*The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong,*

EY 安永

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

30 June 2017

The Directors
**China Singyes New Materials Holdings Limited**
**Octal Capital Limited**

Dear Sirs,

We set out below our report on the financial information of China Singyes New Materials Holdings Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") comprising the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2014, 2015 and 2016 (the "**Relevant Periods**"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2014, 2015 and 2016, together with the notes thereto (the "**Financial Information**"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 30 June 2017 (the "**Prospectus**") in connection with the listing of the shares of the Company (the "**Listing**") on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The Company was incorporated in Bermuda as a company with limited liability on 14 November 2014. Pursuant to a group reorganisation as set out in the paragraph headed "History, reorganisation and group structure" in the Prospectus (the "**Reorganisation**"), which was completed on 12 February 2015, the Company became the holding company of the other subsidiaries comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the "**Directors**") have prepared the consolidated financial statements of the Group (the "**Underlying Financial Statements**") in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"). The Underlying Financial Statements for each of the years ended 31 December 2014, 2015 and 2016 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

**DIRECTORS' RESPONSIBILITY**

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

**REPORTING ACCOUNTANTS' RESPONSIBILITY**

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

**OPINION IN RESPECT OF THE FINANCIAL INFORMATION**

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the financial position of the Group and the Company as at 31 December 2014, 2015 and 2016, and of the financial performance and cash flows of the Group for each of the Relevant Periods.

## I. FINANCIAL INFORMATION

**Consolidated statements of profit or loss and other comprehensive income**

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2014** | **2015** | **2016** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* |
| REVENUE | *4* | 44,805 | 60,477 | 90,887 |
| Cost of sales | | (30,524) | (36,581) | (56,084) |
| Gross profit | | 14,281 | 23,896 | 34,803 |
| Other income and gains | *5* | 14 | 1,089 | 1,065 |
| Selling and distribution expenses | | (5,211) | (5,633) | (8,107) |
| Administrative expenses | | (6,758) | (7,771) | (17,932) |
| Other expenses | | (1,518) | (1,968) | (1,000) |
| Interest expenses | | (106) | (205) | — |
| PROFIT BEFORE TAX | *6* | 702 | 9,408 | 8,829 |
| Income tax expense | *9* | (313) | (1,712) | (2,448) |
| PROFIT FOR THE YEAR | | 389 | 7,696 | 6,381 |
| OTHER COMPREHENSIVE INCOME: | | | | |
| Other comprehensive income not to be reclassified to profit or loss in subsequent years: | | | | |
| Exchange differences on translation of financial statements | | — | 9 | (134) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 389 | 7,705 | 6,247 |
| Profit attributable to: | | | | |
| Owners of the Company | | 389 | 7,696 | 6,381 |
| Total comprehensive income attributable to: | | | | |
| Owners of the Company | | 389 | 7,705 | 6,247 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | | | | |
| Basic and diluted | *10* | N/A | N/A | N/A |

## I. FINANCIAL INFORMATION *(Continued)*

**Consolidated statements of financial position**

| | | 31 December | | |
|---|---|---|---|---|
| | | **2014** | **2015** | **2016** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | *11* | 25,367 | 45,471 | 39,889 |
| Payments in advance | *12* | 12,333 | 121 | 16 |
| Deferred tax assets | *20* | 523 | 611 | 646 |
| Total non-current assets | | 38,223 | 46,203 | 40,551 |
| **CURRENT ASSETS** | | | | |
| Inventories | *13* | 13,600 | 8,632 | 11,896 |
| Trade and bills receivables | *14* | 28,147 | 24,917 | 60,073 |
| Prepayments, deposits and other receivables | *15* | 5,925 | 2,815 | 6,421 |
| Pledged bank balances | *16* | — | 20 | 20 |
| Cash and cash equivalents | *16* | 2,662 | 7,166 | 7,523 |
| Total current assets | | 50,334 | 43,550 | 85,933 |
| **CURRENT LIABILITIES** | | | | |
| Trade payables | *17* | 6,883 | 14,492 | 23,104 |
| Other payables and accruals | *18* | 25,504 | 14,661 | 21,948 |
| Interest-bearing bank loans | *19* | 4,500 | — | — |
| Tax payable | | 235 | 1,352 | 1,801 |
| Provision | *21* | 656 | 764 | 1,192 |
| Total current liabilities | | 37,778 | 31,269 | 48,045 |
| **NET CURRENT ASSETS** | | 12,556 | 12,281 | 37,888 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 50,779 | 58,484 | 78,439 |
| **NON-CURRENT LIABILITIES** | | | | |
| Deferred income | *22* | — | — | 812 |
| **Net assets** | | 50,779 | 58,484 | 77,627 |
| **EQUITY** | | | | |
| **Equity attributable to owners of the parent** | | | | |
| Issued capital | *23* | 1 | 1 | 1 |
| Reserves | *24* | 50,778 | 58,483 | 77,626 |
| Total equity | | 50,779 | 58,484 | 77,627 |

## I. FINANCIAL INFORMATION *(Continued)*

### Consolidated statements of changes in equity

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 (note 23) | Share premium account* RMB'000 (note 24(a)) | Contributed surplus* RMB'000 (note 24(b)) | Statutory reserve fund* RMB'000 (note 24(c)) | Capital reserves* RMB'000 (note 24(d)) | Exchange fluctuation reserve* RMB'000 | Retained Profits* RMB'000 | Total equity RMB'000 |
| **At 1 January 2014** | — | — | 20,000 | 207 | 406 | — | (224) | 20,389 |
| Profit and total comprehensive income for the year | — | — | — | — | — | — | 389 | 389 |
| Issue of shares | 1 | — | — | — | — | — | — | 1 |
| Capital contribution from the then parent company of a subsidiary^ | — | — | 30,000 | — | — | — | — | 30,000 |
| **At 31 December 2014 and 1 January 2015** | 1 | — | 50,000 | 207 | 406 | — | 165 | 50,779 |
| Profit for the year | — | — | — | — | — | — | 7,696 | 7,696 |
| Other comprehensive income for the year: Exchange differences on translation of financial statements | — | — | — | — | — | 9 | — | 9 |
| Total comprehensive income for the year | — | — | — | — | — | 9 | 7,696 | 7,705 |
| Transfer from retained profits | — | — | — | 1,111 | — | — | (1,111) | — |
| Distribution to the then controlling shareholder of a subsidiary | — | — | (55,161) | — | — | — | — | (55,161) |
| Waiver of shareholder's debt | — | — | — | — | 55,161 | — | — | 55,161 |
| **At 31 December 2015 and 1 January 2016** | 1 | — | (5,161) | 1,318 | 55,567 | 9 | 6,750 | 58,484 |
| Profit for the year | — | — | — | — | — | — | 6,381 | 6,381 |
| Other comprehensive income for the year: Exchange differences on translation of financial statements | — | — | — | — | — | (134) | — | (134) |
| Total comprehensive income for the year | — | — | — | — | — | (134) | 6,381 | 6,247 |
| Transfer from retained profits | — | — | — | 1,850 | — | — | (1,850) | — |
| Issue of shares | — | 12,896 | — | — | — | — | — | 12,896 |
| **At 31 December 2016** | 1 | 12,896 | (5,161) | 3,168 | 55,567 | (125) | 11,281 | 77,627 |

* These reserve accounts comprise the consolidated reserves in the consolidated statements of financial position.

^ Capital contribution from the then parent company represents the cash injection from Singyes Energy-saving Technologies Co., Ltd. ("**Singyes Energy-saving**") during the year ended 31 December 2014 for the payment of paid-in capital of Zhuhai Singyes Applicable Materials Company Limited ("**Singyes Applicable Materials**").

## I. FINANCIAL INFORMATION *(Continued)*

**Consolidated statements of cash flows**

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2014** | **2015** | **2016** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Profit before tax | | 702 | 9,408 | 8,829 |
| Adjustments for: | | | | |
| Depreciation | *11* | 3,080 | 3,425 | 5,058 |
| Impairment loss on property, plant and equipment | *11* | 1,260 | 675 | — |
| Impairment loss on trade receivables | *14* | 176 | 1,201 | 924 |
| Unrealised foreign exchange losses | | — | 62 | 98 |
| Loss of disposal of property, plant and equipment | *6* | — | — | 47 |
| Bank interest income | *5* | (8) | (22) | (17) |
| Deferred income released to profit or loss | *5* | — | — | (76) |
| Interest expenses | *6* | 106 | 205 | — |
| | | 5,316 | 14,954 | 14,863 |
| Decrease/(increase) in inventories | | (8,634) | 4,968 | (3,264) |
| Decrease/(increase) in trade and bills receivables | | (8,424) | 2,029 | (36,080) |
| Decrease/(increase) in prepayments, deposits and other receivables | | (2,914) | 3,109 | (3,606) |
| Increase in trade payables | | 1,025 | 7,609 | 8,612 |
| Increase/(decrease) in other payables and accruals | | 23,175 | (11,862) | 8,331 |
| Increase in provision for product warranties, net | | 383 | 108 | 428 |
| Cash generated from/(used in) operations | | 9,927 | 20,915 | (10,716) |
| Income tax paid | | (209) | (683) | (2,034) |
| **Net cash flows from/(used in) operating activities** | | 9,718 | 20,232 | (12,750) |

## I. FINANCIAL INFORMATION *(Continued)*

**Consolidated statements of cash flows** *(Continued)*

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2014** | **2015** | **2016** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchases of items of property, plant and equipment | | (13,841) | (11,215) | (3,181) |
| Decrease in amounts due from related parties | | 8,465 | — | — |
| Decrease in an amount due from the parent company | | — | 1 | — |
| Placement of pledged deposits | | — | (20) | — |
| Proceeds from disposal of items of property, plant and equipment | | — | — | 970 |
| Receipt of government grants related to assets | | — | — | 888 |
| Interest received | | 8 | 22 | 17 |
| **Net cash flows used in investing activities** | | (5,368) | (11,212) | (1,306) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from issue of shares | | — | — | 12,896 |
| Capital contribution from the then parent company | | 30,000 | — | — |
| Distribution to the then parent company | *24(b)* | — | (55,161) | — |
| Advances from the parent company | *24(d)* | — | 55,161 | — |
| Increase/(decrease) in amounts due to related parties | | (36,986) | 180 | 1,651 |
| Proceeds from bank loans | | 5,000 | — | — |
| Repayment of bank loans | | (500) | (4,500) | — |
| Interest paid | | (106) | (205) | — |
| **Net cash flows from/(used in) financing activities** | | (2,592) | (4,525) | 14,547 |

## I. FINANCIAL INFORMATION *(Continued)*

**Consolidated statements of cash flows** *(continued)*

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2014** | **2015** | **2016** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 1,758 | 4,495 | 491 |
| Cash and cash equivalents at beginning of year | | 904 | 2,662 | 7,166 |
| Effect of foreign exchange rate changes, net | | — | 9 | (134) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 2,662 | 7,166 | 7,523 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | | |
| Cash and bank balances | *16* | 2,662 | 7,166 | 7,523 |

## I. FINANCIAL INFORMATION *(Continued)*

**Statements of financial position of the Company**

| | | As at 31 December | | |
|---|---|---|---|---|
| | | **2014** | **2015** | **2016** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* |
| **NON-CURRENT ASSET** | | | | |
| Investment in a subsidiary | | — | — | — |
| **CURRENT ASSETS** | | | | |
| Prepayments | *15* | — | — | 3,133 |
| Due from the parent company | | 1 | — | — |
| Due from the intermediate holding company | | — | — | 511 |
| Due from a subsidiary | | — | 58,441 | 74,167 |
| Total current assets | | 1 | 58,441 | 77,811 |
| **CURRENT LIABILITIES** | | | | |
| Other payables and accruals | *18* | — | — | 2,232 |
| Due to a subsidiary | | — | — | 6,630 |
| Total current liabilities | | — | — | 8,862 |
| Net assets | | 1 | 58,441 | 68,949 |
| **Equity** | | | | |
| Issued capital | | 1 | 1 | 1 |
| Reserves | *24* | — | 58,440 | 68,948 |
| Total equity | | 1 | 58,441 | 68,949 |

## II. NOTES TO FINANCIAL INFORMATION

### 1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business of the Company is located at Unit 3108, 31st Floor, China Merchants Tower, Shun Tak Center, 168-200 Connaught Road Central, Hong Kong.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were involved in sale and installation of Indium Tin Oxide ("**ITO**") film, and research and development, production, sale and installation of Smart Light-adjusting Film, Smart Light-adjusting Glass and Smart Light-adjusting Projection System in the mainland of People's Republic of China (the "**PRC**").

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in paragraph headed "Our Corporate History and Group Structure" in the section headed "History, reorganisation and group structure" to the Prospectus.

In the opinion of the Directors, the parent company, the intermediate holding company and the ultimate holding company of the Company are Top Access Management Limited ("**Top Access**"), China Singyes Solar Technologies Holdings Limited ("**Singyes Solar**") and Strong Eagle Holdings Limited ("**Strong Eagle**"), respectively. Both Top Access and Strong Eagle were incorporated in the British Virgin Islands. Singyes Solar was incorporated in Bermuda.

As at 31 December 2016, the Company had direct and indirect interests in its subsidiaries, both of which are private limited liability companies, the particulars of which are set out below:

| Name | Place and date of incorporation/ registration and place of operations | Nominal value of issued ordinary/ registered share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Singyes New Materials (H.K.) Company Limited [(a)] ("**New Materials (H.K.)**") | Hong Kong 28 November 2014 | USD1 | 100 | — | Investment holding |
| Singyes Applicable Materials [(b)] 珠海興業應用材料科技有限公司 | Mainland China 31 March 2010 | RMB62,500,000 | — | 100 | See (b) below |

*Notes:*

(a) The statutory financial statements of Singyes New Materials (H.K.) Company Limited for the period from 28 November 2014 (the date of incorporation) to 31 December 2015 and the year ended 31 December 2016 were audited by Ernst & Young, Hong Kong.

(b) The statutory financial statements of Singyes Applicable Materials for the years ended 31 December 2014, 2015 and 2016 prepared under the Generally Accepted Accounting Principles of the PRC ("**PRC GAAP**") were audited by Ernst & Young Hua Ming LLP, certified public accountants in the PRC. Singyes Applicable Materials is principally involved in the research, manufacture, sale and installation of ITO film, Smart Light-adjusting Film, Smart Light-adjusting Glass and Smart Light-adjusting Projection System. The English name of Singyes Applicable Materials represents the best effort made by management of the Company to translate its Chinese name as it does not have official English name.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 1. CORPORATE AND GROUP INFORMATION *(Continued)*

In 2015, the Group deregistered an indirectly wholly-owned subsidiary, Weihai Singyes Applicable Materials Co., Ltd., a company established in Mainland China, which remained dormant since its establishment on 29 July 2014.

### 2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraph headed "Our Corporate History and Group Structure" in the section headed "History, reorganisation and group structure" to the Prospectus, the Company became the holding company of the companies now comprising the Group on 12 February 2015. The companies now comprising the Group were under the common control of the controlling shareholders before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group since the date when the subsidiaries first came under the common control. The consolidated statement of financial position of the Group as at 31 December 2014 has been prepared to present the assets and liabilities of the subsidiaries using the existing book values from the controlling shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

### 2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from 1 January 2016, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in this Financial Information.

| | |
|---|---|
| Amendments to IFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[2] |
| Amendments to IFRS 4 | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2] |
| IFRS 9 | *Financial Instruments*[2] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| IFRS 15 | *Revenue from Contracts with Customers*[2] |
| Amendments to IFRS 15 | *Clarifications to HFRS 15 Revenue from Contracts with Customers*[2] |
| Amendments to IAS 40 | *Transfers of Investment Property*[2] |
| IFRIC 22 | *Foreign Currency Transactions and Advance Consideration*[2] |
| IFRS 16 | *Leases*[3] |
| Amendments to IAS 7 | *Disclosure Initiative*[1] |
| Amendments to IAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses*[1] |
| *Annual Improvements 2014-2016 Cycle* | Amendments to IFRS 12[1] |
| *Annual Improvements 2014-2016 Cycle* | Amendments to IFRS 1[2] |
| *Annual Improvements 2014-2016 Cycle* | Amendments to IAS 28[2] |

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined

Further information about these changes, which are expected to be applicable to the Group, is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future.

The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs *(Continued)*

(b) IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property and transition. The amendments to IFRS 15 also added two practical expedients to the transition requirements of IFRS 15 for: (a) completed contracts under the full retrospective transition approach; and (b) contract modifications at transition. The Group expects to adopt IFRS 15 and amendments to IFRS 15 on 1 January 2018. Based on the current business model, the Directors do not expect the adoption of IFRS 15 would result in significant impact on the amounts reported on the Group's financial statements in the future. However, there will be additional qualitative and quantitative disclosures upon the adoption of IFRS 15.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019. Based on the Group's undiscounted operating lease commitments of RMB1,897,000 as set out in note 25 to the Financial information, the Directors are currently assessing the impact of IFRS 16 upon adoption and expect that a certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and the lease liabilities.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.1 ISSUED BUT NOT YET EFFECTIVE IFRSs *(Continued)*

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Subsidiaries**

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

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

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

(b) rights arising from other contractual arrangements; and

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

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

**Basis of combination**

This Financial Information includes the financial statements of the Company and its subsidiaries now comprising the Group. As explained in note 2.1 above, the acquisition of subsidiaries has been accounted for using merger accounting.

The merger accounting involves incorporating the financial statement items of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses using the existing book value from the perspective of the controlling shareholder of the Company. No amount is recognised in respect of goodwill or the excess of the acquirer's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the consideration transferred and of other items at the time of common control combination.

The acquisition of subsidiaries other than those under common control has been accounted for using the acquisition method.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Basis of combination** *(Continued)*

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Except for the common control combination as mentioned above, the results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

Non-controlling interests represent the equity interests in a subsidiary held by parties other than the controlling shareholder. Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

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

**Fair value measurement**

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

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

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

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Fair value measurement** *(Continued)*

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

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

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

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

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

**Impairment of non-financial assets**

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

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

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

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Related parties**

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

**Property, plant and equipment and depreciation**

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

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Property, plant and equipment and depreciation** *(Continued)*

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value (nil to 5% of cost) over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Plant and machinery | 5-10 years |
| Motor vehicles | 5 years |
| Office equipment | 3-5 years |

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

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

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

**Intangible assets**

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

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Intangible assets** *(Continued)*

***Research and development costs***

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

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

**Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

**Investments and other financial assets**

***Initial recognition and measurement***

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

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

***Subsequent measurement***

The subsequent measurement of loans and receivables is as follows:

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

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Derecognition of financial assets**

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

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

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

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

**Impairment of financial assets**

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

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

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

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Impairment of financial assets** *(Continued)*

***Financial assets carried at amortised cost*** *(Continued)*

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

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

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

**Financial liabilities**

***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as loans and borrowings.

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

The Group's financial liabilities included trade and other payables, and interest-bearing bank loans.

***Subsequent measurement***

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

***Loans and borrowings***

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

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

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Derecognition of financial liabilities**

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

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

**Offsetting of financial instruments**

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

**Inventories**

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

**Cash and cash equivalents**

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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

**Provisions**

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

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

Provisions for product warranties granted by the Group on certain products are recognised based on sales and past experience of the level of repairs and returns, discounted to their present values as appropriate.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Income tax**

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

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

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

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

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

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

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

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

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

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

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Income taxs** *(Continued)*

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

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

**Government grants**

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

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

**Revenue recognition**

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

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

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Employee benefits**

***(a) Pension scheme***

The employees of the Group's subsidiaries in Mainland China are required to participate in a central pension scheme operated by the local government. These subsidiaries and their employees are required to make monthly contributions calculated as a percentage of the employees' wages and salaries, subject to certain ceilings and local practices set by the relevant local governments, to the central pension scheme. Other than the central pension scheme, the Group's subsidiaries in Mainland China have no legal obligation for retirement benefits beyond the contributions made. Contributions to these plans are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

***(b) Housing fund***

Contributions to a defined contribution housing fund administered by the Public Accumulation Funds Administration Centre in Mainland China are charged to profit or loss as incurred.

***(c) Share-based compensation***

The Company's intermediate holding company, Singyes Solar operates an equity-settled, share-based compensation plan for the purpose of providing incentives and rewards to eligible participants including certain employees of the Company.

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period, with a corresponding increase in equity as a contribution from the holding company. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to become vested. The impact of the revision of original estimates is recognised in profit or loss and a corresponding adjustment is made to the contribution from the holding company over the remaining vesting period.

**Borrowing costs**

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

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Foreign currencies**

This Financial Information is presented in RMB. The functional currency of the Company is HK$. The Group's presentation currency is RMB because the Group's principal operations are carried out in Mainland China. Each entity in the Group determines its own functional currency and items included in this Financial Information of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The functional currencies of certain companies within the Group are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

### 3.3 SIGNIFICANT ACCOUNTING ESTIMATES

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

**Estimation uncertainty**

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

***Corporate income tax ("CIT")***

The Group's subsidiary operating in Mainland China is subject to the PRC CIT. As a result of the fact that certain matters relating to PRC CIT have not been confirmed by the relevant local tax authorities, objective estimates based on currently enacted tax laws, regulations and other related policies are required in determining the provision for PRC CIT to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax and tax provision in the period in which the final outcome is determined. The carrying amounts of PRC CIT payable at 31 December 2014, 2015 and 2016 were RMB235,000, RMB1,352,000 and RMB1,801,000, respectively.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 3.3 SIGNIFICANT ACCOUNTING ESTIMATES *(Continued)*

**Estimation uncertainty** *(Continued)*

***Impairment of receivables***

The provision policy for impairment of receivables of the Group is based on ongoing assessment of the recoverability and the aging analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of those receivables, including the creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required. At 31 December 2014, 2015 and 2016, impairment provision for trade receivables amounted to approximately RMB176,000, RMB1,377,000 and RMB2,301,000, respectively. Further details are given in note 14 to the Financial Information.

***Useful lives and residual values of property, plant and equipment***

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. The depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date taking into account changes in circumstances.

***Net realisable value of inventories***

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature. It could change significantly as a result of changes in customers' interests or competitor actions. Management reassesses these estimates at the end of each reporting period. There was no impairment provision for inventories as at 31 December 2014, 2015 and 2016.

***Deferred tax assets***

Deferred tax assets should be recognised when it is probable that taxable profits will be available against which the deferred tax assets can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amounts of deferred tax assets at 31 December 2014, 2015 and 2016 were RMB523,000, RMB611,000 and RMB646,000, respectively. Further details are given in note 20 to the Financial Information.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 4. OPERATING SEGMENT INFORMATION AND REVENUE

Revenue represents the net invoiced value of goods, net of various types of government surcharges.

The Group's revenue and contribution to consolidated results are mainly derived from its sale and installation of ITO film, smart light-adjusting films, smart light-adjusting glass and smart light-adjusting projection system, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for the purpose of resource allocation and performance assessment. In addition, the principal assets employed by the Group are located in Mainland China. Accordingly, no segment analysis is presented other than entity-wide disclosures.

**Information about major customers**

Revenue from each of the major customers, which amounted to 10% or more of the total revenue, is set out below:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Customer A | 7,198 | * | — |
| Customer B | — | — | 11,745 |

* Less than 10%

**Entity-wide disclosures**

***Information about products***

The following table sets forth the total revenue from external customers by product and the percentage of total revenue by product during the Relevant Periods:

| | 2014 | | 2015 | | 2016 | |
|---|---|---|---|---|---|---|
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| ITO film | 18,159 | 40.5 | 18,354 | 30.4 | 13,729 | 15.1 |
| Smart Light-adjusting Film | 7,200 | 16.1 | 18,621 | 30.8 | 18,882 | 20.8 |
| Smart Light-adjusting Glass | 18,566 | 41.4 | 8,360 | 13.8 | 26,492 | 29.1 |
| Smart Light-adjusting Projection System | — | — | 13,621 | 22.5 | 23,788 | 26.2 |
| Others | 880 | 2.0 | 1,521 | 2.5 | 7,996 | 8.8 |
| | 44,805 | 100.0 | 60,477 | 100.0 | 90,887 | 100.0 |

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 4. OPERATING SEGMENT INFORMATION AND REVENUE *(Continued)*

**Entity-wide disclosures** *(Continued)*

***Geographical information***

*(a)* *Revenue from external customers*

| | 2014 | | 2015 | | 2016 | |
|---|---|---|---|---|---|---|
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Domestic — Mainland China* | 44,194 | 98.6 | 59,987 | 99.2 | 89,806 | 98.8 |
| Others | 611 | 1.4 | 490 | 0.8 | 1,081 | 1.2 |
| | 44,805 | 100.0 | 60,477 | 100.0 | 90,887 | 100.0 |

* The place of domicile of the Group's principal operating subsidiary is Mainland China. The principal revenues of the Group are generated in Mainland China.

*(b)* *Non-current assets*

The Group's non-current assets are all located in Mainland China.

### 5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Deferred income released to profit or loss *(note 22)* | — | — | 76 |
| Bank interest income | 8 | 22 | 17 |
| Government grants* | 6 | 1,067 | 600 |
| Foreign exchange gains | — | — | 346 |
| Sales of scrapped materials | — | — | 26 |
| | 14 | 1,089 | 1,065 |

* There were no unfulfilled conditions or contingencies relating to these grants.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 6. PROFIT BEFORE TAX

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

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Cost of inventories sold | 30,524 | 36,581 | 56,084 |
| Employee benefit expense: (including directors' and chief executive's remuneration *(note 7)*): | | | |
| Wages and salaries and relevant benefits | 7,105 | 8,896 | 9,207 |
| Pension scheme contributions | 216 | 321 | 419 |
| | 7,321 | 9,217 | 9,626 |
| Interest on bank loans | 106 | 205 | — |
| Depreciation | 3,080 | 3,425 | 5,058 |
| Research costs | 1,603 | 1,984 | 2,206 |
| Minimum lease payments under operating leases | 154 | 456 | 948 |
| Auditors' remuneration | 267 | 253 | 340 |
| Listing fees expensed off | — | — | 9,696 |
| Impairment loss on property plant and equipment | 1,260 | 675 | — |
| Impairment loss on trade receivables | 176 | 1,201 | 924 |
| Loss of disposal of property, plant and equipment | — | — | 47 |
| Exchange losses/(gains), net | 65 | 69 | (346) |

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

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

Directors' and chief executive's remuneration for the year, disclosed pursuant to the listing rules issued by the Stock Exchange (the "**Listing Rules**"), section 383(1)(a),(b),(c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Fees | — | — | — |
| Other emoluments: | | | |
| Salaries, allowances and benefits in kind | — | 211 | 72 |
| Pension scheme contributions | — | 17 | 5 |
| | — | 228 | 77 |

| | **Fees** | **Salaries, allowances and benefits in kind** | **Pension scheme contributions** | **Total remuneration** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 December 2014** | | | | |
| Executive director: | | | | |
| Mr. Sun Jinli* | — | — | — | — |
| Non-executive directors: | | | | |
| Mr. Liu Hongwei | — | — | — | — |
| Mr. Xie Wen | — | — | — | — |
| | — | — | — | — |
| **Year ended 31 December 2015** | | | | |
| Executive director: | | | | |
| Mr. Sun Jinli* | — | 211 | 17 | 228 |
| Non-executive directors: | | | | |
| Mr. Liu Hongwei | — | — | — | — |
| Mr. Xie Wen | — | — | — | — |
| | — | 211 | 17 | 228 |

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

| | Fees | Salaries, allowances and benefits in kind | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Year ended 31 December 2016** | | | | |
| Executive directors: | | | | |
| Mr. Zhao Feng** | — | — | — | — |
| Mr. Zhang Chao** | — | — | — | — |
| Mr. Sun Jinli* | — | 20 | 2 | 22 |
| Mr. Tang Liwen*** | — | 52 | 3 | 55 |
| | — | 72 | 5 | 77 |
| Non-executive directors: | | | | |
| Mr. Liu Hongwei | — | — | — | — |
| Mr. Xie Wen** | — | — | — | — |
| | — | 72 | 5 | 77 |

* Mr. Sun Jinli who acts as an executive director of the Company is also the chief executive officer of the Company.

** On 10 March 2016, Mr. Xie Wen resigned as a non-executive director of the Company. On the same day, Messrs. Zhao Feng and Zhang Chao were appointed as executive directors of the Company.

*** Mr. Tang Liwen ("Mr. Tang") was appointed as an executive director of the Company on 12 September. Mr. Tang's remuneration since his appointment as a director of the Company to 31 December 2016 was RMB55,000 and his remuneration during the year ended 31 December 2016 was RMB184,000.

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

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods included nil, 1 and nil director, respectively, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining 5, 4 and 4 highest paid employees who are neither a director nor chief executive of the Company during the Relevant Periods are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries, allowances and benefits in kind | 915 | 676 | 653 |
| Pension scheme contributions | 20 | 29 | 22 |
| | 935 | 705 | 675 |

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

| | Number of employees Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| Nil to HK$1,000,000 | 5 | 4 | 4 |

### 9. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the respective jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of Bermuda, the Group is not subject to any income tax in Bermuda.

The applicable CIT rate for Hong Kong incorporated subsidiary was 16.5% during the Relevant Periods. No provision for Hong Kong profits tax has been made as the Group had no assessable profit derived from or earned in Hong Kong during the Relevant Periods.

During the year ended 31 December 2014, the applicable CIT rate for Singyes Applicable Materials was 25%. During the years ended 31 December 2015 and 2016, Singyes Applicable Materials was entitled to a preferential PRC CIT rate of 15% as it was accredited as "High and New Technology Enterprise" ("**HNTE**") from 1 January 2015 to 31 December 2017.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 9. INCOME TAX *(Continued)*

The major components of income tax expense for the Relevant Periods are as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Current — Mainland China | | | |
| Charge for the year | 566 | 1,800 | 2,413 |
| Deferred *(note 20)* | (253) | (88) | 35 |
| Total tax charge for the year | 313 | 1,712 | 2,448 |

A reconciliation of the tax expense applicable to profit before tax at the applicable tax rates for the jurisdictions in which companies within the Group are domiciled to the tax expense at the effective tax rate is as follows:

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Profit before tax | 702 | 9,408 | 8,829 |
| Add: disallowed expenses incurred by the Company* | — | — | 6,711 |
| Profit before tax generated by the Hong Kong and PRC subsidiary | 702 | 9,408 | 15,540 |
| At the applicable tax rates | | | |
| 15% | — | 1,420 | 2,354 |
| 25% | 175 | — | — |
| 16.5% | — | (9) | (25) |
| Expenses not deductible for tax | 138 | 83 | 94 |
| Effect of tax rate change | — | 209 | — |
| Tax losses not recognised | — | 9 | 25 |
| Tax charge at the Group's effective tax rate | 313 | 1,712 | 2,448 |

* Expenses incurred by the Company mainly consist of transaction costs relating to the Listing incurred by the Company. These expenses are not expected to be tax deductible.

### 10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 11. PROPERTY, PLANT AND EQUIPMENT

| | Plant and machinery *RMB'000* | Motor vehicles *RMB'000* | Office equipment *RMB'000* | Construction in progress *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| 31 December 2014 | | | | | |
| **Cost:** | | | | | |
| At 1 January 2014 | 33,099 | 406 | 19 | 427 | 33,951 |
| Additions | 640 | — | 9 | 1,013 | 1,662 |
| At 31 December 2014 and 1 January 2015 | 33,739 | 406 | 28 | 1,440 | 35,613 |
| Additions | 2,177 | 416 | 83 | 21,528 | 24,204 |
| Transfers | 21,508 | — | — | (21,508) | — |
| At 31 December 2015 and 1 January 2016 | 57,424 | 822 | 111 | 1,460 | 59,817 |
| Additions | — | — | 2 | 976 | 978 |
| Transfers | 2,357 | — | — | (2,357) | — |
| Reduction in costs | (485) | — | — | — | (485) |
| Disposals | (2,989) | — | (42) | — | (3,031) |
| At 31 December 2016 | 56,307 | 822 | 71 | 79 | 57,279 |
| **Accumulated depreciation and impairment:** | | | | | |
| At 1 January 2014 | 5,716 | 186 | 4 | — | 5,906 |
| Depreciation provided for the year | 2,999 | 77 | 4 | — | 3,080 |
| Impairment provided for the year | 1,260 | — | — | — | 1,260 |
| At 31 December 2014 and 1 January 2015 | 9,975 | 263 | 8 | — | 10,246 |
| Depreciation provided for the year | 3,295 | 116 | 14 | — | 3,425 |
| Impairment provided for the year | 675 | — | — | — | 675 |
| At 31 December 2015 and 1 January 2016 | 13,945 | 379 | 22 | — | 14,346 |
| Depreciation provided for the year | 4,920 | 125 | 13 | — | 5,058 |
| Disposals | (2,008) | — | (6) | — | (2,014) |
| At 31 December 2016 | 16,857 | 504 | 29 | — | 17,390 |
| **Net carrying amount:** | | | | | |
| At 1 January 2014 | 27,383 | 220 | 15 | 427 | 28,045 |
| At 31 December 2014 | 23,764 | 143 | 20 | 1,440 | 25,367 |
| At 31 December 2015 | 43,479 | 443 | 89 | 1,460 | 45,471 |
| At 31 December 2016 | 39,450 | 318 | 42 | 79 | 39,889 |

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Impairment losses as of RMB1,260,000 and RMB675,000 were recognised during the years ended 2014 and 2015, respectively, to write down the carrying amount of a production machine of Singyes Applicable Materials to its estimated recoverable amount based on the quoted price in the market that are not active. The recoverable amounts of the said production machine were estimated to be RMB1,530,000 and RMB855,000, as at 31 December 2014 and 2015, respectively. The production machine was disposed of during the year ended 31 December 2016.

### 12. PAYMENTS IN ADVANCE

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Advance payments in respect of: | | | |
| Purchase of machinery | 12,333 | 121 | 16 |

### 13. INVENTORIES

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Raw materials | 6,511 | 4,321 | 4,362 |
| Work in progress | 2,146 | 2,371 | 4,031 |
| Finished goods | 4,943 | 1,940 | 3,503 |
| | 13,600 | 8,632 | 11,896 |

### 14. TRADE AND BILLS RECEIVABLES

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables | 23,576 | 23,729 | 61,605 |
| Less: Impairment | (176) | (1,377) | (2,301) |
| | 23,400 | 22,352 | 59,304 |
| Bills receivable | 4,747 | 2,565 | 769 |
| | 28,147 | 24,917 | 60,073 |

The Group's trading terms with its customers are mainly on credit. The credit period is generally ranging from one to six months for major customers. Trade receivables from small and new customers are normally expected to be settled shortly after the delivery of goods. No credit period is set by the Group for small and new customers. The Group's bills receivable have a maturity period of one to six months.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 14. TRADE AND BILLS RECEIVABLES *(Continued)*

The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade and bills receivables as at the end of the reporting period, based on the billing date and net of impairment, is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 3 months | 10,743 | 8,861 | 30,263 |
| 3 to 6 months | 5,408 | 4,128 | 18,636 |
| 6 to 12 months | 10,226 | 7,236 | 9,745 |
| 1 to 2 years | 1,770 | 4,692 | 1,429 |
| | 28,147 | 24,917 | 60,073 |

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

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of year | — | 176 | 1,377 |
| Impairment loss recognised *(note 6)* | 176 | 1,201 | 924 |
| | 176 | 1,377 | 2,301 |

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in interest or principal payment or both and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aging analysis of the trade and bills receivables that are not individually impaired and trade receivables that are considered partially impaired are as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Neither past due nor impaired | 7,922 | 4,639 | 14,071 |
| Past due but not impaired: | | | |
| Less than 6 months past due | 10,691 | 9,825 | 35,760 |
| 6 to 12 months past due | 9,152 | 5,191 | 9,088 |
| Over 12 months past due | 382 | 5,262 | 1,154 |
| | 28,147 | 24,917 | 60,073 |

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 14. TRADE AND BILLS RECEIVABLES *(Continued)*

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

Receivables that were past due but not impaired relate to a number of independent customers. The Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

### 15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Prepayments to suppliers | 5,154 | 1,945 | 2,584 |
| Deposits | 300 | 300 | — |
| Due from the parent company *(note 27(c))* | 1 | — | — |
| Deferred listing fees* | — | — | 3,084 |
| Other receivables | 470 | 570 | 753 |
| | 5,925 | 2,815 | 6,421 |

* Deferred listing fees represent legal and other professional fees relating to the Listing and they will be deducted from equity when the Company completes the Listing.

**Company**

As of 31 December 2016, prepayments mainly represented deferred listing fees incurred for the Listing as explained above.

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

### 16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Cash and bank balances | 2,662 | 7,186 | 7,543 |
| Less: Pledged deposits for performance guarantee | — | (20) | (20) |
| Cash and cash equivalents | 2,662 | 7,166 | 7,523 |

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 16. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(Continued)*

The Group's cash and bank balances and time deposits denominated in the following currencies:

| | As at 31 December | | |
|---|---|---|---|
| | 2014 | 2015 | 2016 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| *RMB equivalent amount:* | | | |
| RMB | 2,614 | 6,924 | 7,107 |
| HK | 24 | 29 | 33 |
| US$ | 24 | 213 | 383 |
| | 2,662 | 7,166 | 7,523 |

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

### 17. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the purchase recognition date, is as follows:

| | As at 31 December | | |
|---|---|---|---|
| | 2014 | 2015 | 2016 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Within 6 months | 2,212 | 9,537 | 18,079 |
| 6 to 12 months | 2,143 | 1,200 | 4,376 |
| 1 to 2 years | 449 | 2,542 | 384 |
| 2 to 3 years | 1,108 | 250 | 109 |
| Over 3 years | 971 | 963 | 156 |
| | 6,883 | 14,492 | 23,104 |

The trade payables are non-interest-bearing and are normally settled on three-month terms.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 18. OTHER PAYABLES AND ACCRUALS

**Group**

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | RMB'000 | RMB'000 | RMB'000 |
| Advances from customers | 1,377 | 3,833 | 2,977 |
| Accrued expenses | 267 | 428 | 3,827 |
| Payroll and welfare payable | 1,434 | 1,144 | 1,407 |
| Tax and surcharge payables | 2,320 | 4,394 | 9,332 |
| Payables related to property, plant and equipment | 66 | 4,446 | 1,751 |
| Due to related parties *(note 27(c))* | 40 | 336 | 1,987 |
| Other payables | 20,000 | 80 | 667 |
| | 25,504 | 14,661 | 21,948 |

**Company**

As of 31 December 2016, other payables and accruals mainly represented legal and other professional fees payable relating to the Listing.

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

### 19. INTEREST-BEARING BANK LOANS

The balances as of 31 December 2014 represent secured one-year bank loans granted by China Merchants Bank to the Group, which were guaranteed by a company controlled by Singyes Solar, and the Company's directors, Messrs. Sun Jinli and Liu Hongwei.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 20. DEFERRED TAX

The movements of deferred tax assets during the Relevant Periods are as follows:

**Deferred tax assets**

| | Tax losses<br>*RMB'000* | Impairment on trade receivables<br>*RMB'000* | Impairment on property, plant and equipment<br>*RMB'000* | Others<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| At 1 January 2014 | 202 | — | — | 68 | 270 |
| Deferred tax credited/(charged) to profit or loss during the year *(note 9)* | (202) | 44 | 315 | 96 | 253 |
| At 31 December 2014 and at 1 January 2015 | — | 44 | 315 | 164 | 523 |
| Deferred tax credited/(charged) to profit or loss during the year *(note 9)* | — | 163 | (25) | (50) | 88 |
| At 31 December 2015 and at 1 January 2016 | — | 207 | 290 | 114 | 611 |
| Deferred tax credited/(charged) to profit or loss during the year *(note 9)* | — | 139 | (290) | 186 | 35 |
| At 31 December 2016 | — | 346 | — | 300 | 646 |

### 21. PROVISION

| | As at 31 December | | |
|---|---|---|---|
| | 2014<br>*RMB'000* | 2015<br>*RMB'000* | 2016<br>*RMB'000* |
| At beginning of year | 273 | 656 | 764 |
| Additional provision | 689 | 278 | 964 |
| Amounts utilised during the year | (306) | (170) | (536) |
| At end of year | 656 | 764 | 1,192 |

The Group provides 6-month to 2-year warranties to its customers on certain of its products, under which default products are repaired or replaced. The amount of provision for warranties is estimated on sales and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised as appropriate.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 22. DEFERRED INCOME

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At beginning of year | — | — | — |
| Government grants received during the year | — | — | 888 |
| Released to profit or loss *(note 5)* | — | — | (76) |
| | — | — | 812 |

Deferred income represented government grants received by the Group in respect of the import of equipment and are released to profit or loss by annual instalment to match with the expected useful lives of the relevant assets.

### 23. SHARE CAPITAL

(a) The Company was incorporated in Bermuda on 14 November 2014 with initial authorised share capital of US$10,000 divided into 1,000,000 shares of a par value of US$0.01 each. Upon incorporation, 10,000 ordinary shares of the Company were issued and allotted for cash at par value of US$0. 01 each to Top Access.

(b) On 2 March 2016, the Company allotted and issued 660 ordinary shares for cash to Kunlun Holdings Group Limited ("**Kunlun Holdings**"), an independent third party, at an aggregate consideration of US$1,188,000 (equivalent to approximately RMB7,780,000).

(c) On 29 April 2016, the Company allotted and issued 440 ordinary shares for cash to Raton Race Investments Ltd ("**Raton Race**"), an independent third party, at an aggregate consideration of US$792,000 (equivalent to approximately RMB5,116,000).

Other than the issue of the above shares, there have been no movements in the Company's ordinary share capital from the date of incorporation of the Company to 31 December 2016. As of 31 December 2016, 11,100 ordinary shares were in issue at par value of US$0.01 each.

### 24. RESERVES

**Group**

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

***(a) Share premium***

As described in notes 23(b) and 23(c) above, Kunlun Holdings subscribed 660 new ordinary shares of the Company at an aggregate consideration of US$1,188,000 (equivalent to approximately RMB7,780,000) and Raton Race subscribed 440 new ordinary shares of the Company at an aggregate consideration of US$792,000 (equivalent to approximately RMB5,116,000). The difference between the proceeds from issue of shares and the nominal value of 1,100 shares issued was credited to the Company's share premium account.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 24. RESERVES *(Continued)*

**Group** *(Continued)*

***(b) Contributed surplus***

The contributed surplus resulted from the preparation of this Financial Information on the basis of presentation set out in note 2.1. It represents the difference between (i) the distribution to the then parent company, Singyes Energy-saving of RMB55,161,000 for the acquisition of its 100% equity interest in Singyes Applicable Materials by the Group pursuant to the Reorganisation and (ii) the nominal value of the paid-up capital of Singyes Applicable Materials of RMB50,000,000.

***(c) Statutory reserves***

Pursuant to the relevant laws and regulations in the PRC, a portion of profits as determined in accordance of the PRC GAAP of a subsidiary established in the PRC has been transferred to reserves funds. Such reserve funds are non-distributable except in the event of liquidation and subject to certain restrictions set out in the relevant PRC regulations. They can be used to offset accumulated losses or capitalised as paid-up capital.

***(d) Capital reserves***

Capital reserves as at 31 December 2014 represented the deemed contribution from the Company's intermediate holding company, Singyes Solar with respect to share options granted by Singyes Solar. All share options granted by Singyes Solar to the Group's employees were fully exercised prior to 1 January 2014.

Movement in capital reserves during the year ended 31 December 2015 represented the advance received from Top Access, the Company's parent company amounting to RMB55,161,000, which was waived by Top Access during the same year.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 24. RESERVES *(Continued)*

**Company**

| | Share premium account *RMB'000* | Capital reserve *RMB'000* | Exchange fluctuation reserve *RMB'000* | Accumulated losses *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| 14 November 2014, 31 December 2014 and 1 January 2015 | — | — | — | — | — |
| Total comprehensive income for the year | — | — | 3,279 | — | 3,279 |
| Waiver of shareholder's debt | — | 55,161 | — | — | 55,161 |
| At 31 December 2015 and 1 January 2016 | — | 55,161 | 3,279 | — | 58,440 |
| Total comprehensive income/(loss) for the year | — | — | 4,323 | (6,711) | (2,388) |
| Issue of shares | 12,896 | — | — | — | 12,896 |
| At 31 December 2016 | 12,896 | 55,161 | 7,602 | (6,711) | 68,948 |

### 25. OPERATING LEASE ARRANGEMENTS

**As lessee**

The Group leases certain of its office and factory under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years. At the end of each of the relevant periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2014** *RMB'000* | **2015** *RMB'000* | **2016** *RMB'000* |
| Within one year | 107 | 1,033 | 1,122 |
| In the second to third years, inclusive | — | 1,808 | 775 |
| | 107 | 2,841 | 1,897 |

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 26. COMMITMENTS

In addition to the operating lease commitments detailed in note 25 above, the Group had the following capital commitments at the end of the reporting period:

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Contracted, but not provided for: | | | |
| Plant and machinery | 8,011 | — | 10 |

### 27. RELATED PARTY TRANSACTIONS AND BALANCES

Details of the Company's principal related parties are as follows:

| **Company name** | **Relationship** |
|---|---|
| Top Access | Parent Company |
| Singyes Solar | Intermediate holding company |
| Zhuhai Singyes Renewable Energy Technology Co., Ltd. ("**Singyes Renewable Energy**") | Fellow subsidiary |
| Singyes Green Technologies (HK) Limited ("**Singyes Green Technologies**") | Fellow subsidiary |
| Singyes Engineering (HK) Co., Ltd. ("**Singyes Engineering**") | Fellow subsidiary |
| Zhuhai Singyes Green Building Technology Co., Ltd. ("**Zhuhai Singyes**") | Fellow subsidiary |
| Hunan Singyes Solar Technology Co., Ltd. ("**Hunan Singyes**") | Fellow subsidiary |
| Singyes Energy-saving | Fellow subsidiary |
| Gansu Singyes Solar Technologies Co., Ltd. ("**Gansu Technologies**") | Fellow subsidiary |
| Zhuhai Singyes Electronic Technology Co., Ltd. ("**Singyes Xinye**") | Fellow subsidiary |

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 27. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(a) In addition to the transactions and balances detailed elsewhere in the Financial Information, the Group had the following material transactions with related parties during the year:

| | | Year ended 31 December | | |
|---|---|---|---|---|
| | | **2014** | **2015** | **2016** |
| | *Notes* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Sales of products:** | | | | |
| Zhuhai Singyes | *(i)* | 70 | 155 | — |
| Singyes Renewable Energy | *(i)* | — | 9 | — |
| Singyes Energy-saving | *(i)* | — | 3 | — |
| Singyes Engineering | *(i)* | 51 | 2 | — |
| Hunan Singyes | *(i)* | 16 | — | — |
| Gansu Technologies | *(i)* | 25 | — | — |
| | | 162 | 169 | — |
| **Purchase of assets:** | | | | |
| Singyes Renewable Energy | *(ii)* | — | 315 | — |
| **Operating lease rental expenses:** | | | | |
| Zhuhai Singyes | *(iii)* | 107 | 107 | — |
| Singyes Energy-saving | *(iii)* | — | 258 | 931 |
| | | 107 | 365 | 931 |
| **Meal expenses:** | | | | |
| Singyes Energy-saving | *(iv)* | — | 128 | 378 |

*Notes:*

(i) The Directors consider that sales of products to the related parties were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The Directors consider that the purchase of assets from related party was charged at a consideration based on the net book amounts of these assets.

(iii) The Directors consider that the operating lease rental expenses paid by the Group to related parties as determined under the tenancy agreements were based on market rates for similar premises in similar locations.

(iv) Singyes Energy-saving provides meal services to the employees of the Group at the rate of RMB3 per breakfast per person and RMB11 per lunch/dinner per person as determined under the service agreements. The Directors consider that the rates in respect of the provision of meal services by Singyes Energy-saving were determined on normal commercial terms.

The related party transactions in respect of items (iii) and (iv) above also constitute continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 27. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

**(b) Other transactions with related parties:**

***(i) Advances with related parties***

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Advances from:** | | | |
| Zhuhai Singyes | 17,034 | 32,229 | 1,461 |
| Singyes Xinye | — | 55 | 26 |
| Singyes Solar | 70 | 895 | 3,945 |
| Singyes Energy-saving | — | — | 790 |
| Singyes Renewable Energy | 1,049 | — | — |
| | 18,153 | 33,179 | 6,222 |
| **Repayment of advances to:** | | | |
| Zhuhai Singyes | 25,088 | 32,118 | 1,493 |
| Singyes Xinye | — | — | 81 |
| Singyes Solar | — | 881 | 2,997 |
| Hunan Singyes | 30,000 | — | — |
| Singyes Renewable Energy | 51 | — | — |
| | 55,139 | 32,999 | 4,571 |
| **Advances to:** | | | |
| Singyes Energy-saving | 558 | — | — |
| Singyes Green Technologies | 3 | — | — |
| | 561 | — | — |
| **Repayment of advances from:** | | | |
| Singyes Xinye | 9,026 | — | — |

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 27. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

**(b) Other transactions with related parties:** *(Continued)*

***(i) Advances with related parties*** *(Continued)*

During the year ended 31 December 2014:

1) the debt of the Group owing to Singyes Solar was transferred to Zhuhai Singyes with an amount of RMB8,771,000;

2) the debt of the Group owing to Singyes Renewable Energy was transferred to Zhuhai Singyes with an amount of RMB3,665,000;

3) the debt of the Group owing to Hunan Singyes was transferred to Zhuhai Singyes with an amount of RMB15,501,000;

4) the debt of Zhuhai Singyes owing to the Group was transferred to Singyes Green Technologies with an amount of RMB381,000;

5) the debt of Zhuhai Singyes owing to the Group was transferred to Singyes Xinye with an amount of RMB31,920,000;

6) the debt of Zhuhai Singyes owing to the Group was transferred to Singyes Energy-saving with an amount of RMB707,000; and

7) the debt of Zhuhai Singyes owing to the Group was transferred to Singyes Engineering with an amount of RMB39,000.

***(ii) Other transactions***

As at 31 December 2014, bank loans were guaranteed by Zhuhai Singyes and the Company's directors, Messrs. Sun Jinli and Liu Hongwei for nil consideration.

As at 31 December 2015, bank loans of the intermediate holding company, Singyes Solar, with an aggregate principal amount of USD$110,000,000 was jointly guaranteed by the Company, New Materials (H.K.) and other companies controlled by Singyes Solar at nil consideration.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 27. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

#### (c) Outstanding balances with related parties

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| ***Due from the parent company:*** | | | |
| ***Non-trade in nature*** | | | |
| Top Access | 1 | — | — |
| ***Due to related parties:*** | | | |
| ***Non-trade in nature*** | | | |
| Singyes Solar | — | 15 | 963 |
| Singyes Xinye | — | 55 | — |
| Zhuhai Singyes | 40 | 150 | 118 |
| Singyes Energy-saving | — | 116 | 906 |
| | 40 | 336 | 1,987 |

Balances with the related parties are interest-free, unsecured and have no fixed terms of repayment.

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

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Salaries, allowances and benefits in kind | 821 | 836 | 946 |
| Pension scheme contributions | 16 | 35 | 42 |
| | 837 | 871 | 988 |

Further details of directors' and the chief executive's emoluments are included in note 7 to the Financial Information.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 28. TRANSFERS OF FINANCIAL ASSETS

***Transferred financial assets that are not derecognised in their entirety***

| | Year ended 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Gross amount of assets that continued to be recognised: | | | |
| Endorsed Bills | 100 | 1,498 | 50 |

At 31 December 2014, 2015 and 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Endorsed Bills**") with total carrying amounts of RMB100,000, RMB1,498,000 and RMB50,000, respectively, to certain of its suppliers in order to settle the trade payables due to such suppliers. The Endorsed Bills had a maturity of one to six months at the end of each of the relevant periods. In the opinion of the Directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amounts of the trade payables settled by the Endorsed Bills during the Relevant Periods to which the suppliers have recourse were RMB100,000, RMB1,498,000 and RMB50,000, respectively as at 31 December 2014, 2015 and 2016.

***Transferred financial assets that are derecognised in their entirety***

As at 31 December 2014, 2015 and 2016, the Group endorsed certain bills receivable accepted by certain reputable banks in Mainland China to certain of its suppliers in order to settle the trade payables due to such suppliers, with carrying amounts in aggregate of RMB1,127,000, RMB2,366,000 and RMB6,626,000, respectively (referred to as the "**Derecognised Bills**"). The Derecognised Bills had a maturity from one to five months at the end of each of the relevant periods. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amount of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the Relevant Periods, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during each of the years ended 31 December 2014, 2015 and 2016 or cumulatively. The endorsement has been made evenly throughout the year.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise trade and bills receivables, other receivables, trade and other payables, interest-bearing bank loans and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

**Interest rate risk**

The interest rates and terms of repayment of interest-bearing bank loans are disclosed in note 19. The Group does not have any significant exposure to the risk of changes in market interest rates as the Group does not have any significant long term receivables and loans which are subject to floating interest rate.

**Foreign currency risk**

The Group's principle businesses are located in the PRC and most of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB, except for those of the overseas subsidiary in Hong Kong and the Company whose functional currency is HK$ and certain items of cash and cash equivalents and other payables and accruals that are denominated in HK$ and US$.

The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK$, US$ and RMB as a reasonable possible change of 5% in RMB against HK$ and US$ would have no significant financial impact on the Group's profit.

**Credit risk**

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, and other financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in Mainland China, which management believes are of high credit quality.

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Credit risk** *(Continued)*

The Group had certain concentrations of credit risks of the total trade receivables due from the Group's largest customer and the Group's five largest customers as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *%* | *%* | *%* |
| Due from the Group's largest customer | 21.5 | 19.9 | 21.6 |
| Due from the Group's five largest customers | 61.8 | 59.9 | 55.7 |

All of these customers have good credit quality by taking into account of their credit history, and long-term business relationship has been established between the Group and these customers. The Group has delegated a team responsible for determination of credit limits and monitoring procedures to ensure that there will be follow-up action to recover overdue debts.

**Liquidity risk**

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

The liquidity of the Group is primarily dependent on its ability to maintain a balance between continuity of funding and flexibility through the settlements from customers and the payments to vendors.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Liquidity risk** *(Continued)*

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

| | As at 31 December 2014 | | | |
|---|---|---|---|---|
| | On demand | Less than 3 months | 3 to less than 12 months | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 4,970 | 1,913 | — | 6,883 |
| Interest-bearing bank loans | — | — | 4,705 | 4,705 |
| Other payables and accruals | 20,333 | — | — | 20,333 |
| Due to related parties | 40 | — | — | 40 |
| | 25,343 | 1,913 | 4,705 | 31,961 |

| | As at 31 December 2015 | | | |
|---|---|---|---|---|
| | On demands | Less than 3 months | 3 to less than 12 months | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 13,287 | 1,205 | — | 14,492 |
| Other payables and accruals | 3,925 | — | 1,029 | 4,954 |
| Due to related parties | 336 | — | — | 336 |
| | 17,548 | 1,205 | 1,029 | 19,782 |

| | As at 31 December 2016 | | | |
|---|---|---|---|---|
| | On demands | Less than 3 months | 3 to less than 12 months | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 31 December 2016** | | | | |
| Trade payables | 18,132 | 4,972 | — | 23,104 |
| Other payables and accruals | 5,543 | — | 1,099 | 6,642 |
| Due to related parties | 1,987 | — | — | 1,987 |
| | 25,662 | 4,972 | 1,099 | 31,733 |

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Fair values**

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of the Group's financial instruments approximated to their fair values due to the short term to maturity at the end of each of the Relevant Periods.

**Capital management**

The Group's objectives of its capital management are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for the shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing services and products commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt comprises trade payables, interest-bearing bank loans, other payables and accruals, and tax payable, less cash and cash equivalents and pledged deposits. Capital represents equity attributable to owners of the Company.

## II. NOTES TO FINANCIAL INFORMATION *(Continued)*

### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Capital management** *(Continued)*

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios as at the end of the reporting periods were as follows:

| | As at 31 December | | |
|---|---|---|---|
| | **2014** | **2015** | **2016** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | 6,883 | 14,492 | 23,104 |
| Interest-bearing bank loans | 4,500 | — | — |
| Other payables and accruals | 25,504 | 14,661 | 21,948 |
| Tax payable | 235 | 1,352 | 1,801 |
| Less: Cash and cash equivalents | (2,662) | (7,166) | (7,523) |
| Less: Pledged bank balances | — | (20) | (20) |
| Net debt | 34,460 | 23,319 | 39,310 |
| Equity attributable to owners of the Company | 50,779 | 58,484 | 77,627 |
| Gearing ratio | 67.9% | 39.9% | 50.6% |

### 30. CONTINGENT LIABILITIES

As at 31 December 2015, the Company and New Materials (H.K.) provided guarantees to banks in connection with loans granted to Singyes Solar aggregating to USD$110,000,000. Such guarantees were released subsequently in 2016.

As at 31 December 2016, neither the Group nor the Company had any significant contingent liabilities.

### 31. EVENTS AFTER THE RELEVANT PERIODS

On 23 June 2017, written shareholders' resolutions were passed to approve matters described in the paragraph headed "Written resolutions of the shareholders of our Company passed on 23 June 2017" under the sub-section headed "Further Information about Our Company" of the section headed "Statutory and General Information", included in the Appendix IV to the Prospectus.

## III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of the companies now comprising the Group in respect of any period subsequent to 31 December 2016.

Yours faithfully,

*Certified Public Accountants*
**Ernst & Young**
Hong Kong