | SHU LIFEN | 1,297,000 | 0.33 |
| 20 | SINGAPORE NOMINEES PRIVATE LIMITED | 1,239,000 | 0.31 |
| | **TOTAL** | **346,758,467** | **87.84** |

# STATISTICS OF SHAREHOLDINGS

As at 19 March 2015

## SHARE CAPITAL

| | | |
|---|---|---|
| Authorised share capital | : | US$8,000,000 |
| Issued and fully paid-up | : | US$3,948,000 |
| Class of Shares | : | Ordinary shares of US$0.01 each |
| Number of Treasury Shares held | : | Nil |
| Voting rights | : | One vote per share |

### Shareholdings Held in Hands of Public

Based on information available to the Company as at 19 March 2015, 48.71% of the issued ordinary shares of the Company is held by the public and therefore Rule 723 of the Listing Manual is complied with.

## SUBSTANTIAL SHAREHOLDERS as at 19 March 2015

| Name of Substantial Shareholder | Direct Interest | % | Deemed Interest | % |
|---|---|---|---|---|
| 1. Guo Hong Xin(1) | – | – | 76,287,983 | 19.32 |
| 2. Li Lai Suo(2) | – | – | 69,097,318 | 17.50 |
| 3. Ma Ming(3) | – | – | 57,113,166 | 14.47 |
| 4. Allgreat Pacific Limited | 76,287,983 | 19.32 | – | – |
| 5. Armour Asia Limited(2) | 69,097,318 | 17.50 | – | – |
| 6. Claremont Consultancy Limited | 57,113,166 | 14.47 | – | – |

**Notes:**

(1) Mr Guo Hong Xin is deemed to be interested in the 76,287,983 shares held by Allgreat Pacific Limited which is an investment holding company wholly owned by Mr Guo Hong Xin.

(2) Mr Li Lai Suo is deemed to be interested in the 69,097,318 shares held by Armour Asia Limited which is an investment holding company wholly owned by Mr Li Lai Suo. Information on interests in shares of the Company reflected herein is based the latest notification form for substantial shareholders in respect of interests in securities dated 9 May 2013 received by the Company; and the known dilutive effect of the placement of 65,800,000 issued and paid up shares in the Company, which were allotted and issued on 12 May 2014. The Company has not received any further notification from Mr Li Lai Suo and/or Armour Asia Limited of any change in interest further to 9 May 2013.

(3) Mr Ma Ming is deemed to be interested in the 57,113,166 shares held by Claremont Consultancy Limited which is an investment holding company wholly owned by Mr Ma Ming.

# NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2015 Annual General Meeting of the Company will be held at Level 6, Vanda 4, Marina Mandarin Singapore, 6 Raffles Boulevard, Marina Square, Singapore 039594 on Wednesday, 29 April 2015 at 9.30 a.m., for the purpose of transacting the following business:

## ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Financial Statements for the financial year ended 31 December 2014 and the Report of the Directors and the Independent Auditors' Report thereon. **Resolution 1**

2. To declare a 1-tier tax exempt final dividend of S$0.001 per share in respect of the financial year ended 31 December 2014. **Resolution 2**

3. To approve Directors' fees of S$177,000 for the financial year ended 31 December 2014. (2013: S$177,000) **Resolution 3**

4. To re-elect the following Directors retiring pursuant to Bye-Law 104 of the Bye-Laws of the Company:-

   (i) Jiang Ning *(See Explanatory Note)* **Resolution 4(i)**
   (ii) Ma Ming **Resolution 4(ii)**

5. To re-appoint Messrs Deloitte & Touche LLP as Auditors and to authorise the Directors to fix their remuneration. **Resolution 5**

## SPECIAL BUSINESS

To consider and, if thought fit, to pass, with or without modifications, the following Ordinary Resolution:-

6. That pursuant to Bye-Law 12(B) of the Bye-Laws of the Company and listing rules of Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors be and are hereby authorised to: **Resolution 6**

   (a) (i) issue shares in the capital of the Company ("shares") whether by way of rights, bonus or otherwise; and/or

   (ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into shares,

   at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may, in their absolute discretion deem fit; and

   (b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while this Resolution was in force,

**PROVIDED THAT:**

(1) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) shall not exceed fifty per cent. (50%) of the total number of issued shares (excluding treasury shares (if any)) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of shares to be issued other than on a *pro rata* basis to existing shareholders of the Company (including shares to be issued in pursuant of Instruments made or granted pursuant to this Resolution) shall not exceed twenty per cent. (20%) of the total number of issued shares (excluding treasury shares (if any)) in the capital of the Company (as calculated in accordance with sub-paragraph (2) below);

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of shares that may be issued under paragraphs (1) above, the percentage of issued shares shall be based on the total number of issued shares in the capital of the Company excluding treasury shares if any at the time this Resolution is passed, after adjusting for:

(i) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this Resolution is passed; and

(ii) any subsequent bonus issue or consolidation or subdivision of shares;

(3) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye-Laws for the time being of the Company; and

(4) (unless revoked or varied by the Company in General Meeting) the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by the Bye-Laws to be held, whichever is the earlier. *(See Explanatory Note)*

## OTHER BUSINESS

7. To transact any other business that may be properly transacted at the Annual General Meeting of the Company.

BY ORDER OF THE BOARD

**HO WUI MEE MARIAN**
Company Secretary

6 April 2015

**Explanatory Notes:**

**Resolution 4(i)**

Mr Jiang Ning, Chairman of Nominating Committee, a member of Remuneration Committee and a member of Audit Committee, will continue to serve in these capacities if re-elected as a Director of the Company. Mr Jiang is considered independent for the purpose of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

**Resolution 6**

Ordinary Resolution no. 6, if passed, will empower the Directors of the Company to issue shares in the capital of the Company and to make or grant instruments (such as warrants or debentures) convertible into shares, and to issue shares in pursuance of such instruments, up to a number not exceeding in total fifty per cent (50%) of the total number of issued shares (excluding treasury shares (if any)) in the capital of the Company, with a sub-limit of twenty per cent (20%) for issued other than on a *pro rata* basis to shareholders. For the purpose of determining the aggregate number of shares that may be issued, the percentage of issued shares (excluding treasury shares (if any)) shall be based on the total number of issued shares (excluding treasury shares (if any)) in the capital of the Company at the time this resolution is passed, after adjusting for (a) new shares arising from the conversion or exercise of any convertible securities or share options or vesting of share awards which are outstanding or subsisting at the time this resolutions passed, and (b) any subsequent bonus issue or consolidation or subdivision of shares.

**Notes:**

(1) With the exception of The Central Depository (Pte) Limited (which may appoint more than two (2) proxies), a member of the Company who is entitled to attend and vote at the Annual General Meeting and who is the holder of two (2) or more shares is entitled to appoint no more than two (2) proxies to attend the Annual General Meeting and vote in his stead. A proxy need not be a member of the Company.

(2) All Depositor Proxy Forms must be lodged at the office of the Company's Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd., at 50 Raffles Place, #32-01, Singapore Land Tower, Singapore 048623, not less than 48 hours before the time appointed for holding the Annual General Meeting in order for the proxy to be entitled to attend and vote at the Annual General Meeting.

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