Wasion Group Holdings Limited

威勝集團控股有限公司

(incorporated in the Cayman Islands with limited liability)

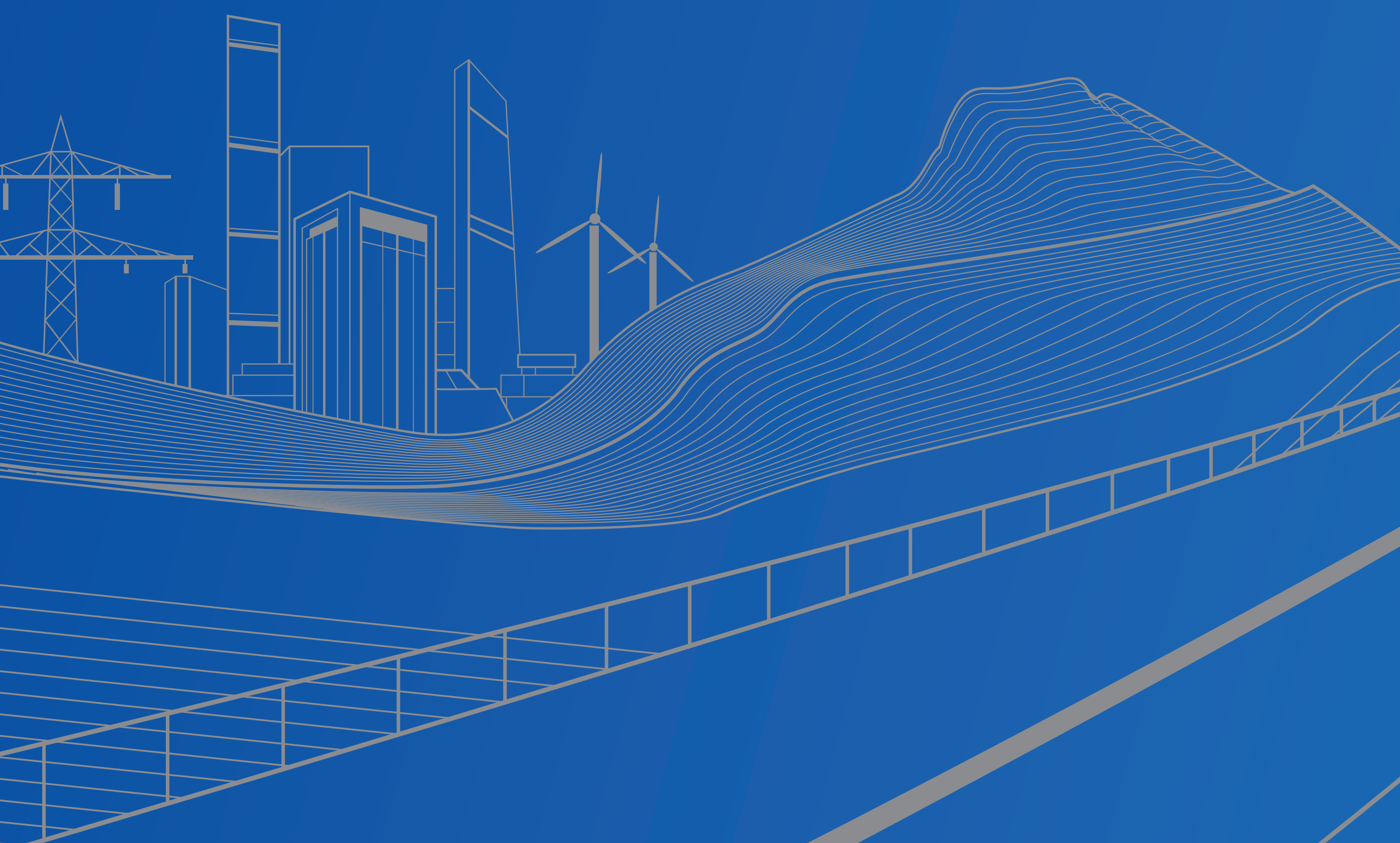
(Stock Code: 3393)

ANNUAL REPORT 2016

ENERGY METERING & ENERGY SAVING EXPERT

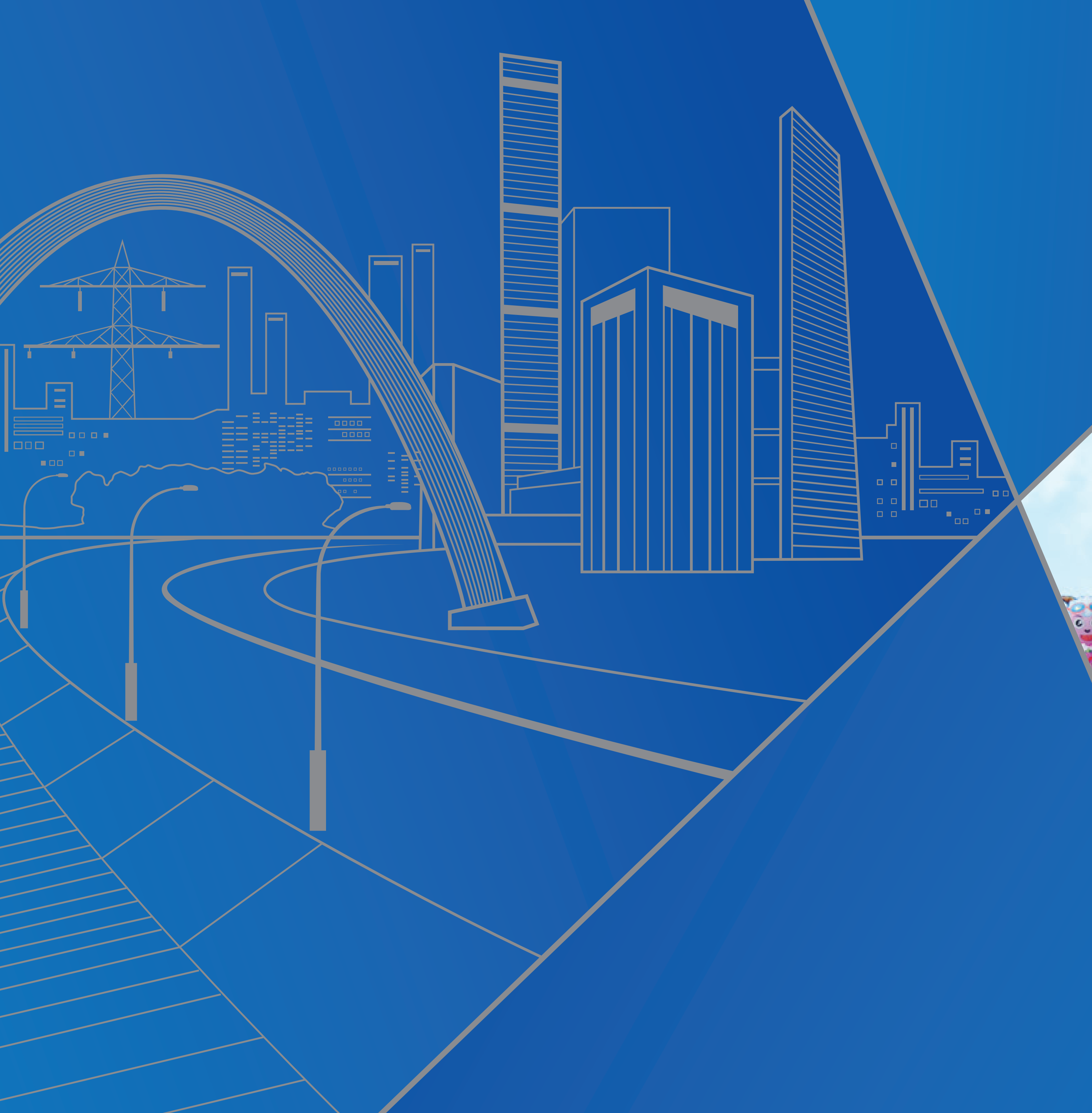
MOTTOS OF OPERATION :

PERFECT WORK WITH PASSION
AND SUCCESS ACHIEVED
WITH INTEGRITY



CORPORATE SPIRIT:

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



CORPORATE VISION:

CONTINUAL INNOVATION CONTRIBUTING TO WASION'S CENTENNIAL HISTORY


威在品质 胜在质量
威胜


威胜
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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Ji Wei *(Chairman)*
Ms. Cao Zhao Hui
Mr. Zeng Xin
Ms. Zheng Xiao Ping
Mr. Tian Zongping

NON-EXECUTIVE DIRECTOR

Mr. Kat Chit

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hui Wing Kuen
Mr. Huang Jing
Mr. Luan Wenpeng
Mr. Cheng Shi Jie

COMPANY SECRETARY

Mr. Choi Wai Lung Edward *FCCA, FCPA*

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

Mr. Hui Wing Kuen *(Chairman)*
Mr. Huang Jing
Mr. Luan Wenpeng
Mr. Cheng Shi Jie

NOMINATION COMMITTEE

Mr. Ji Wei *(Chairman)*
Mr. Hui Wing Kuen
Mr. Huang Jing

REMUNERATION COMMITTEE

Mr. Hui Wing Kuen *(Chairman)*
Mr. Ji Wei
Mr. Huang Jing

INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

Mr. Hui Wing Kuen *(Chairman)*
Mr. Huang Jing
Mr. Luan Wenpeng
Mr. Cheng Shi Jie
Mr. Zeng Xin
Mr. Kat Chit

PRINCIPAL BANKERS

In Hong Kong:

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

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

China Construction Bank
Bank of Communications

LEGAL ADVISER

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

AUDITOR

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

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.wasion.com

STOCK CODE

3393

CORPORATE PROFILE

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

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

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

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

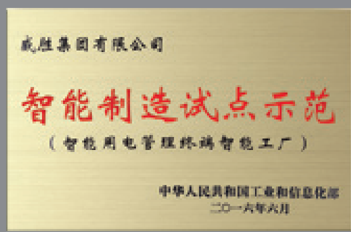
The advanced distribution and energy efficiency management business of the Group comprises mainly of 40.5kV/12kV comprehensive high voltage switchgear; 12kV smart switchgear; 35kV/10kV comprehensive circuit breakers; 10kV power distribution automation terminals; electrical and electronic devices for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

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

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

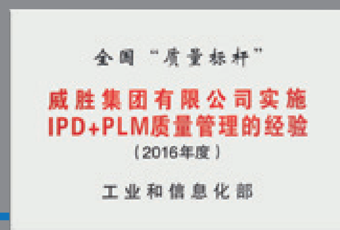
QUALIFICATIONS & AWARDS

JANUARY



JUNE

JUNE



JULY

JANUARY 2016

The "Key Technology and Complete Sets of Equipments for Fault Self-Healing Control of Power Distribution System" project of Wasion Group was rewarded with the First Prize of Science and Technology Progress Award of Hunan Province.

Wasion Group became the designated supplier of Changsha Water Industry Investment Management Co., Ltd. from 2015 to 2017 for smart remote water meter.

MARCH 2016

The MA2 high accuracy measurement gateway meter at 0.2S level of Wasion Group had defeated many international manufacturers and won the biddings of State Grid companies in Liaoning, Xinjiang and Hunan as well as China Southern Power Grid corporations in Guangdong and Hainan.

MAY 20016

The application for the "New Intelligent Manufacturing Model of Energy Metering and Control Products for Power Equipments" project leading by Wasion Group was approved and won the new model application project in the major projects of intelligent manufacturing.

JUNE 2016

With the "Intelligent Plant Pilot Demonstration of Smart Power Management Terminal" project, Wasion Group became one of the 63 domestic enterprises in the intelligent manufacturing pilot demonstration project.

As one of the twelve demonstration enterprises of independent innovation in the region of Changsha, Zhuzhou and XiangTan, Wasion Group was invited to participate in the scientific and technological innovation exhibition of the "12th Five Years Plans" jointly organized by Ministry of Science and Technology, National Development and Reform Commission, Ministry of Finance and the Ministry of Equipment Development of Military Commission.

JULY 2016

with the successful application for the "Wasion Group's Experiences in the Implementation of IPD + PLM Quality Management", Wasion Group was entitled the national "Quality Benchmarking Enterprise" of 2016.

OCTOBER


DECEMBER


DECEMBER


DECEMBER

OCTOBER 2016

The academician expert workstation of Wasion Group stood out from 3,247 provincial academician expert workstations all over the country and became one of the 100 "National Demonstration Academician Expert Workstations of 2016".

NOVEMBER 2016

The science and technology project of "Research and Application of Key Technologies for Centralized Power Meter Reading Based on High-speed and Stable Communication Links" jointly researched, developed and implemented by Wasion Group and Guizhou Electric Power Research Institute for Guizhou Power Grid Corporation was accepted by the experts from Guizhou Power Grid Corporation, which was the largest domestic pilot project of bidirectional communication through power line carrier based on G3-PLC technical specification.

DECEMBER 2016

Vice Premier of the State Council Ma Kai visited Wasion Group and encouraged us to persist in the innovation to drive the core competitiveness of enterprise.

The 10.4MW distributed photovoltaic power plant project in Jiuhua, Xiangtan successfully joined the national power grid and obtained highly recognition from the owner and Xiangtan Electric Power Bureau.

Wasion Group was entitled the "Best Employers of China" for the 8th successive year.

Ji Wei
Chairman

CHAIRMAN'S STATEMENT

TO ALL SHAREHOLDERS,

On behalf of the board of directors of Wasion Group Holdings Limited (the "Group"), I am pleased to present the operating results of the Group for the financial year ended 31 December 2016.

During the year under review, the Group recorded turnover of RMB2,607.5 million and the net profit amounted to RMB307.27 million, representing a decrease of 27% over 2015, mainly due to the decrease of sales revenue and the increase of financing cost. Basic earnings per share were RMB30 cents. The board of directors has proposed to pay a final dividend of HK$0.24 per share to show the confidence of the board of directors in the long-term development of the Group and reward the shareholders for their continuous supports. During the year under review, the three major businesses of the Group, including Advanced Metering Infrastructure (AMI), Advanced Distribution Operations (ADO) and Smart Meter (SM), had achieved healthy development and continued to maintain our advantages in the market competition. On the other hand, the comprehensive gross margin had slightly increased by 1% due to the rigorous selection of purchase orders with reasonable returns and the strengthened cost control.

In view of various serious challenges in the macro environment throughout 2016, the Group had persisted in the operating guideline of "Seeking Progress in Stability" to seize the future market opportunities, continued to respond positively and prudently to the risks and opportunities in all respects, and gradually developed the Group's businesses at a solid pace. Meanwhile, the Group had actively optimized the customer structure and substantially increased the portion of overseas and non-grid customers during the year under review, which had become one of the important cornerstones for the healthy development of the Group in the future.

CHAIRMAN'S STATEMENT (CONTINUED)

In respect of SM business, the Group won three contracts in the biddings of State Grid at total amount of RMB600 million, and two contracts in the centralized biddings of China Southern Power Grid at total amount of RMB330 million, both of which had been ranked in the forefront with outstanding performances.

AMI business had been steadily developed as well. Focusing on a new generation of power technology and a new generation of communication technology, the Group had committed itself to the R&D of the next generation of smart meters for the whole AMI market to continuously lead the development of the industry. Meanwhile, the Group had actively expanded the relevant business in the market opportunities of big data monitoring and analysis upon the micro-grid and electric power, making full use of our technologies in measurement, monitoring and supervising. In respect of fluid metering solutions, with the project experiences in Changsha and Panjin, etc., the Group had seized the opportunities in the national escalating pricing system and the "Water and Gas Supply & Sewage and Waste Treatment" policies, continued to improve the operating of being on a shortlist in the key markets, and increased the market share steadily.

In respect of overseas markets, the Group had maintained the leading position in the markets of Tanzania, Bangladesh and Egypt, etc. with outstanding performances in self-support market under its competitiveness and brand. The access to emerging markets of Mexico, South Africa and Brazil etc. had been obtained as well, through the cooperation with Siemens. Since Europe had promoted smart grid transformation in the past two years with a huge market space, the Group had actively seized the opportunity to enter the European and American markets and successfully signed a contract in Austria in early March, 2017. Austria has been a pioneer in the construction of a smart grid in Europe, and the Group believes that the entry into Austria is an important step for the Group to enter the European market. While continuously deepening the cooperation with Siemens, the Group had started the technical cooperation with some international giants, including Itron, LSIS, Huawei and CISCO etc. to actively promote the technical standards of China to go to international markets and further enhance the technical capacity of the Group in systems and solutions, in order to lay the foundation for the future development in new markets.

ADO business had been actively developed in the year of 2016 with satisfied growth rate. Focusing on the industries of rail transit and data center, etc., the Group had taken the initiatives to improve the cooperation with non-grid customers in the year, from which the revenue had been significantly increased. In respect of system integration, the solution containing cloud platform had been devised in the year to offer online and offline quality services for industrial and commercial customers and ensure the safety use and effective conservation of energy.

During the year under review, the Group had combined the data collection terminal business and water, gas and heat metering business of existing AMI unit into the segment of "Communication and Fluid Advanced Metering Infrastructure", whose spin-off for separate listing in a Chinese stock exchange had been considered by the Group, as disclosed in the announcement in September 2016. The remaining smart power metering business will be combined with SM unit to the segment of "Power Advanced Metering Infrastructure", while ADO unit will remain unchanged. The Group believes that this will help to concentrate the resources to seize market development opportunities more accurately.

Looking forward, the Group really appreciates the trust and support from our customers and shareholders in the past year, with whom the Group has been developing steadily and healthily. Although the global economy is facing the increasing difficulties, and the economic growth of China is still exposed to many uncertainties, the energy market of China, supported and promoted by the country, will meet a great reform. We will seize the opportunity to transform ourselves from an equipment supplier to a comprehensive service provider of Energy Internet.

CHAIRMAN'S STATEMENT (CONTINUED)

We will persist in technological innovation and continue to lead the upgrades of technologies and products in the industry. Since AMI is the basis for the development of national smart grid, focusing on the overall market trends of AMI and being the major participant in the standards formulation of new generation of smart meters in State Grid, the Group has been committed to the R&D of new generation of smart meters and high-end gateway meters and prepared adequate technologies and products for the continuous leadership in the upgrades of AMI technologies and products.

In the field of communication solution, the Group has acquired Zhuhai Zhonghui Microelectronics Co., Ltd. successfully, which has further improved the industrial chain of the Group and enhanced the communication technological level in the strategic emerging industries, such as Internet of Things and Energy Internet, etc. to meet various market demands under the global regional differences and environmental differences and continuously improve the comprehensive technical strength and market competitiveness.

Meanwhile, the Group will continue to increase its investment in water metering business. With the technical advantages of smart metering and the successful model of being on a shortlist of numerous water companies, the businesses of the Group, including smart water system, automatic water control and distinguishing water supply, etc. will achieve rapid breakthrough and sustainable development. The Group also believes that the gas supply and heating supply market of China will grow rapidly in the future with the supports from the escalating pricing policy and heating metering reform, which will benefit the long-term development of the Group's relating businesses.

In respect of ADO business, the Group has been actively participating in the pilot project of electricity market reform, represented by the incremental distribution pilot park, to explore new businesses including electricity sales, operation and maintenance services and comprehensive energy services. At the same time, the Group will seize the investment opportunities in the constructions of the distribution grid, rail transit and distributed energy as well as the industrial energy conservation and emission reduction, improve the marketing by taking the advantages of existing customer resources in the power grid, promote the ADO system solutions and engineering services, and be determined to become a leading integrated provider of ADO.

In respect of overseas business, we will actively respond to the national strategy of "One Belt One Road" and establish the strategic cooperation with the central enterprises to full play the general contracting capacity of the Group in the metering construction and seize the large-scale transformation opportunities in power distribution, distribution network and water and gas supply in the countries along "One Belt One Road". On the one hand, the Group will develop its own brand and marketing channel to further expand the businesses in traditional markets, transform from the power metering business to the coordinated development of water, electricity and gas business and system services business, and strengthen the promotion of products and technologies in Africa, Southeast Asia, South Asia and Eurasian Union (formerly known as CIS countries), etc.; on the other hand, relying on the strategic cooperation with the international industry leaders, the Group will improve the product technology, quality and brand capacity, and actively participate in the smart grid, water and gas engineering construction in EU, Central and South America, etc..

The Group's innovative business will focus on the research and application of energy storage technology and inverter technology. In respect of energy storage technology, we will continue to deepen the R&D of liquid metal batteries and implement the research of power battery cascade utilization and Battery Management System (BMS). In respect of inverter technology, we will focus on the R&D of intelligent inverter based on micro-grid and virtual synchronous machine technology to provide the Group with key technologies in micro-grid business and ensure the core competitiveness of the Group in the new business areas.

CHAIRMAN'S STATEMENT (CONTINUED)

Summing up the year of 2016, in spite of various difficulties and challenges, we had operated the Group carefully, faced the problems directly, overcame all the difficulties and marched forward persistently. Looking forward, facing the infinite field of energy measurement and energy efficiency management, we will not forget our initial determination, and will uphold the mottos of operation which is "Perfect Work with Passion, and Success achieved with Integrity" to highly respond to market changes and customer requirements. We will also persist in the operation and management direction of "March Forward through Continuous Innovation" to promote "technology and product innovation, market and sales innovation, operation and service innovation, management and mechanism innovation", and realize our ambitious vision of "Continual Innovation Contributing to Wasion's Centennial History"!

Yours faithfully,
Ji Wei
Chairman

Hong Kong, 21 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

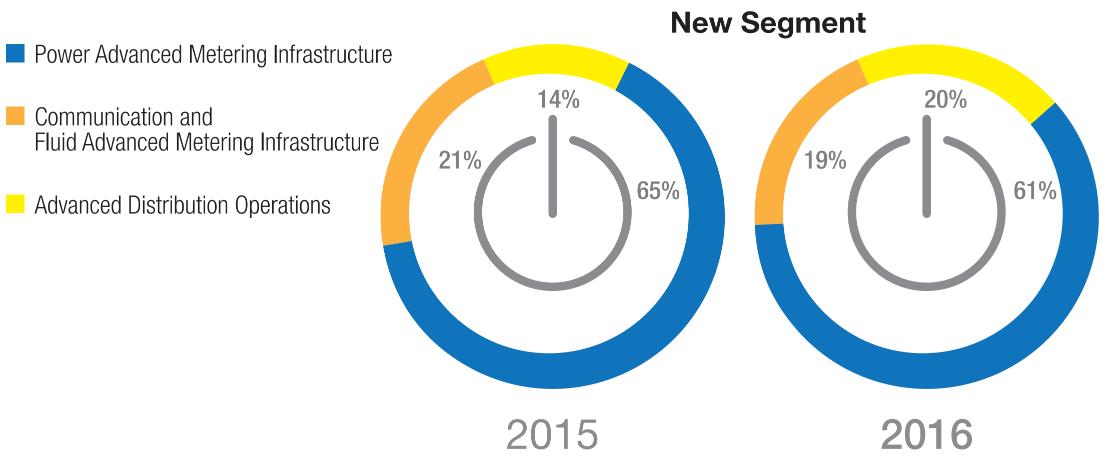
Financial Highlights

	2016 RMB'000	2015 RMB'000
Revenue	**2,607,504**	2,969,033
Gross profit	**816,760**	896,199
Profit attributable to owners of the Company	**307,265**	423,533
Total assets	**7,493,091**	7,223,094
Equity attributable to owners of the Company	**4,148,619**	4,101,160
Basic earnings per share (RMB)	**0.30**	0.42
Diluted earnings per share (RMB)	**0.30**	0.42

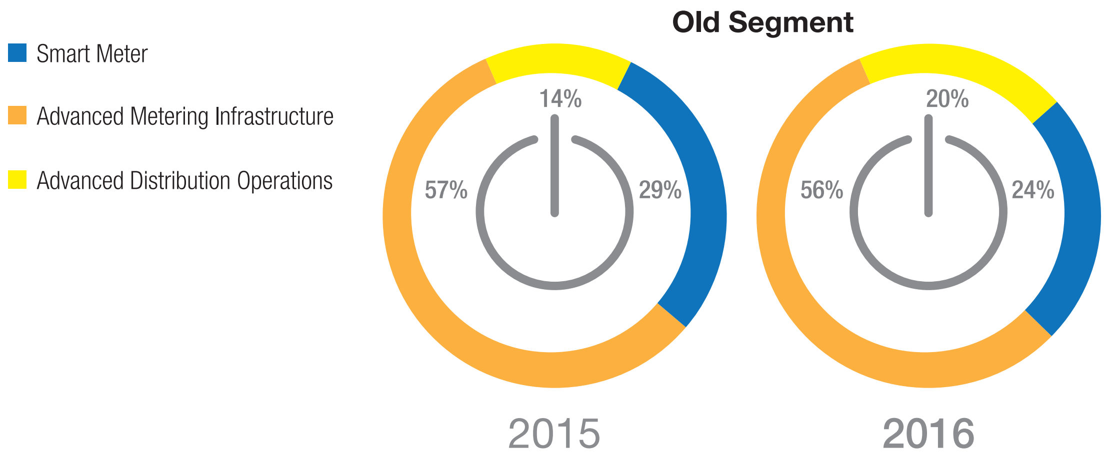
Key Financial Figures

	2016	2015
Gross profit margin	**31%**	30%
Operating profit margin	**15%**	17%
Net profit margin	**12%**	14%
Return on equity of the shareholders	**7%**	10%
Current ratio	**1.81**	1.91
Quick ratio	**1.68**	1.78
Inventory turnover period (Days)	**69**	59
Trade receivable turnover period (Days)	**374**	284
Trade payable turnover period (Days)	**396**	279
Gearing ratio (Total borrowings divided by total assets)	**15%**	12%
Interest coverage (Profit from operations divided by finance costs)	**7.65**	19.50

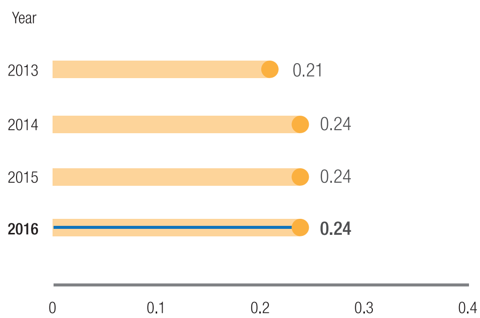
Revenue Breakdown by Business Segments



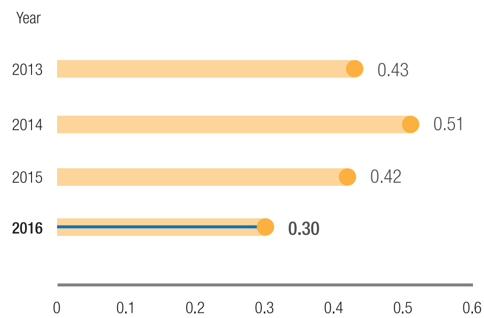
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



Dividend (HKD)

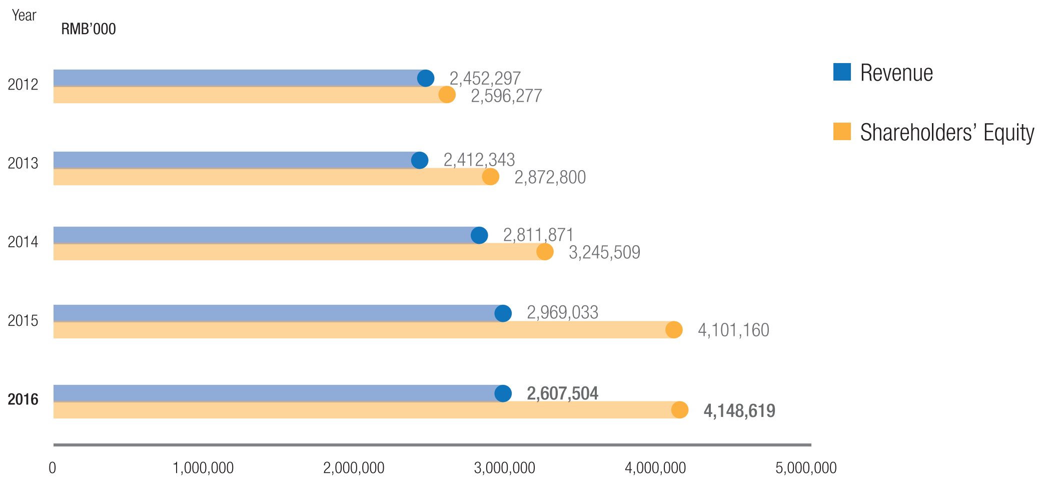


EPS (RMB)



FIVE YEARS' FINANCIAL SUMMARY

Five Years' Financial Information



	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	**2,607,504**	2,969,033	2,811,871	2,412,343	2,452,297
Profit for the year attributable to owners of the Company	**307,265**	423,533	482,439	401,125	323,149
Total assets	**7,493,091**	7,223,094	5,618,550	4,741,215	4,265,893
Total liabilities	**3,315,377**	3,083,522	2,312,309	1,868,015	1,669,216
Equity attributable to owners of the Company	**4,148,619**	4,101,160	3,245,509	2,872,800	2,596,277

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Turnover

During the year under review, turnover decreased by 12% to RMB2,607.5 million (2015: RMB2,969.03 million).

Gross Profit Margin

The Group's overall gross profit margin for the year ended 31 December 2016 is 31%, representing an increase of 1% as compared with 30% in 2015.

Other Income

The other income of the Group amounted to RMB111.13 million (2015: RMB145.19 million) which was mainly comprised of interest income, dividend income, government grants and refund of value-added tax.

Operating Expenses

In 2016, the Group's operating expenses amounted to RMB543.15 million (2015: RMB524.88 million) and accounted for 21% of the Group's turnover in 2016, representing an increase of 3% as compared with 18% in 2015.

Finance Costs

For the year ended 31 December 2016, the Group's finance costs amounted to RMB52.56 million (2015: RMB25.39 million). The increase was attributable to the increase of RMB bank borrowings with higher lending interest rate during the year.

Operating Profit

Earnings before finance costs and tax for the year ended 31 December 2016 amounted to RMB401.95 million (2015: RMB495.06 million), representing a decrease of 19% as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Profit Attributable to Equity Shareholders of the Company

The profit attributable to equity shareholders of the Company for the year ended 31 December 2016 decreased by 27% to RMB307.27 million (2015: RMB423.53 million) as compared with last year.

Liquidity and Financial Resources

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

As at 31 December 2016, the Group's current assets amounted to approximately RMB4,941.07 million (2015: RMB4,760.47 million), with cash and cash equivalents totaling approximately RMB940.02 million (2015: RMB1,171.84 million).

As at 31 December 2016, the Group's total bank loans amounted to approximately RMB1,095.27 million (2015: RMB877.09 million), of which RMB532.97 million (2015: RMB300.84 million) will be due to repay within one year and the remaining RMB562.3 million (2015: RMB576.25 million) will be due after one year. In 2016, the interest rate for the Group's bank borrowings ranged from 2.02% to 4.35% per annum (2015: 1.44% to 4.35% per annum).

The gearing ratio (total borrowings divided by total assets) increased from 12% in 2015 to 15% in 2016.

Emolument Policy

As at 31 December 2016, the Group had 3,787 (2015: 4,189) staff members. The staff costs (including other benefits and contributions to defined contribution retirement plan) amounted to RMB272.66 million (2015: RMB279.24 million) in 2016. Employee remuneration is determined on performance, experience and prevailing market conditions of the employees, with compensation policies being reviewed on a regular basis. The aggregate amount of the emoluments of the Company's directors was RMB4.45 million (2015: RMB4.07 million) in 2016.

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

Share Option Scheme

The Company has adopted a new share option scheme on 16 May 2016 to recognise and acknowledge the contributions made or will be made to the Group by the eligible participants. The purpose of the scheme is to encourage the eligible participants to continue their contribution. The eligible participants include any full-time or part-time employees, executives, officers, Directors (including executive, non-executive and independent non-executive Directors), advisers, consultants, suppliers and agents of the Company or any of its subsidiaries or invested entities, and any person who, in the opinion of the board of directors of the Company, will contribute to the Group or have done so.

Share Award Scheme

The Company has adopted a share award scheme on 3 May 2016 in which the eligible employees will be entitled to participate. The purposes of the share award plan are to recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and also to attract suitable personnel for further development of the Group.

Exchange Rate Risk

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

Charge on Assets

As at 31 December 2016, the pledge deposits are denominated in Renminbi and Hong Kong dollars and are pledged to banks as security for bills facilities granted to the Group. In addition, the Group's land and buildings are pledged to banks as security for bank loans to the Group.

Capital Commitments

As at 31 December 2016, the capital commitments in respect of the acquisition of property, plant and equipment and additions of construction in progress contracted for but not provided in the consolidated financial information amounted to RMB22.78 million (2015: RMB70.63 million).

Contingent Liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

MARKET REVIEW

The global economic development in 2016 ("year under review") faced strong resistance. International issues such as the US presidential election, Brexit and devaluation of the Renminbi were dragging down the trading, foreign exchange and financial markets. As the world's second largest economy and the main driver of global economic growth, China recorded a 6.7% growth in GDP during the year under review, representing a continuing economic slowdown.

Despite the economic fluctuation, Chinese government has showed its determination in promoting energy reform, actively upgrading energy construction, and constructing a safe and efficient energy system. According to the statistics published by National Energy Administration (NEA), in 2016, China's major power enterprises have collectively invested RMB885.5 billion in power-related engineering construction, which included RMB342.9 billion in power supply engineering and RMB542.6 billion in power grid construction. Since the issuance of "Opinions on Deepening the Reform of Electricity System" (《關於進一步深化電力體制改革的若干意見》) by the State Council two years ago, 23 provinces have started their power system reform pilot programme, 33 power trading institutions were established, 31 provincial power grids have implemented full grid transmission and distribution price reform and 6,400 electricity sales companies were established. The two major power grid companies have also been actively pushing forward the power reform progress. During the year under review, the State Grid Corporation of China (hereinafter referred to as "State Grid") completed a total investment of RMB497.7 billion, including RMB171.8 billion investment in upgrading rural grid and over RMB64 billion investment in new energy grid connection and transmission engineering. China Southern Power Grid Co., Ltd. (hereinafter referred to as "Southern Grid") also completed a fixed assets investment of RMB102.2 billion. There is no doubt that, with the concerted efforts of the government, grid companies and the private sector, the preparatory work for the new power reform has been carried out and is gradually rewriting the traditional power market order.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As another important infrastructure for national economic and social development, water reform was upgraded as a national strategy during the "12th Five-Year Plan" period. During which, the total investment in national water conservancy construction reached RMB2 trillion with an average annual investment of RMB400 billion. Over the past year, many provinces and cities followed the pace of the central government to tighten their water resources management regulation and speed up water conservancy construction. However, other water related problems such as water shortage, water ecological damage, water pollution have become increasingly prominent. The National Development and Reform Commission, in conjunction with the Ministry of Water Resources and the Ministry of Housing, Urban and Rural Construction, therefore issued the "13th Five-Year Plan" for Water Conservancy Reform and Development (《水利改革發展「十三五」規劃》) in December 2016, proposing the construction of a water-saving society, acceleration of water conservancy infrastructure network improvement, and further consolidation of rural water conservancy foundation.

In the face of the challenges posed by the economic downturn and the opportunities brought by energy reform during the year under review, the Group insisted on maintaining a steady business development and adjusted its business development strategy targeting future energy market. In 2016, the Group recorded a turnover of RMB2,607.5 million (2015: RMB2,969.03 million), representing a decrease of 12% as compared to 2015; and a net profit of RMB307.27 million (2015: RMB423.53 million), representing a decrease of 27% as compared to 2015. The slid in net profit was due to the unexpected shrinking of the tender size and the slowdown of delivery schedule by the Group's key client State Grid, the significant increase in amortisation of intangible assets and finance costs, as well as the decrease in government subsidies.

In order to seize more opportunities in the capital market for the Group's long-term sustainable development, the Group was exploring the possibility of spin-off and separately listing of part of the Group's businesses on a stock exchange in the People's Republic of China ("PRC") during the year under review, pursuant to an official announcement made in September 2016.

BUSINESS REVIEW

During the year under review, management of the Group has adjusted its reporting segments in accordance with the future development strategy of the Group. As the power grid customers also require the Group to have tailor-made adjustments on products procured in centralized bidding and in anticipation of the new generation of smart power meter to be introduced to the market in the near future, management of the Group has reclassified the non-standardised power metering business from Advanced Metering Infrastructure ("AMI") segment and consolidated with the Smart Meter ("SM") segment to become a new segment namely Power Advanced Metering Infrastructure ("Power AMI"). The remaining business segment under AMI, including the data collection terminal and water, gas and heat metering business, will be renamed into Communication and Fluid Advanced Metering Infrastructure ("Communication and Fluid AMI"), which is also the business segment the Group is considering to spin-off for separate listing on a stock exchange in the PRC. There will be no change in the definition of Advanced Distribution Operations (ADO) segment.

Therefore the Group's revised reportable and operating segments are as follows:

(a) Power advanced metering infrastructure segment, which engages in the development, manufacturing and sale of smart power meters as well as the provision of respective system solution;

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(b) Communication and fluid advanced metering infrastructure segment, which engages in the development, manufacturing and sale of communication terminals and water, gas and heat metering products as well as the provision of respective system solution;

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

Power AMI Business

The Group's power AMI business serves grid companies, non-grid companies and overseas markets. During the year under review, State Grid organized three centralized smart meter tenders and the Group successfully won RMB481.28 million worth of contracts. The Group also outperformed in the first tender organized by Southern Grid by winning a framework contract of RMB110 million. The results of Southern Grid's second tender in 2016 were announced in March 2017. The Group won a contract of RMB215 million.

During the year under review, supported by the "One Belt One Road" strategy launched by the government, the Group's power AMI business continued to excel in the international market and achieved a turnover of RMB397.6 million, a significant increase of 31% over last year. In addition to leveraging the brand advantage for achieving continuous business growth in Egypt, Tanzania, Republic of Bangladesh, Indonesia and South African market, the Group also aggressively explored expansion opportunities and made remarkable progress in entering into Austria, the European smart grid construction pioneer. At the same time, the enhanced strategic cooperation with Siemens and with other international companies furthered strengthened the Group's overall competencies in terms of technology, marketing and branding.

During the year under review, the Group's power AMI business recorded a turnover of RMB1,590.68 million (2015: RMB1,919.46 million), representing a decrease of 17% and accounting for 61% (2015: 65%) of the Group's total turnover. The decrease in revenue is mainly due to the delay of tenders and reduction of tender volume by power grid companies during the year.

Excluding the revenue of the non-standardised smart power metering business from the Group's power AMI business, the revenue from the previous SM segment amounted to RMB632.63 million (2015: RMB853.52 million), representing a decrease of 26% as compared with last year and accounting for 24% (2015: 29%) of the Group's total turnover.

Communication and Fluid AMI Business

During the year under review, benefited from China's active promotion of water escalating pricing and one-household-one-meter as well as the accelerating promotion of introducing running water into rural households by difference provinces and cities, the Group's water metering business maintained steady development. Currently, the Group has entered into the smart water metering solutions tenders for more than 80 city level water companies in core cities in Hunan, Anhui, Hubei and other provinces. Some water companies had launched their batch tenders during the year under review, bringing positive contribution for the Group's water business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In terms of communication terminals, the Group has won contracts of RMB116 million from State Grid during the year under review. A significant growth in contracts from non-grid clients was also recorded.

During the year under review, the Group has leveraged on its brand and network in the international power AMI market, and successfully introduced its Communication and Fluid AMI services to overseas with a recorded satisfactory turnover. The overall turnover of Communication and Fluid AMI business was RMB501.87 million (2015: RMB622.96 million), representing a decrease of 19% and accounting for 19% (2015: 21%) of the Group's total turnover.

Including the revenue of the non-standardised smart power metering business in the Group's Communication and Fluid AMI business, the revenue from the previous AMI segment amounted to RMB1,459.92 million (2015: RMB1,688.9 million), representing a decrease of 14% as compared with last year and accounting for 56% (2015: 57%) of the Group's total turnover.

Advanced Distribution Operations (ADO)

After pursuing market expansion and product development during the past years, the Group's ADO business achieved satisfactory results in 2016 despite the fact that the macroeconomic situation has still not improved. The Group recorded a turnover of RMB514.95 million (2015: RMB426.61 million), representing an increase of 21% over 2015, accounting for 20% (2015: 14%) of the total turnover. During the year under review, the Group not only has successfully become the product and services provider of the power distribution network construction for more than 20 provinces including major cities such as Beijing and Shanghai, but also being invited to participate in the establishment of standards for the new generation power distribution system of State Grid. Meanwhile, the Group actively worked on a number of potential key industries, including railway and transportation, new energy as well as data centers, and successfully established long-term cooperative relationship with a number of large industrial and commercial clients. The Group also successfully managed to provide power distribution EPC services with advanced distribution products and solutions as core, which laid an important foundation for future business development. Moreover, The Group's in-depth development in railway and transportation made it a vice director unit of the newly established railway transportation manufacturing innovation center in Hunan. The Group also initiated a cooperation with Changsha Metro Group Co., Ltd. to jointly work on energy management and energy saving project in metro stations.

In terms of new products, the Group launched several well-recognized new technology systems, including new type power distribution fault detection system, fault isolation system, primary and secondary power equipment integration, smart power distribution and operation management for users, and energy efficiency management platform. During the year under review, the Group successfully obtained a EPC qualification for power engineering, as well as grade B professional qualification in power industry (new energy generation), which together equipped the Group with designing and contracting qualifications in both power distribution and new energy generation. It laid a solid foundation for the Group to further explore ADO business.

Research and Development

The Group has been working strenuously in the research and development of the know-how of each AMI and ADO product in order to grasp market demand and technology development in the industry. During the year under review, the Group received 194 patents for its new products and energy saving services and 89 patents for its software. The number of effective patents for new products and energy saving services increased to 894 and 587 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

For the power metering business, the Group continued to upgrade its products by developing higher efficient components, such as anti-tampering system and external circuit breaker, to order to meet the demand for product personalization from grid companies, non-grid companies as well as to overseas clients.

Based on the new standards on energy consumption monitoring and centralized data collection technology established by the Chinese government and power grid companies, the Group launched a number of market-leading systems with advanced communication technologies, and gained high market recognition. Targeting the promising development of water metering market, the Group has engaged in a series of research and development of products and systems serving rural areas and water companies. Adhering to the Group's strategy in accelerating overseas development, the Group has enhanced its research and development efforts in accordance with the regulations and technical requirements of different regions, including the European market where smart grid transformation is expected.

In terms of ADO, the Group attained satisfactory results in the research and development of primary and secondary power equipment integration, integration technology of hardware and software as well as energy data and service technology. In the newly launched smart distribution power management and operation systems, and energy efficiency management platform, the Group integrated the mobile Internet, including advanced Internet communication technology, big data and cloud computing technology, with power distribution primary and secondary equipment. This multi-dimensional access to the cloud, terminal and client strengthened the relations among the management system, devices and users, as well as improved the overall security of the systems.

Catching up with China's progressive promotion of clean energy power generation and energy storage industry, the Group has launched two research and development projects regarding brushless doubly-fed motor and liquid metal battery since last year. During the year under review, these two projects were in good condition and were well prepared for marketization.

"Made in China 2025" ("中國製造2025") is an initiative by the government to comprehensively revamp the manufacturing industry. Based on the existing foundation of informatization and automation, the Group has also developed a smart manufacturing construction plan. Having recognized by MIIT of 2016 Intelligent Manufacturing Comprehensive Standardization and New Model Application Project on 3 June 2016, the Group also received an approval of Intelligent Manufacturing Experimental and Demonstration Project on 17 June. With the great support of government policy, the Group will accelerate the smart manufacturing construction to further strengthen its core competitiveness, and become a role model for the industry. Wasion Electric Company Limited, the Group's ADO platform, was recognized as one of the 15 smart manufacturing demonstrating companies in Hunan in 2016.

In July 2016, the Group won the 2016 National Quality Benchmarking Enterprise Rewards in the National Quality Benchmarking Assessment organized by MIIT. Upholding high quality products and systems as the value of the Group, stringent quality control was imposed to ensure the provision of the most innovative and suitable products and services to users. Winning yet another national honor serves as the high recognition for the Group's core values and efforts.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PROSPECTS

Continuing the political and economic destabilizing factors of 2016, the global economy would continue to stumble ahead, with increasing downward pressure on China's economy. Despite the not so ideal macroeconomic environment, China still has a strong determination to subvert the traditional energy market and thereby build an efficient and safe energy system through a series of energy reform measures. Government departments, grid companies, energy companies, and the Group's equipment suppliers, will inevitably need to re-examine the development approach to meet the future trend of the energy market. Since the beginning of 2015, the Group has gradually adjusted its development strategy to develop the AMI and ADO business at a sound pace. The Group is convinced that energy reform is not only the way out for China's energy market and is also an opportunity for the Group's long-term development. The Group will continue adhering to the "steady progress" principle, followed by the pace of development of the energy market.

In terms of AMI business, according to "Implementing Opinions about Accelerating Energy Development and Construction in Poor Regions from Poverty" (《關於加快貧困地區能源開發建設推進脱貧攻堅的實施意見》) announced by NEA, China will gear up the upgrading of rural power grid in the western region and poverty area, enhancing the level acceptance of distributed energy and promoting water-saving irrigation in order to achieve the target of having full power coverage in rural area by 2020. Therefore, the Group will cater for the demand from users in the rural power grid area in order to promote quality products and services for capturing the huge market demand in smart meter products and systems. On the other hand, the Group will continue focusing on the growing demand on power big data monitoring and analysis and actively expand the clientele to public infrastructures such as school and hospitals, as well as new property development projects. Meanwhile, the Group will keep a close eye on the development of water metering in China, utilizing the advantages as a smart metering market leader and a finalist on the tender list of numerous water companies, to accelerate water metering business development. In order to effectively grasp the market demand, the Group leverages on its own advantage as a local enterprise to penetrate into Changsha, Hunan and successfully extended the successful experience to other key cities. On the other hand, the Group believes the gas and heat market will undergo a rapid growth in future under the support of gas escalating pricing policy and heat metering reform respectively, which is favorable to the long-term development of the Group's corresponding businesses.

Under the support of the favorable policies, the construction of distribution power grid has become one of the future development focuses in the China's power industry. The Group's intensive development of ADO business aims at seizing the market demand for power distribution upgrade by integration, intellectualization and systemization. In the future, the Group will take advantage on the network being built and marketing efforts being done in the past in the ADO industry to increase the contribution of ADO business. Strategically, the Group will accelerate market expansion by maintaining the relationship with power grid clients, as well as further developing the power end-user market especially for railway and transportation, distributed energy, data centers, high-end commercials and large scale industrial enterprises. Meanwhile, the Group will leverage the EPC qualification to develop ADO business, from integrated equipment, systems and solutions to EPC and services, by providing diversified products and services for customer. Moreover, the Group is going to seek for more opportunities from the power distribution incrementation reform, and push forward our solutions and services as well as integrated energy services in order to speed up the development pace of ADO business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

For international markets, the Group will keep developing its own brand and channels in Asia, Africa, and Latin America, by accelerating new markets expansion and increasing market penetration through current customer base. At the same time, the Group will leverage on its strategic cooperation with international industry leaders such as Siemens and Huawei, to actively participate in the AMI transformation projects of different counties and to promote its comprehensive smart metering business development in developed areas.

Adhere closely to its vision of "Pertaining a Centennial Wasion by Continual Innovation", the Group has showed strong commitment in devoting resources in research and development to consolidate its development foundation as a technology company. The Group will stay tuned to the latest national energy market development to continuously update the current products and system; as well as working side-by-side with industry experts and famous talents for new technologies.

Looking ahead, the Group will proactively respond to different economic uncertainties and actively explore market opportunities for energy reform, as well as uphold its mission as an expert of energy metering and energy efficiency management to steadily pursue for a healthy and sustainable development and establish its market leading position in the global market.

EVENTS AFTER THE REPORTING PERIOD

From the end of the reporting period of 31 December 2016 to the result announcement date, the Company has the following events:

(I) On 12 January 2017, Hunan Wasion Information Technology Company Limited ("Wasion Information Technology"), a subsidiary of the Company, has entered into two investment agreements with two connected persons, pursuant to which, the connected persons have agreed to contribute an aggregate of RMB 100.44 million to subscribe for RMB40.02 million of the registered capital of Wasion Information Technology, representing an aggregate of 9% of the enlarged equity interest of Wasion Information Technology. On 13 January 2017, Wasion Information Technology has entered into five additional investment agreements with five independent investors, pursuant to which, the independent investors have agreed to contribute an aggregate of RMB290.26 million to subscribe for RMB115.63 million of the registered capital of Wasion Information Technology, representing 26% of the enlarged equity interest of Wasion Information Technology. Upon completion of the above capital increase, Wasion Information Technology will be held as to 65% by the Group, and will remain as a subsidiary of the Group.

(2) The Company has passed an ordinary resolution in an extraordinary general meeting held on 20 March 2017 to acquire 50.053% of the share capital of Zhuhai Zhonghui Microelectronics Co., Ltd. ("Zhuhai Zhonghui") at an aggregate consideration of RMB52,105,200. Zhuhai Zhonghui is a company established in the PRC which provides professional measurement chip, GPRS wireless module, MCU, reset chip and other embedded software products mainly used in the electric energy metering and information automation area.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SUMMARY

It is the 3rd Corporate Social Responsibility Report presented by Wasion Group Holdings Limited ("Wasion Group" or the "Group"), who ensures the authenticity, objectivity and timeliness of the information in the report. Based on the principles of materiality, quantitative, balance and consistency, the report discloses the Group's willingness and performances (both environmental and social) of discharging the responsibilities in 2016 as well as the commitments in 2017, in order to show the Group's practices and efforts in promoting energy conservation and efficient consumption as well as discharging its social responsibilities, and demonstrate the Group's determination to promote sustainable development of economy and society and continuously meet the needs and expectations of various stakeholders.

(1) Organizations in the report

Unless otherwise stated, the report covers Wasion Group and its subsidiaries, of which the businesses scope are described in "About Wasion".

(2) Period of the report

The period of the report is from 1 January 2016 to 31 December 2016.

(3) Cycle of the report

The report is presented annually and generally issued before the end of March in the following year.

(4) Clarification of the data in the report

If there is any discrepancy in the economic performance data of 2016 disclosed in the report, the financial reports shall prevail.

(5) Standard of the report

The report has been prepared in accordance with the *Environmental, Social and Governance Reporting Guide*, Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), issued by The Stock Exchange of Hong Kong Limited, the G4 Edition of *Global Reporting Initiative (GRI) Sustainable Development Reporting Guidelines*, and the *CASS-CSR3.0*.

(6) Statement of change

Besides the further disclosure of key performance index from the *Environmental, Social and Governance Reporting Guide*, Appendix 27 of the Listing Rules, the scope and other category of the report have nothing significant change to the *Corporate Social Responsibility Report 2015 of Wasion Group Holdings Limited*.

For further information of Wasion Group, please visit http://www.wasion.com

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

To obtain the hard copy of Corporate Social Responsibility Report 2016 of Wasion Group Holdings Limited, please contact us at:

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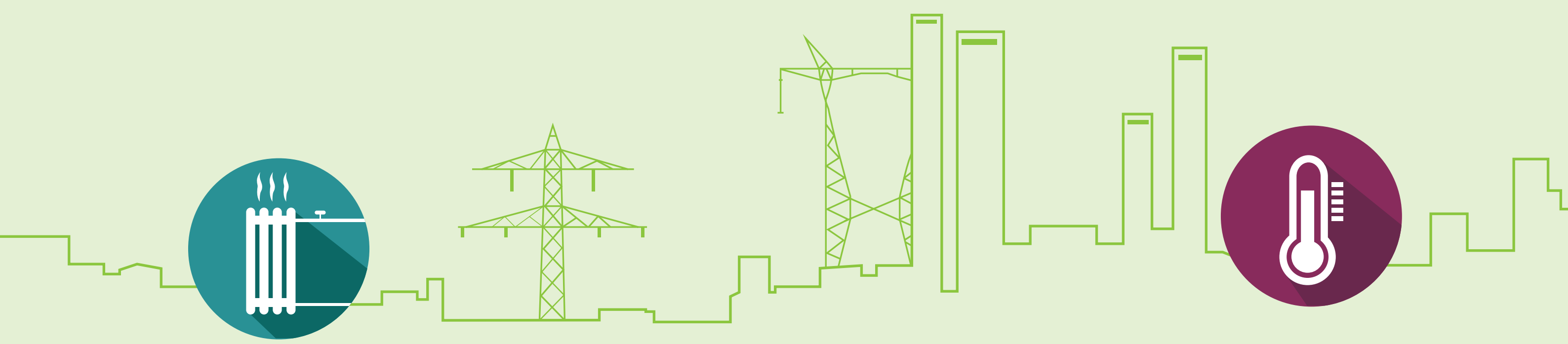
I. ABOUT WASION

Wasion Group is a leading Chinese supplier of integrated solution of smart measurement, smart power distribution & utilization and energy efficiency management, with the mission of being an “Energy Measurement & Energy Efficiency Management Expert” of China and even the world. Listed successfully on the main board of Hong Kong Stock Exchange in December 2005, the Group is the first professional group of energy measurement and energy efficiency management in China listed outside mainland China, and the first company in Hunan Province listed on main board outside mainland China.

Wasion Group has been focusing on the R&D, production and sales of the integrated solution of energy measurement and energy efficiency management while the products and services have widely applied to the energy supply industries such as electric power, water service, natural gas and heating power, etc. as well as the large energy consumption units and resident users such as large public construction, petroleum & petrifaction, transportation, mechanical manufacturing, metallurgy and chemical industry, etc.

The advanced smart measurement businesses of the Group mainly include: a full range of smart electric energy meters, smart water meters, smart gas meters and ultrasonic wave heat meters, various power distribution instruments and power quality monitoring equipments, a full range of energy data collection terminals, load management terminals and user management devices, as well as automatic measuring system, various application systems and services, and energy data mining. The high-end measuring products of the Group lead its competitors with more than 20% share of domestic market. The Group is a unique domestic professional manufacturer that not only can supply the various advanced energy measuring products, systems and services relating to the electricity, water, gas and heat, but also covers the whole-process demands of energy production, transmission and distribution.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The smart power distribution & utilization and energy management businesses of the Group mainly include: a full range of high voltage switchgears for 40.5kV/12kV, smart switchgear for 12kV, a full range of relay protection devices for 35kV/10kV, automatic network distribution terminal for 10kV, power electronics application device for power quality improvement and new energy friendly access, smart power distribution & utilization systems, engineering and services, and energy conservation services, etc. The Group is committed to become the leading integrated solution provider of China for smart system of power distribution & utilization.

Facing the significant changes on the energy production & consumption pattern taking place in China and the world, the huge social responsibilities and development opportunities of energy conservation and emission reduction, and the new demands of smart grid, Wasion Group will always remember the mission of "Energy Measurement & Energy Efficiency Management Expert", persist in the core value of "Perfect Work with Passion, and Success Achieved with Integrity" , never stop the sustainable innovation, and devote ourselves to make Wasion the leading enterprise in the Chinese smart grid and smart measuring fields, one of the major suppliers of the international smart grid and smart measuring fields, and global famous brand transcending national borders.

II. WILLINGNESS OF DISCHARGING THE RESPONSIBILITIES

1. Concept of social responsibility

Nowadays energy and environmental issue has become the major social responsibility subject that constrains human sustainable development. As the forerunner in the energy measurement and energy efficiency management field, Wasion Group has been working hard in its skilled field. We do believe that using more accurate energy measuring technologies and more lean energy efficiency management services, we can help the whole society to gradually improve energy efficiency and reduce the environmental pollution generated in the process of energy utilization. Therefore, in the coming years the Group will be focusing on the measurement of electricity, water, gas and heating and energy efficiency management, and include "to make irreplaceable outstanding contributions for human energy conservation and efficient utilization" in our missions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Meanwhile, insisting on the Purpose of Wasion, "**Perfect Work with Passion, and Success Achieved with Integrity**", the Group actively discharges social responsibilities, pays full attention to the interests of all stakeholders, actively seek the economic, social and environmental comprehensive value maximization, strive to achieve the maximized contribution to sustainable development, and make unremitting efforts to realize the great vision of "Continual innovation contributing to Wasion's Centennial History".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Create value for customers	Provide more accurate, more reliable and smarter products and system services, and provide safer, more efficient, more professional system solutions and integrated services.
Create value for staffs	Earnestly respect the value of staffs, build a learning organization, and constantly stimulate the potential creativity of the staffs to promote their growth.
Create value for suppliers and resellers	Focus on the measurement of electricity, water, gas and heating and energy efficiency management, continuously enhance the core competence and capability in system integration, and achieve sustainable development in the harmonious interaction with all stakeholders.
Create value for shareholders	Following the internal and external resources environment and the forefront of industry competition, constantly improve the comprehensive management vitality and profitability.
Create value for the society	Make a sincere and lasting contribution to decent employment and social civilization and harmony with a strong sense of social responsibility, and make irreplaceable outstanding contributions to human energy conservation and efficient utilization.
Create value for the industry	Following the rapid development of global IC & IT applications, and continuously improve the R&D capabilities and contribution capacity of science and technology.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

2. Development strategy of social responsibility

In the medium and long term strategic development plan of Wasion Group, **Four Actions** have been determined, including "zero environmental pollution incident, zero major safety accident, significant improvement of stakeholders' satisfaction, and significant improvement of compliance of public welfare investment strategy". Focusing on the "six major stakeholders", through **Four Steps**, including systematically setting up a social responsibility management system, creating occupational health management demonstration enterprises, promoting the project of stakeholders' satisfaction, and planning public service marketing model, we will implement **Three Projects** orderly and firmly, including "Value of Wasion, Responsibility of Wasion and Public Welfare of Wasion" , to achieve the social responsibility strategy overall goal of "Being the industry benchmark of proposing harmonious development and discharging the social responsibility" and practice the **enterprise purpose** of "Perfect Work with Passion, and Success Achieved with Integrity".

Four Actions	Four Steps	Three Projects	Overall Goal	
• Zero environmental pollution incident • Zero major safety accident • Significant improvement of stakeholders' satisfaction • Significant improvement of strategy compliance of public welfare investment	• Building a social responsibility management system • Creating occupational health management demonstration enterprises • Promoting the project of stakeholders' satisfaction • Planning public welfare marketing model	• Value of Wasion • Responsibility of Wasion • Public Welfare of Wasion	• Being the industry benchmark of "proposing harmonious development and discharging the social responsibility"	Perfect Work with Passion, and Success Achieved with Integrity

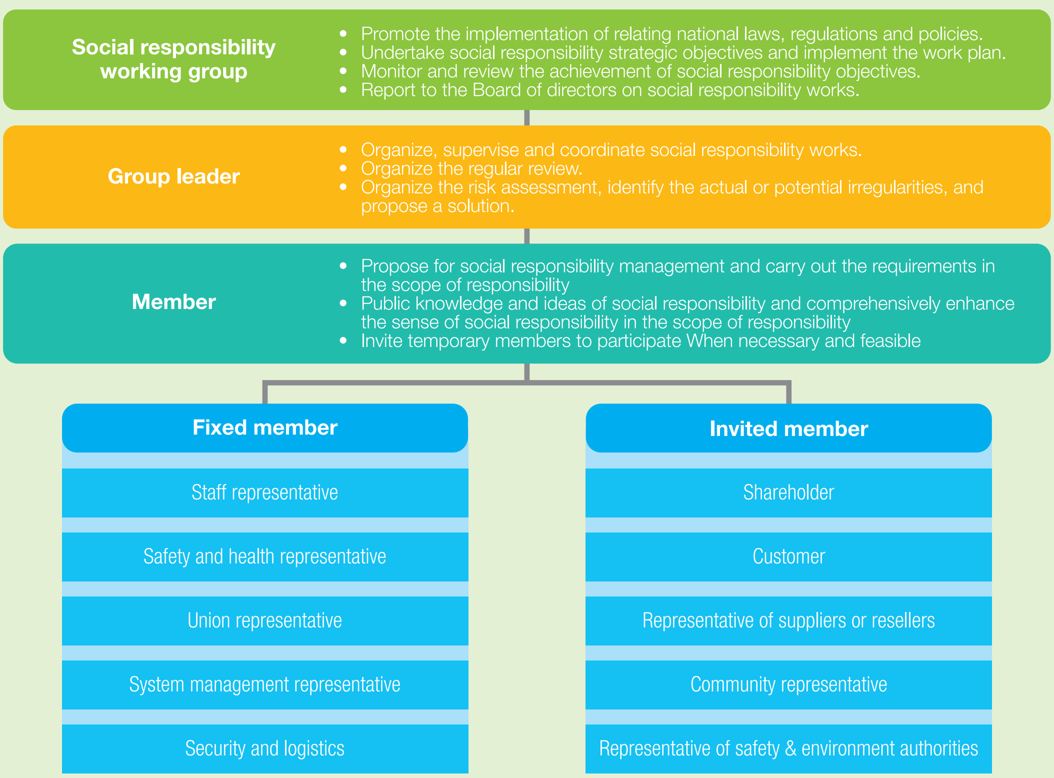
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

3. Management mechanism of social responsibility

3.1 Organization chart of social responsibility

In order to achieve the strategy goal of social responsibility, continuously improve the social responsibility performance, and full play the role of organization to put the goal into practice, Wasion Group establishes the organization framework of social responsibility.

3.2 Responsibilities of social responsibility working group

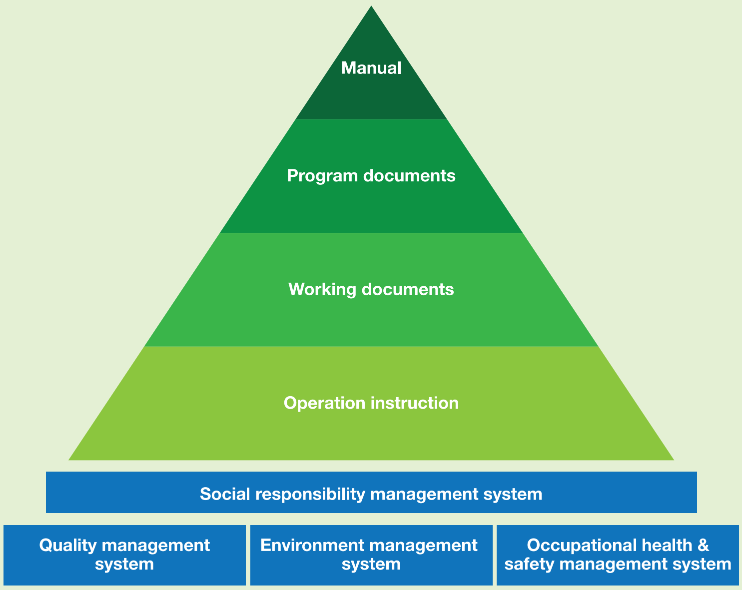


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

3.3 Management system of the Group for social responsibility

At the beginning of its establishment, Wasion Group established the quality management system, and a management system integrating the environmental management system and the occupational health and safety management system, through years of implementation, which laid the foundation for the Group to construct the management system for social responsibility. In 2015, SA8000:2008, the social responsibility management system certification, was obtained successfully, while in 2016, the management system of the Group for social responsibility had been continuously improved through a series of methods, such as in-depth training, special projects, management optimization and documents completing, etc.

➢ ***Documentation management system for social responsibility***



➢ ***List of management documents for social responsibility (selected according to the reference standard of the report)***

[Environmental]

No.	File name
1	Control Program for Identification and Evaluation of Environmental Factors
2	Control Program for Monitoring and Measurement
3	Control Program for Laws, Regulations and Other Requirements
4	Control Program for Compliance Evaluation
5	Management Measures of the Responsibility Administration for Health, Safety and Environmental
6	Management Measures for Energy Conservation
7	Management Measures for the Waste

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

[Social]

No.	File name
1	Control Program for Human Resources
2	Control Program for Extension Education
3	Management Measures for Job Qualification and Performance Evaluation
4	Management Measures for Training
5	Management Measures for Human Resources Deployment
6	Control Program for Hazard Identification
7	Management Program for Safety Production
8	Control Program for Labor Protection
9	Control Program for Non-Forced Labor
10	Control Program for Incident Investigation and Processing
11	Control Program for Customer Satisfaction Measurement
12	Control Program for Services Provided for Hardware
13	Control Program for Products Monitoring and Measurement
14	Management Measures for Identification and Evaluation of Occupational Hazards
15	Management Measures for Using Electricity
16	Management Measures for Fire Safety
17	Management Measures for Staffs' Complaints
18	Management Measures for Intellectual Property
19	Management Measures for Suppliers

➢ ***Continuous improvement system of social responsibility management system***

4. Stakeholders' communication

Wasion Group attaches importance to strengthening communication with stakeholders, establishes *Communication Control Procedures*, determines the scope of stakeholders, and plans the method and frequency of their communication and participation according to their influence and importance, as well as their respective concerns to ensure the participation of stakeholders and the effective implementation of communication mechanisms.

Customer

Concerns
- Product quality, safety, and reliability
- Quality service
- Laws compliance
- Reasonable price

Communication and participation
- Customer Satisfaction Survey/annual
- Customer Service Hotline/continuing
- Plant visit/as required

Staff

Concerns
- Health and safety
- Reasonable salary
- Development platform and space
- Increasing benefits

Communication and participation
- Training/continuing
- Performance evaluation/annual
- Union meeting/annual
- Management review meeting/twice a year
- Employee Satisfaction Survey/twice a year

Suppliers and resellers

Concerns
- Common compliance with laws and regulations and business ethics
- Integrity cooperation, mutual benefit and common development
- Strict and standardized management

Communication and participation
- Supplier conference/annual
- Supplier inspection/as required
- Technical exchange/as required
- Daily business exchange/continuing

Shareholders

Concerns
- Complying with laws and regulations
- Continuous and healthy return and long-term development
- Social status, prestige and achievement

Communication and participation
- General meeting/annual
- Press conference/as required
- Site visit and investigation/as required

Government and community

Concerns
- Safety production and environmental protection
- Stable promoting the industry and social economic development
- Taxation and employment
- Supporting social welfare
- Participating in community building

Communication and participation
- Daily work report/continuing
- Website information release/continuing
- Satisfaction Survey/annual
- Community visits/as required

Industry

Concerns
- Complying with national laws and regulations and business ethics
- Fair competition
- Open cooperation
- Technological innovation

Communication and participation
- Participate in industry planning and standards defining/as required
- Technical Summit/as required
- Website information release/continuing

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

5. Evaluation of materiality

Complying with the principles of materiality, quantitative, balance and consistency, by the participation of Wasion Group and major stakeholders, the relating environmental, social and governance categories (environmental and social) of the Group in 2016 were identified and evaluated, aimed at the key performance index set out in the *Environmental, Social and Governance Reporting Guide*.

Abstract of the Environmental, Social and Governance Reporting Guide	Material Environmental, Social and Governance Matters
A. Environmental	
A1. Emissions	• Polluted water • Greenhouse gases • Exhaust • Solid waste
A2. Use of Resources	• Use of energy • Use of water
A3. The Environment and Natural Resources	• Monitoring of environmental performance • Energy conservation and emission reduction
B. Social	
B1. Employment	• Compensation and dismissal, recruitment and promotion, working hours, rest periods • Equal opportunity, diversity, anti-discrimination
B2. Health and Safety	• Occupational health and safety
B3. Development and Training	• Employees' development and draining
B4. Labour Standards	• Preventing child and forced labour
B5. Supply Chain Management	• Quality of supply chain and effects to social responsibility
B6. Product Responsibility	• Quality management level • Monitoring and measurement of product • Measurement of customer satisfaction • Customer privacy
B7. Anti-corruption	• Principles of honesty and integrity
B8. Community Investment	• Public welfare • Activities investment in the reporting period

III. PERFORMANCES OF DISCHARGING THE RESPONSIBILITIES

1. Environmental

1.1 Emissions

Wasion Group has been committed to environmental protection. On the one hand, we pay attention to **the sustainable construction, optimization, transformation and regular maintenance** of environmental infrastructure to improve the efficiency of equipment and facilities; on the other hand, we reduce waste in daily operations through **publicity, education and training to the staffs**. Meanwhile, we take a number of effective measures and monitoring processes to require all departments to strictly comply with the internal environmental management system and ensure its compliance with laws and regulations and the discharge of responsibilities to protect the environment.

The Group has formulated the *Management Measures for Waste, Waste List and Processing Requirements* to regulate and guide the disposal of waste, and implemented effective measures for the management and monitoring of different types of waste. At the same time, the Group accurately monitors various emissions according to the *Control Program for Monitoring and Measurement* to keep abreast of the Group's environmental performance and develop emission reduction targets.

In the reporting period, the Group had not found any case of violations relating to environmental laws and regulations.

➢ ***Polluted water***

As early as 2008, by launching the non-cleaning technology to the products of the Group, there is no industrial wastewater generated in the production process.

The Group built an advanced sewage treatment station to deal with domestic sewage from the plant in the industrial development zone and obtained the sewage discharge permission issued by local environmental protection authority. According to the requirements from the permission, the Group has standardized the discharge at class III standard every year.

The maintenance mechanism has been formulated, under which the responsible departments and external agencies regularly repair the sewage treatment facilities to ensure the normal operation, and the equipments operation have been daily inspected and monitored to record the sewage treatment situation. Meanwhile as one of the measures, water-saving tanks have been installed in the toilets in order to reduce the discharge of domestic sewage.

In 2016, total sewage discharge from the plant was 360,000 tons, and the emissions by annual turnover were 138 tons per RMB1.00 million.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

➢ ***Exhaust***

The major air emissions of the Group are smoke generated in wave soldering and reflow soldering, and cooking exhaust, of which both the quantity are tiny and qualified to be discharged. The air emissions of the Group in 2016 complied with the requirements in the *Air Pollution Prevention Law of the P.R.C.* and be inspected by relating management authorities. The standardized cooking exhaust from our canteen, which has been purified by fume purification devices certified by the provincial environmental protection authority, is discharged into high-altitude air.

The standardized tiny smoke generated in wave soldering and reflow soldering is discharged into high-altitude air after being collected and filtered according to the requirements from the environmental protection authority.

The Group has established a daily maintenance system to regularly clean the discharge pipelines.

➢ ***Greenhouse gases***

The production activities of the Group need electricity to maintain the machine operation, daily lighting and indoor temperature conditioning, etc. In addition, sometimes the Group needs to use natural gas to maintain a comfortable indoor temperature. Therefore, our carbon emissions are mainly resulted from the greenhouse gases generated in electricity and seasonal natural gas consumption. During the reporting period, the energy-related carbon dioxide equivalent was 11,625 tons[1], and the carbon emissions by annual turnover were 4.5 tons per RMB1.00 million. For specific emission reduction measures, please refer to section 1.2 Use of resources and section 1.3 The Environment and Natural Resources.

➢ ***Solid waste***

The Group sets up the garbage can according to the type of waste and puts it in a reasonable area. The waste generated by each department is classified according to the *Waste List and Processing Requirements* and put into the designated garbage can or stacking site.

The recyclable wastes are recycled, and the hazardous wastes are stored in special site and regularly delivered to qualified contractors to process.

The Group promotes and continuously implements various e-flows in office software to reduce the use of paper. In 2016, the online e-flows, such as management system documents, work approval and cost approval, etc., further expand the coverage of paperless network and mobile office.

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1 The calculation of carbon emissions is based on the *Greenhouse Gases Protocol published* by WBCSD and WRI, *Environmental Key Performance Index Reporting Guide* issued by the HKEx, and the *China Regional Grid Baseline Emission Factor* and *Guidelines for the Accounting and Reporting of Greenhouse Gases Emissions in Electronic Equipment Manufacturing Enterprises (for Trial Implementation)* published by the Climate Change Office of National Development and Reform Commission of China.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The major hazardous waste is solder splash generated in production processes. In the reporting period, total solder splash was 6 tons and recycled through qualified recycling units.

As for the non-hazardous waste, in the reporting period, total waste paper was 25 tons, and the quantity by annual turnover was 0.01 ton per RMB1.00 million, while total daily garbage, mainly from kitchen waste and staffs' household refuse, was 500 tons, and the quantity by annual turnover was 0.19 ton per RMB1.00 million.

1.2 Use of resources

Wasion Group has formulated the *Management Approaches for Energy Conservation* to guide the rational use of resources. As the energy efficiency management experts, we take the lead in taking measures to reduce energy consumption and reduce the negative impact on the environment.

A series of technology methods are increasingly invested in, such as **the use of renewable energy, the transformation of energy-saving equipment and facilities, the enhanced maintenance and the use of energy-saving materials**, etc. The energy efficiency is improved by the scheduled temperature control system in central air conditioning system and the standardized working environment temperature range. Meanwhile, the internal **energy-saving education** is continuously carried out **to develop the sense of conservation**. Once the pipeline leaks, the report and repair is timely. **Water-saving, energy-saving and other visual energy-saving logos are posted** in the office, drinking room, toilet and other places to create energy-saving atmosphere. Without the issue of seeking water supply, the Group has made reasonable use of water obtained adequately from the municipal water supply system.

Key performance index

Category	Total	Average consumption per million of annual turnover	Unit
Electric energy	16,610,000	6,370	KWH
Natural gas	380,000	145	cubic meter
Tap water	460,000	176	ton
Packing material[2]	8,550	3	ton

1.3 The Environment and Natural Resources

Wasion Group has formulated a series of management documents, such as *Control Program for Identification and Evaluation of Environmental Factors, Control Program for Laws, Regulations and Other Requirement, Control Program for Monitoring and Measurement, and Control Program for Compliance Evaluation*, to identify environmental factors, evaluate environmental impacts, monitor environmental performance and reduce negative environmental impacts, and scientifically and systematically implement the environmental protection works.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

In 2016, under the co-ordination and guidance of the social responsibility working group, various energy saving and emission reduction activities were carried out through encouragement, active advocacy and targeted measures. In the **sense of emission reduction**, "Hiking" activity was carried out to encourage green travels. In **waste reduction**, the new e-flow office was implemented through the office automatic system transformation, including human resources module, financial reimbursement module and system file management module, and greatly reduced the office paper. In the **monitoring of major environmental factors**, besides monthly safety inspection, special inspection before the holidays was organized to eliminate fire risks, protect the life and property and prevent the air from pollution.

2. Social

2.1 Employment

The development of the Group is inseparable from the contribution and creation of all staffs. Through providing a broad career development space and establishing perfect compensation and welfare packages, we earnestly respect the value of staff and strives to provide a good working environment for each of them and grow up together to an ideal behaving and professional performing.

The Group strictly comply with the requirements of the laws and regulations such as the *Labor Law of the P.R.C.* and the *Law on the Protection of Women's Rights and Interests of the P.R.C*. Relating to recruitment, promotion, compensation, welfare, performance evaluation, training and staff relations and communication, we formulated the *Control Program for Human Resources, Management Measures for Job Qualification and Performance Evaluation, Management Measures for Human Resources Deployment and Management Measures for Training* to make rules for "selection, positioning, education and retaining" of human resources based on the principles of fair, just and open. "Equal pay for equal work" and "anti-discrimination" has been put deep into practice as well. As for the protection of staffs' rest and leave, the policies are strictly implemented, such as holiday leave, paid annual leave, three periodic protection leave for female staffs, etc. In order to expand and deepen the scope of welfare and beneficiary, various welfare policies has been formulated, such as cash and material welfare on holiday, pregnant women's restaurants, free working meals, free shuttle, annual physical examination, commercial accident insurance and high temperature subsidies for manufacturer, sales, engineering and technical staffs, etc.

[2] The main packing materials are hard paper cases.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

In 2016, the Group won the 8th consecutive "China's best employer", and was awarded the "TOP 10 best employer in Changsha".

In the reporting period, the Group had not found any case of significant violations relating to HR laws and regulations.

As at 31 December 2016, total employees of the Group was 3,666[3] with distribution as follows:

Gender	Subtotal
Male	2,138
Female	1,528

Age	Subtotal
Under 30	1,407
30–49	2,210
Over 50	49

Position	Subtotal
Senior	45
Middle	320
Basic	3,301

Region	Subtotal
Domestic	3,666
Overseas	—

[3] Total employees represent the aggregation of all full-time contractual employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

2.2 Health and Safety

Through the comprehensive import of OHSAS18001 Occupational Health and Safety Management System, the Group formulated 20 management documents to implement occupational health and safety management scientifically and systematically, including the *Control Program for Hazard Identification, Management Program for Safety Production*, *Control Program for Labor Protection, Control Program for Incident Investigation and Processing, and Management Measures for Fire Safety*, etc.

Based on the analysis of the occupational health, safety production and environmental management works in 2015, the improvement direction of those works in 2016 had been further determined, following the successful experiences of last year: New requirements for safety management of test area were formulated to further standardize its safety management; Various contingency plans and drills were established and implemented according to occupational health, safety production management situation, including chemical leakage drills and fire evacuation drills, etc., and fire evacuation drill in the night was carried out in 2016 as well; The self-saving knowledge education was enhanced by organizing the staffs to participate in outsource training to learning first-aid knowledge; Special publicities and inspections for summer and winter were implemented, and the monthly security inspection and inspection before the holidays for the status of infrastructure and departmental electricity consumption were organized and implemented by the social responsibility working group, in which the notice of rectification were issued to irregularities, which were supposed to regularly report on the improvement.

In the reporting period, the Group had not found any case of violations relating to health and safety laws and regulations, and there were no staff killed or seriously injured in work.

2.3 Development and Training

The Group has established the diversified career development channels to help staffs grow, expressly stated in the *Control Program for Human Resources, Management Measures for Job Qualification and Performance Evaluation*, and *Management Measures for Training*, and implemented in a continuous improvement model to promote the training implementation: training needs analysis — design training methods and courses — training — results evaluation and review. The training methods of the Group include teacher lectures, conference discussions, technical exchanges, industry forums and documents learning, etc.

In 2016, the "Wasion College" was developed in the office automatic platform, which realized the function of online selection, online training and massive downloading of electronic books, and greatly improved the training rate of relating courses.

A total of 2,572 training courses had been carried out in 2016, increased by 125.6% compared to 2015, and 61,604 persons were covered, increased by 189.7% compared to 2015.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Training subject: Value of Wasion

Gender	Participating Ratio	Average training time (hours)
Male	83.2%	9.4
Female	87.6%	11.7

Position	Participating Ratio	Average training time (hours)
Senior	100%	43.5
Middle	95.3%	30.4
Basic	95%	34.8

2.4 Labor Standards

In accordance with the requirements of SA8000 Social Responsibility Management System, the Group has formulated a series of documents such as *Control Program for Extension Education*, *Control Program for Non-Forced Labor* and *Management Measures for Staffs' Complaints*, etc. to ensure that no child labor and forced labor incidents occur. In order to avoid misuse of child labor, at the beginning of the recruitment, HR checks identity information of each candidate with the police, and a social responsibility training course is carried out at their entry to let the new staffs understand the labor policy and clear the rights and interests. Meanwhile, in order to early prevent and avoid forced labor events, **the regularization, standardization and transparency of democratic management** are promoted through social responsibility management review, internal audit, staff forum and operation express, etc. The measure for misuse of child labor was also clear in the relevant documents, including reporting to the competent authorities and providing assistance if necessary.

In the reporting period, the Group had not found any case of violations relating to child and forced labor laws and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

2.5 Supply Chain Management

In order to ensure that the performance of social responsibility of the suppliers comply with the purpose of the Group and gradually expand the scope of the impacts of social responsibility by influencing the suppliers, the relevant evaluation clause of the social responsibility performance is formulated in the *Management Measures for Suppliers* to evaluate the suppliers' social responsibility performance in the introduction of new supplier, the daily supervision and regular evaluation, to ensure that the supplier with good performance of social responsibility is selected. The concept of social responsibility of the Group is delivered to our suppliers by "Notification of social responsibility" as an influence.

The distribution of suppliers of Wasion Group in 2016 is as follows:

Region	Total Suppliers
Domestic	210
Overseas	68

2.6 Product Responsibility

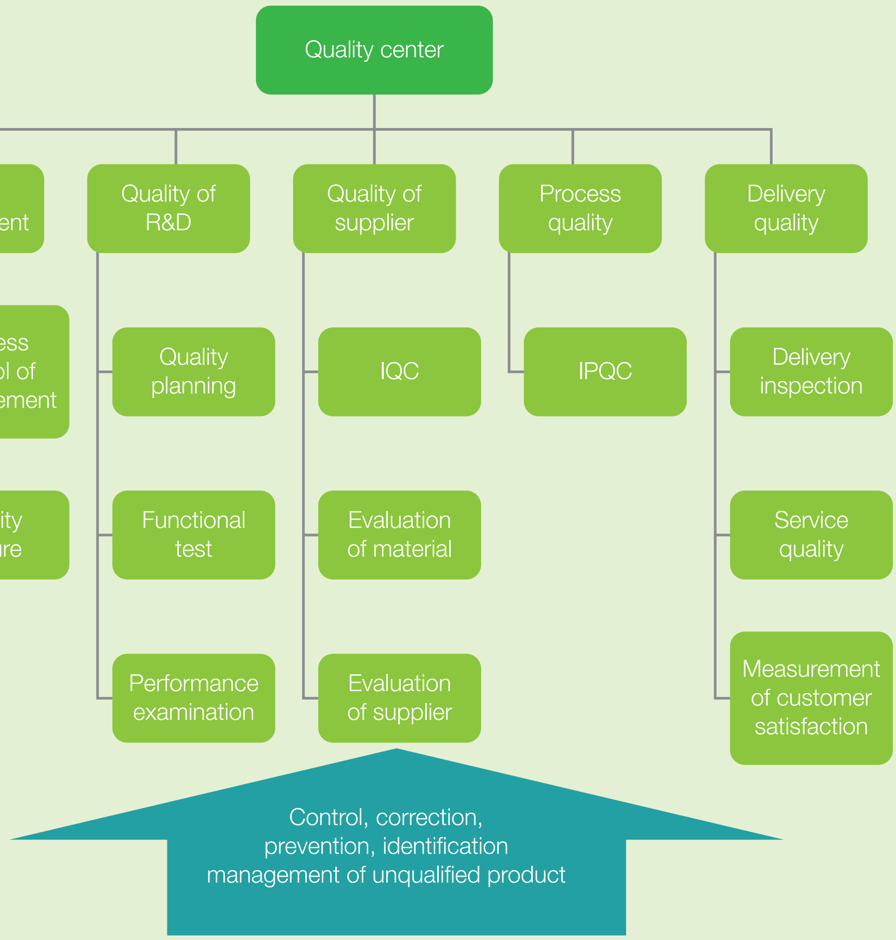
"Quality is the life of Wasion, the dignity of every Wasioner". In order to continuously deliver the qualified products and services to the customers, we have been committed to build and improve the quality management system. Using process methods, system approach and the Plan-Do-Check-Action management cycle (PDCA), the management system has been formulated accordingly and systematically, including *Control Program for Products Monitoring and Measurement, Control Program for Services Provided for Hardware and Control Program for Customer Satisfaction Measurement*. The life cycle quality control of the product from design to service has been implemented to ensure the quality of products and the safety in use.

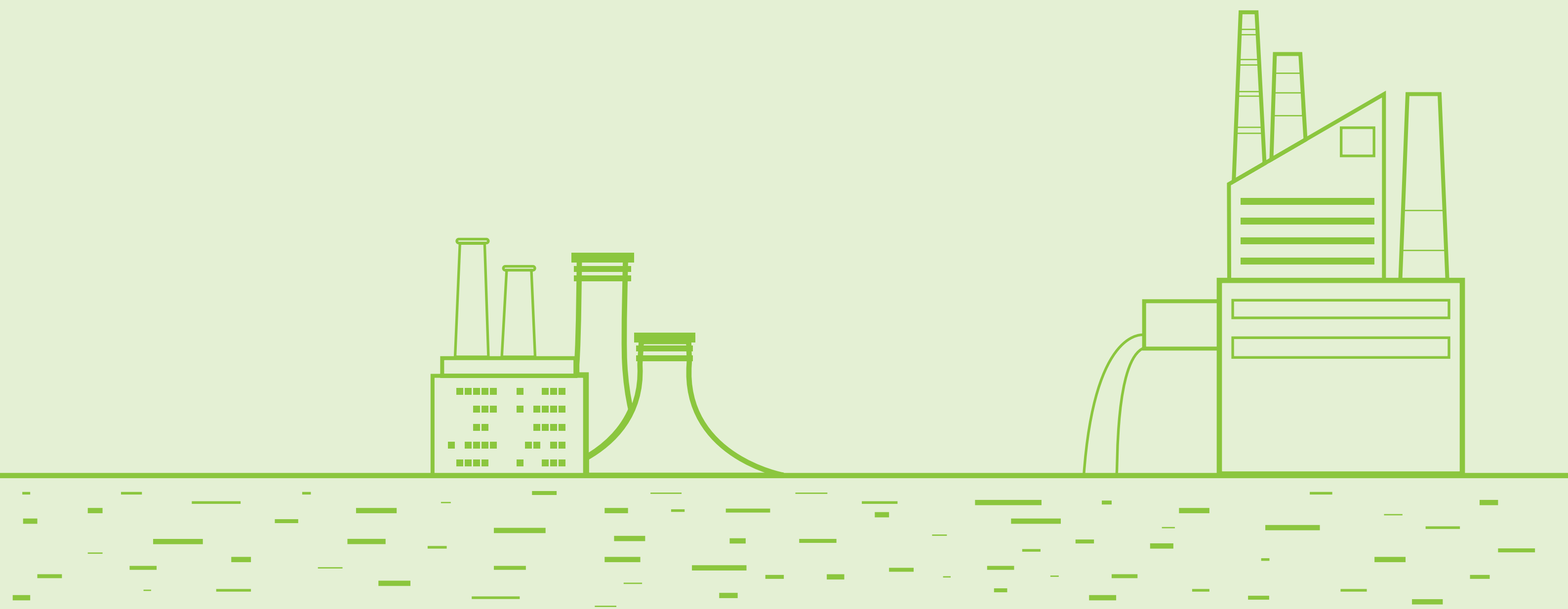
The honors of quality obtained in 2016 included: National Quality Benchmarking Enterprise, National Quality Trustworthy Product, National Instrument Industry Quality Leading Brand, National Quality Honesty Benchmarking Enterprise, Hunan Provincial Governor Quality Award, Hunan Industrial Quality Benchmarking Enterprise, Changsha High-tech Zone Quality Award, etc.

In the reporting period, the Group had not found any case of violations relating to laws and regulations for quality of product and service.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

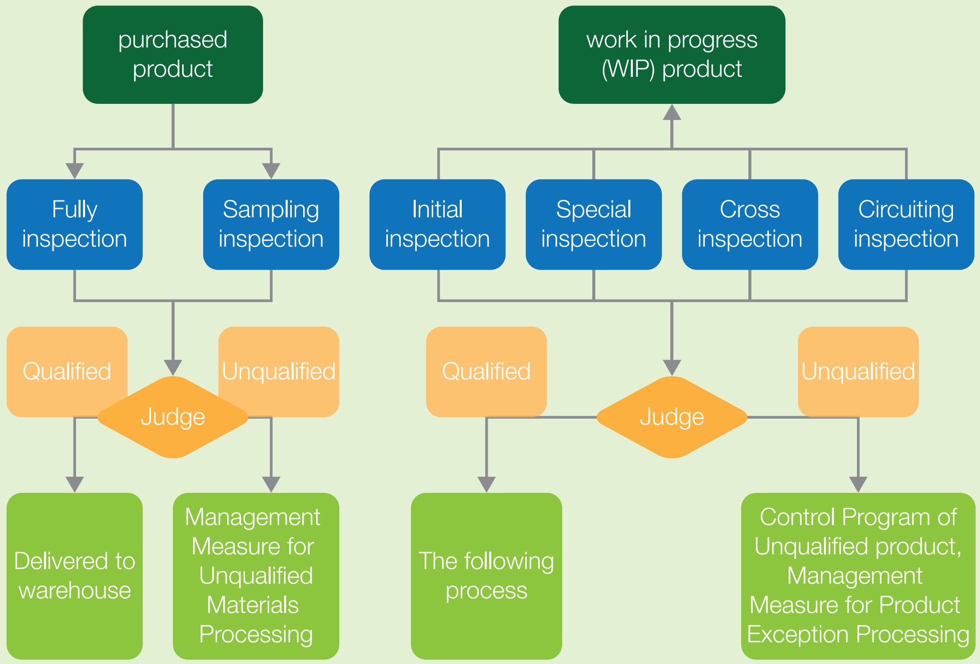
➢ *Chart of product quality management departments:*





ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

➢ ***Monitoring and measurement process of product***



➢ ***Measurement of customer satisfaction in 2016***

The *Control Program for Customer Satisfaction Measurement* has been formulated to find out whether the Group understands and continuously meets the current and future needs and expectations of our customers, and grasp our level and ability to meet the needs of the market by the quality of products and services. The customer's quality management department has planned the survey of measurement annually, including but not limited to: the issue of customer satisfaction surveys, on-site visits, visiting customer quality interviews, telephone interviews, exhibition exchanges and commissioning of third parties for evaluation. The results of the survey are analyzed and the organization is improved to promote the continuous improvement of product quality and service quality.

The survey of customer satisfaction in 2016 was assisted by marketing and technology service departments to obtain relating comments and suggestions, and accounted by customer's quality management department according to the index calculating method. The results are as follows:

Item	2016	2015
Customer Comprehensive Satisfaction	**93.26%**	92.78%
Product Quality Satisfaction	**92.85%**	93.21%
Service Quality Satisfaction	**95.44%**	94.37%

Note: The Customer Comprehensive Satisfaction in 2016 increased by about 0.48% compared to 2015.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

In order to protect internal and external intellectual properties, the *Management Measures for Intellectual Property* had been formulated to regulate the requirements of protection and inspection, according to *The Patent Law of the P.R.C.*, the *Detailed Rules for the Implementation of the Patent Law of the P.R.C.* and *the Provisions of Patent of Hunan Province*, etc.

In 2016, Wasion Group and the Optoelectronics Department of State Intellectual Property Office jointly organized the "Intellectual property rights exchange in Wasion Group" for the issues of "intellectual property protection", "risk assessment", "overseas patent applications", "intellectual property incentive policy", etc.

Summary of intellectual properties of Wasion Group in 2016:

Categories of patent	Approved in 2016	Subtotal
Invention	11	50
Utility model	97	546
Product design	85	297
Integrated circuit layout	1	1
Total	194	894

Furthermore, Wasion Group attaches great importance to the privacy protection of customers, employees and suppliers, and is committed to maintaining and safeguarding its relevant information, including brand-related intellectual property and confidential information and any form of confidential information of potential property or economic value. At the same time, cooperating suppliers are required to sign relating provisions to protect confidential information and prevent the relevant information from unauthorized use through appropriate technical means and processes. Any information leakage of the supplier or staff will be strictly investigated and processed in accordance with the signed effective provisions or internal regulations.

2.7 Anti-corruption

According to the 10 principles in UN "Global Compact", anti-corruption of Wasion Group is definite and determined. The Supervision System of Wasion Group has been formulated to regulate the processes and requirements of supervision, and the special Risk Control Center has been set up to implement corruption prevention and supervision, accept corruption reports, and carry out anti-corruption investigation. Meanwhile, in the *Wasion Values and Code of Conduct Manual*, three anti-corruption provisions have been defined among ten prohibitions of commercial activities to improve the awareness of corruption of all staffs by continuous training and promoting. A reporting process has also been set up to encourage and assist whistleblowers to report misconduct, fraud or irregularities through confidential channels in the operation express or internal office platform. We are committed to process and review the representations fairly and justly, and define the appropriate investigation and corrective actions based on specific needs.

In the reporting period, the Group had not found any case of violations relating to laws and regulations for bribery and corruption, and there was no any prosecuted and concluded corruption case against the Group or its employee.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

2.8 Community Investment

Since its establishment, Wasion actively participates in public welfares, and cares for and contributes to the community friendly and cooperatively.

The Group has set up the special “Staff support fund” and “Staff innovation fund”, as well as the supporting management measures as its “normal”. In 2016, under the subject of “Grateful inside, tempered forward”, “Thanks for you, tomorrow for us”, “Sail in dream, love to help”, the support fund granted 78 times at the total amount of RMB5.18 million, and 1,748 beneficiaries were benefited from it. The “Staff innovation fund” insists on the principle of helping the staff success together, creates a platform for innovation and innovator, and provides financial supports for all kinds of innovative ideas and solutions. In 2016, The Group received 362 applications for various types of innovation funds, 87% of which i.e. 315 applications were awarded at the total amount of RMB1.19 million.

In order to propose the healthy and progressive way of life and transmit the social welfare, internal football league, hiking, photography, chess and other activities have been held to enrich the staff’s cultural life and improve their physical quality, meanwhile basketball friendly matches with other company has been held and community long-distance running for public welfare has been participated in to show the spirit of volunteer service, “dedication, friendship, mutual help and progress” , and attract more people who love the public welfare to join in.

In job creation, in 2016 a total of nearly 4,000 direct employment opportunities were offered and more than 4,000 families were benefit from it. At the same time, estimated according to the purchase amount, nearly 30,000 employment opportunities were created indirectly for the suppliers.

On the other hand, the Group focuses on cooperation with universities, not only being committed to the market-oriented conversion from research to production, but also offering internships and employment opportunities for the university. With an open, tolerance, mutual benefit and win-win attitude, the Group receives the undergraduates for internship in finance, R&D, technical support departments. In 2016, 660 short-term internships were arranged while 315 students were employed.

IV. EVALUATION AND DEVELOPMENT DIRECTION OF COMMITMENTS OF DISCHARGING THE RESPONSIBILITIES

Based on the commitments for actions made in 2016 under the 10 principles of "Global Compact", we will further enhance and continuously improve them in 2017 to implement the purpose of "Perfect Work with Passion, and Success Achieved with Integrity".

10 principles of "Global Compact"	Commitments for actions	Evaluation of discharging the responsibilities in 2016	Development direction in 2017
Human Rights			
1. Businesses should support and respect the protection of internationally proclaimed human rights. 2. Make sure that they are not complicit in human rights abuses.	Comply with the international conventions and international practices signed and recognized by the Chinese Government, comply with the laws and regulations of the host country, and undertake to respect and support human rights within the Group's operations and influence.	Full compliance.	To maintain and review whether there is a deviation and continuously improve.
	Never complicit in human rights abuses.	Full compliance.	To maintain and review whether there is a deviation and continuously improve.
	Offer job opportunities for a number of disabled people to protect their rights and interests.	The Company is against discrimination and fair to the disabled people in recruitment, and employ people only by abilities.	To undertake the initiatives to offer appropriate jobs to the disabled people.
Labor			
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Ensure the free exercise of trade unions, and actively support the trade union activities to protect the right to collective bargaining.	Activities to enrich the staffs' spare time were planned and organized more than 10 times, including football, chess, soliciting articles, photography and knowledge contest.	To continuously inspect and improve according to the formulated policies.
4. The elimination of all forms of forced and compulsory labor.	Promote the regularization, standardization and transparency of democratic management through staff congress, staff forum and operation express.	Continue to hold the monthly staff forum for specific subject, be close to the staffs' life and listen to their hearts.	To continuously inspect and improve according to the formulated policies.
5. The effective abolition of child labor.	Eliminate child and forced labor.	It is definite in the recruitment system and strictly implemented, and there was no child labor found.	To continuously inspect and improve according to the formulated policies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

10 principles of "Global Compact"	Commitments for actions	Evaluation of discharging the responsibilities in 2016	Development direction in 2017
6. The elimination of discrimination in respect of employment and occupation.	Eliminate discrimination in respect of ethnic, gender, age, disease, race and religion, pay upon the position and performance, and implement equal pay for equal work.	The relating management requirements, including compensation policy and staffs' manual had been completely reviewed to unify the thoughts and strictly carried out.	To continuously inspect and improve according to the formulated policies.
	Ensure decent employment, provide compensation suitable to national conditions and the actual situation of the company, balance the work and life, establish a reasonable paid leave system, and be perfect 100% at labor contract signing rate, five insurance-one fund coverage and employment compliance.	The survey of the minimum living needs of staff was carried out to verify the level of compensation. The labor contract signing rate, five insurance-one fund coverage and employment compliance are all 100%.	To implement a project to improve the working efficiency.
Environment			
7. Businesses should support a precautionary approach to environmental challenges.	Develop of alternative and new energy products.	Photovoltaic power generation of the Group increased by 29% compared to 2015.	Continue to promote and improve energy conservation management.
8. Undertake initiatives to promote greater environmental responsibility.	Continue to tap the potential consumption, reduce comprehensive energy consumption of the plant by more than 5%.	Comprehensive energy consumption of the plant decreased by 23.7%.	
9. Encourage the development and diffusion of environmentally friendly technologies.	Upgrade the office automatic system, realize the paperless office.	The e-flows of business applications for financial module, HR module, system management module were online.	
Anti-corruption			
10. Businesses should work against corruption in all its forms, including extortion and bribery.	Continuously train and promote the new edition of Wasion Values and Code of Conduct Manual and ten prohibitions of commercial activities of Wasion.	The training for value of Wasion was fully covered, and senior management, middle managers and basic staffs were evaluated respectively by "3 dimensions".	To continuously implement corporate culture advocacy project.
	Enhance prevention and supervision of the Risk Control Center, accept corruption reports, and carry out anti-corruption investigation.	The Group had not found any case of violations relating to laws and regulations for bribery and corruption.	To carry out publicity for relevant laws and regulations, and maintain and strengthen the supervising efforts.
	Promote transparent operation, strengthen the governance by of laws, improve the internal control system, undertake initiatives to accept the supervision of the community, and prevent the risk of corruption.	There was no any prosecuted and concluded corruption case against the Group or its employee.	

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ji Wei (吉為), aged 60, is an executive Director, the chairman of the Company and the founder of the Group. Mr. Ji is responsible for the Group's overall strategic planning and the formulation of corporate policies. Prior to founding the Group in 2000, Mr. Ji was a business manager of Hunan Province Minerals Import and Export Company (湖南省五金礦產進出口公司) between 1980 and 1985 and the import and export manager of Hunan International Economic Development (Group) Company (湖南省國際經濟開發(集團)公司) between 1985 and 1989. Mr. Ji is also a director of Hunan Classic Investment Co., Ltd. (湖南經典投資有限公司). Mr. Ji was appointed as an executive Director of the Company with effect from 20 July 2004. Mr. Ji was appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province from 2007 to 2012 and he was re-elected in 2013. He was awarded with several honourary titles such as "Most Socially Responsible Entrepreneur", "Most Caring Entrepreneur on Staff Development", "Excellent Entrepreneur of Changsha Hi Tech Zone", "The Sixth Top Ten Educational Entrepreneur Award in China" and "Special Recognition Award for Occupational Technology Creation in Hunan Province".

Ms. Cao Zhao Hui (曹朝輝), aged 49, is an executive Director and the chief executive officer. Ms. Cao graduated from Hunan Commerce College with a bachelor degree in Economics. She also obtained a degree in executive master of business administration (EMBA) from the University of Hunan (湖南大學). Ms. Cao joined the Group in 2000 and was appointed as an executive Director of the Company with effect from 3 March 2005.

Mr. Zeng Xin (曾辛), aged 46, is an executive Director and General Manager of Wasion Electric Limited. Mr. Zeng graduated from the National University of Defense Technology with a bachelor's degree in system engineering in 1992. During 1992 to 1993, he studied in the Qinghua University for a postgraduate degree programme. In 1995, Mr. Zeng obtained a master degree in engineering from the China Academy of Space Technology (中國空間技術研究院). In 2012, he graduated from the Advanced Management in the Energy Sector of Cheung Kong Graduate School of Business. He participated in several research projects in the China Academy of Space Technology (中國空間技術研究院) during his studies and after graduation. Mr. Zeng was a general manager for domestic sales of Wasion Group Limited, a general manager of Weisheng Energy Industrial Technology Co., Ltd., and vice president of the Group since 2006. Mr. Zeng joined the Group in July 2004 and was appointed as an executive Director of the Company with effect from 1 September 2005.

Ms. Zheng Xiao Ping (鄭小平), aged 53, is an executive Director and the President. Ms. Zheng graduated from the Taiyuan University of Technology with a bachelor's degree in industrial automation in 1984. She obtained a master degree of engineering in automation from the North China Institute of Technology in 1987 and holds the qualification of Senior Engineer. Between 1987 and 1988, Ms. Zheng was a teaching assistant at the North China Institute of Technology. She lectured at the Taiyuan University of Technology between 1988 and 1993 and was appointed as the research director of Hunan Weisheng Electronics Co.,Ltd. (湖南威勝電子有限公司) from 1993 to 2000 being responsible for the research and development work. She joined the Group in 2000 and was responsible for the research and development work of the Group. Ms. Zheng was appointed as the executive Director of the Company with effect from 1 September 2005. Ms. Zheng was appointed as a director of Changsha Weisheng Electronics Co., Ltd. (長沙威勝電子有限公司) in March 2004 and an executive director in September 2005. Ms. Zheng was also awarded with various honourary titles such as "Individual with Advanced Technology Creation in Hunan", "Excellent Entrepreneur of Changsha Hi Tech Zone", "Excellent Management of Quality Control in Machinery (Automobile) Industry of Hunan Province", "The Seventh Group of Outstanding Experts in Changsha", "Top Ten Women Entrepreneurs with Outstanding Achievement in Changsha City", "Awarded Women with Contribution and Improvement in Changsha Hi Tech Zone", "National Labour Day Medal" and "National Top Ten Technological Worker in Electronic Devices and Meters Industry".

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Tian Zhongping (田仲平), aged 36, is an executive Director as well as the Vice President and General Manager of the Overseas Sales Department of the Group. Mr. Tian graduated from Xiangtan University (湘潭大學) with a bachelor degree in Engineering in 2002, and obtained a master degree in Control Engineering from Zhongnan University (中南大學) in 2008. Mr. Tian joined the Group in 2002 from graduation and had held positions as Development Engineer for firmware, Project Manager, Product Development Manager, Deputy Chief Engineer and Deputy General Manager of the Overseas Sales Department of the Group. During the period when he was a Development Engineer of the Group, Mr. Tian has obtained more than ten patents for products and technology. Mr. Tian was appointed as an executive director of the Company on 26 January 2017.

NON-EXECUTIVE DIRECTOR

Mr. Kat Chit (吉喆), aged 33, is a non-executive Director. Mr. Kat graduated from the University of British Columbia of Canada with a bachelor degree in economics in 2007. From 2007 to 2011, he was an executive of the equity capital markets division of Macquarie Group Limited and was a director and the general manager of Guangdong Ruiding Power Technology Company Limited (廣東銳頂電力技術有限公司) since November 2014. Mr. Kat was appointed as a non-executive Director of the Company on 12 August 2014. Mr. Kat is the son of Mr. Ji Wei, the chairman, executive Director and controlling shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Huang Jing (黃靖), aged 60, is an independent non-executive Director. Mr. Huang graduated from Sichaun University with a bachelor degree in English. He obtained his master degree in history from Shanghai Fudan University, and his doctor of philosophy degree in political science from Harvard University. Mr. Huang is currently a Lee Foundation chair professor of US-China Relations and director of Centre on Asia and Globalisation at the Lee Kuan Yew School of Public Policy, National University of Singapore. Prior to joining the Lee Kuan Yew School of Public Policy, Mr. Huang had taught at Harvard University, University of Utah and Stanford University. Mr. Huang had also been a senior research analyst at the Brookings Institution. Mr. Huang is a Richard Von Weizsäcker fellow from the Robert Bosch Stiftung, a senior overseas economic analyst for China's Xinhua News Agency, a board member of the Fujitsu-JAIMS Foundation in Japan, a board member of the Advisory Board of the Center on China and Globalization, a member of the Advisory Board of European-House Ambrosetti, China, a member of the Steering Committee of the National University of Singapore Research Institute in Suzhou, and a member of the Global Agenda Council at the World Economic Forum. Mr. Huang is an independent non-executive director of Keppel Land Limited (SGX:K17), a company listed on the Singapore Stock Exchange. Mr. Huang was appointed as an independent non-executive director of the Company on 18 October 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Luan Wenpeng (欒文鵬), aged 52, was an independent non-executive Director with doctor's degree in electrical engineering. Mr. Luan is a PEng in British Columbia, Canada, a senior member of IEEE and a member of CIGRE. He has been engaged in the works as well as the research of systematic planning of the electrical power system, smart power grids, smart metering infrastructure, distribution automation, data analysis, distributed energy resources integration, asset management etc. for more than 16 years. As a distinguished expert of state level for the central government's "1000 PLAN", Mr. Luan is currently a chief expert in smart metering of the China Electric Power Research Institute, an international convenor of the IEC systems evaluation group of non-conventional distribution networks/microgrids (SEG6), the chairman of the IEEE working group for microgrids planning and design (IEEE 2030.9 WG). Mr. Luan was appointed as an independent non-executive director of the Company on 16 May 2016.

Mr. Cheng Shi Jie (程時杰), aged 71, is an independent non-executive Director. Mr. Cheng graduated from the Xi'an Jiaotong University with a bachelor degree in electronic engineering in 1967, the Huazhong University of Science and Technology with a master degree in electrical engineering in 1981 and the University of Calgary, Canada with a doctoral degree in philosophy in 1986, respectively. He has been a professor in the Huazhong University of Science and Technology since 1991 and a visiting professor in the Nanyang Technological University in 1995 and 1996. Mr. Cheng was granted the qualification of doctoral tutor by the Academic Degrees Committee of the State Council in 1993 and was elected as an academician of the Chinese Academy of Sciences and a fellow of the Institute of Electrical and Electronics Engineers (美國電子電氣工程師協會) in 2007 and 2010 respectively. Mr. Cheng was appointed as an independent non-executive Director of the Company on 12 August 2014.

Mr. Hui Wing Kuen (許永權), aged 68, is an independent non-executive Director and an Australian by nationality. Mr. Hui has extensive financial and taxation experience in Hong Kong and Australia. He is a member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and CPA Australia. He obtained his Master of Business Administration degree from the University of South Australia. Mr. Hui was previously an independent non-executive Director of the Company from September 2005 to May 2014. Mr. Hui was appointed as an independent non-executive Director of the Company on 15 May 2015.

SENIOR MANAGEMENT OF THE GROUP

Mr. Choi Wai Lung Edward (蔡偉龍), aged 48, is the chief financial officer and company secretary of the Company. Mr. Choi is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants with over 26 years of experience in accounting, auditing and finance.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the group and an indication of likely future developments in the group's business, can be found in the "Management Discussion and Analysis" section set out on pages 17 to 27 of this Annual Report. This discussion forms part of this Directors' Report.

DIVIDENDS

The results of the Group for the year ended 31 December 2016 and the Group's financial position at that day are set out in the consolidated financial statements on pages 88 to 90 of the annual report. No interim dividend was paid to the shareholders during the year.

The directors have proposed a final dividend of HK$0.24 (2015: HK$0.24) per share to shareholders of the Company whose names appear in the register of members on 25 May 2017 and a resolution to this effect will be proposed and subject to the shareholders' approval in the forthcoming annual general meeting. The final dividend is expected to be paid on or before 2 June 2017.

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2016 comprised the share premium, merger reserve and retained profits of RMB2,084,476,000 (2015: RMB2,129,179,000) in aggregate.

DIRECTORS

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

Executive directors:

Ji Wei *(Chairman)*	
Cao Zhao Hui *(Chief Executive Officer)*	
Zeng Xin	
Zheng Xiao Ping	
Tian Zhongping	(appointed on 26 January 2017)
Wang Xue Xin	(resigned on 26 January 2017)
Li Hong	(resigned on 26 January 2017)

Non-executive director:

Kat Chit

Independent non-executive directors:

Hui Wing Kuen	
Huang Jing	(appointed on 18 October 2016)
Luan Wenpeng	(appointed on 16 May 2016)
Cheng Shi Jie	
Wu Jin Ming	(resigned on 18 October 2016)
Pan Yuan	(retired on 16 May 2016)

Pursuant to Article 86(3) of the Articles of Association of the Company (the "Articles"), any director appointed by the Board to fill a casual vacancy on the Board or, as an addition to the existing Board shall hold office until the next annual general meeting of the Company ("Annual General Meeting") following their appointments, and shall then be eligible for re-election. Mr. Huang Jing ("Mr. Huang") was appointed as independent non-executive director on 18 October 2016 to fill the vacancy generated by the resignation of Mr. Wu Jin Ming while Mr. Tian Zhongping ("Mr. Tian") was appointed as executive director on 26 January 2017 to fill the vacancies generated by the resignation of Mr. Wang Xue Xin and Ms. Li Hong. Accordingly, Mr. Huang and Mr. Tian will retire at the Annual General Meeting, and being eligible, have offered themselves for re-election at the Annual General Meeting.

Pursuant to Article 87 of the Articles, at each annual general meeting one third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. The directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. The retiring directors shall be eligible for re-election. Pursuant to Article 87 of the Articles, Mr. Zeng Xin, Mr. Kat Chit and Mr. Cheng Shi Jie will retire at the Annual General Meeting, and being eligible, have offered themselves for election at the Annual General Meeting.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2016, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Ji Wei	Interest of controlled corporation (Note 1)	518,886,888	51.13%
Wang Xue Xin (Note 3)	Beneficial owner (Note 2)	3,682,000	0.36%
Zheng Xiao Ping	Beneficial owner (Note 2)	3,682,000	0.36%
Cao Zhao Hui	Beneficial owner	2,000,000	0.20%
Zeng Xin	Beneficial owner	2,000,000	0.20%
Li Hong (Note 3)	Beneficial owner	350,000	0.03%
Hui Wing Kuen	Beneficial owner	440,000	0.04%
Pan Yuan (Note 3)	Beneficial owner	200,000	0.02%
Wu Jin Ming (Note 3)	Beneficial owner	200,000	0.02%

Notes:

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

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

(3) Mr. Wang Xue Xin and Ms. Li Hong resigned as a director of the Company on 26 January 2017. Mr. Pan Yuan retired as a director of the Company on 16 May 2016. Mr. Wu Jin Ming resigned as a director of the Company on 18 October 2016.

Other than as disclosed above, none of the directors, chief executives nor their associates had any interest or short positions in any shares or underlying shares of the Company or any of its associated corporations, as recorded in the register required to be kept under section 352 of the SFO or otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as at 31 December 2016.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed in the section headed "Directors' interests in shares and underlying shares" above, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

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

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued capital of the Company
Ji Wei	Interest in controlled corporation	518,886,888	51.13%
Star Treasure	Beneficial owner	518,886,888	51.13%
GIC Private Limited	Investment manager	50,758,000	5.00%

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2016.

RELATED PARTY TRANSACTIONS

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

CONNECTED TRANSACTIONS

For the year ended 31 December 2016, the Group had not entered into any connected transactions nor continuing connected transactions which are required to be disclosed in this report pursuant to the Listing Rules.

DIRECTORS' REPORT (CONTINUED)

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

SHARE OPTIONS

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

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

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

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

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

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

DIRECTORS' REPORT (CONTINUED)

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

CORPORATE GOVERNANCE

The Company is committed to maintain the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 63 to 82 of the annual report.

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

During the year, the Company repurchased certain of its own shares through the Stock Exchange of Hong Kong Limited, details of which are set out in note 26 to the consolidated financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules throughout the year ended 31 December 2016.

DIRECTORS' REPORT (CONTINUED)

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 176 of the annual report.

AUDIT COMMITTEE

The audit committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2016.

AUDITOR

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

On behalf of the Board

Ji Wei
CHAIRMAN

Hong Kong
21 March 2017

CORPORATE GOVERNANCE REPORT

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

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

During the year ended 31 December 2016, the Company has applied the principles of and has complied with all code provisions of the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules ("Corporate Governance Code").

Code Provision A.6.7 of the Corporate Governance Code provides that independent non-executive directors and non-executive directors of the Company should attend general meetings of the Company. Mr. Wu Jin Ming, Mr. Pan Yuan and Mr. Cheng Shi Jie, being independent non-executive directors of the Company, failed to attend the annual general meeting of the Company ("2016 AGM") held on 16 May 2016 due to conflicts with their schedules.

Save as disclosed, there has been no deviation from the code provisions of the Corporate Governance Code for the year ended 31 December 2016.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the directors of the Company (the "Directors") and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2016.

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD OF DIRECTORS

Responsibilities

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

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

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

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

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

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

Board Composition

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

The Board currently comprises ten members, consisting of five executive Directors, one non-executive Director and four independent non-executive Directors. Their biographical details are set out on pages 53 to 55 of this annual report.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board comprises the following Directors:

Executive Directors:

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

Ms. Cao Zhao Hui, Chief Executive Officer
Mr. Zeng Xin, member of the internal control and risk management committee of the Company (the "Internal Control and Risk Management Committee")
Ms. Zheng Xiao Ping*
Mr. Wang Xue Xin* (resigned on 26 January 2017)
Ms. Li Hong, member of the Internal Control and Risk Management Committee (resigned on 26 January 2017)
Mr. Tian Zhongping (appointed on 26 January 2017)

Non-executive Director:

Mr. Kat Chit, member of the Internal Control and Risk Management Committee**

Independent Non-executive Directors:

Mr. Hui Wing Kuen, chairman of the audit committee of the Company (the "Audit Committee"), the Remuneration Committee and the Internal Control and Risk Management Committee, and member of the Nomination Committee

Mr. Huang Jing, member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Internal Control and Risk Management Committee (appointed on 18 October 2016)

Mr. Wu Jin Ming, member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Internal Control and Risk Management Committee (resigned on 18 October 2016)

Mr. Luan Wenpeng, member of the Audit Committee and the Internal Control and Risk Management Committee (appointed on 16 May 2016)

Mr. Pan Yuan, member of the Audit Committee and the Internal Control and Risk Management Committee (retired on 16 May 2016)

Mr. Cheng Shi Jie, member of the Audit Committee and the Internal Control and Risk Management Committee

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

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

* Ms. Zheng Xiao Ping is the spouse of Mr. Wang Xue Xin

** Mr. Kat Chit is the son of Mr. Ji Wei

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

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

Appointment and Succession Planning of Directors

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

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

Mr. Kat Chit	:	up to the 2017 annual general meeting
Mr. Hui Wing Kuen	:	up to the 2017 annual general meeting
Mr. Huang Jing	:	up to the 2017 annual general meeting
Mr. Luan Wenpeng	:	up to the 2017 annual general meeting
Mr. Cheng Shi Jie	:	up to the 2017 annual general meeting

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

Training for Directors

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

During the year ended 31 December 2016, the training participated by each Director is set out below:

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

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

*: resigned on 26 January 2017
**: appointed on 18 October 2016
***: resigned on 18 October 2016
****: appointed on 16 May 2016
*****: retired on 16 May 2016

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Meetings

Number of Meetings and Directors' Attendance

In 2016, the Company has held twelve board meetings. The Company will endeavour to hold at least four regular board meetings a year.

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

Directors	Attendance/ Number of Meetings
Executive Directors:	
Mr. Ji Wei *(Chairman)*	12/12
Ms. Cao Zhao Hui	12/12
Mr. Zeng Xin	9/12
Ms. Zheng Xiao Ping	8/12
Mr. Wang Xue Xin*	9/12
Ms. Li Hong*	9/12
Non-executive Director:	
Mr. Kat Chit	8/12
Independent Non-Executive Directors:	
Mr. Hui Wing Kuen	9/12
Mr. Huang Jing**	1/1
Mr. Wu Jin Ming***	5/10
Mr. Luan Wenpeng****	4/5
Mr. Pan Yuan*****	3/7
Mr. Cheng Shi Jie	5/12

*: resigned on 26 January 2017
**: appointed on 18 October 2016
***: resigned on 18 October 2016
****: appointed on 16 May 2016
*****: retired on 16 May 2016

CORPORATE GOVERNANCE REPORT (CONTINUED)

Practices and Conduct of Board Meetings

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

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

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

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD COMMITTEES

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

The majority of the members of each Committee are independent non-executive Directors and the list of the chairman and members of each Committee is set out under "Board Composition" of this report on pages 64 to 65.

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

NOMINATION COMMITTEE

The duties of the Nomination Committee include the following:

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

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

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

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

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Four Nomination Committee meetings have been held during the year to review the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company. During the year, the Nomination Committee nominated Mr. Luan Wenpeng as independent non-executive Director to fill up the position of Mr. Pan Yuan who retired as independent non-executive Director upon the conclusion of the 2016 annual general meeting held on 16 May 2016. The Nomination Committee has also nominated Mr. Huang Jing as independent non-executive director to fill up the vacancy generated by Mr. Wu Jing Ming who resigned as independent non-executive director on 18 October 2016. Moreover, the Nomination Committee has nominated Mr. Tian Zhongping as executive director to fill up the vacancy generated by Mr. Wang Xue Xin and Ms. Li Hong who resigned as executive directors on 27 January 2017.

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

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

*: appointed on 18 October 2016
**: resigned on 18 October 2016

In accordance with the Articles, Mr. Tian Zhongping and Mr. Huang Jing, being directors elected to fill a casual vacancy, will hold office until the next annual general meeting following their appointments, and will retire and being eligible, offer themselves for re-election at the next annual general meeting while Mr. Zheng Xin, Mr. Kat Chit and Mr. Cheng Shi Jie shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting.

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

REMUNERATION COMMITTEE

The duties of the Remuneration Committee include the following:

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

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

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

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

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

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

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

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

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

*: appointed on 18 October 2016

**: resigned on 18 October 2016

AUDIT COMMITTEE

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

The duties of the Audit Committee include the following:

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

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

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

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

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

    (i) any changes in accounting policies and practices;

    (ii) major judgmental areas;

    (iii) significant adjustments resulting from the audit;

    (iv) the going concern assumption;

    (v) compliance with accounting standards; and

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

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

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

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

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

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

(n) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

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

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

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

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

	Attendance/ Number of Meetings
Mr. Hui Wing Kuen *(Chairman)*	4/4
Mr. Huang Jing*	1/1
Mr. Wu Jin Ming**	1/3
Mr. Luan Wenpeng***	2/3
Mr. Pan Yuan****	1/1
Mr. Cheng Shi Jie	1/4

*: appointed on 18 October 2016
**: resigned on 18 October 2016
***: appointed on 16 May 2016
****: retired on 16 May 2016

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

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

The Company's annual results for the year ended 31 December 2016 have been reviewed by the Audit Committee.

INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

The Board has established an Internal Control and Risk Management Committee to take effect from 24 May 2016 pursuant to a resolution passed by the Board on 24 May 2016.

The duties of the Internal Control and Risk Management Committee include the following:

(a) To consider the Group's internal control and risk management strategies, review and approve internal control and risk management policies and guidelines.

(b) To assess the adequacy and effectiveness of the internal control and risk management systems established by the management of the Group and report any findings, including any deficiencies, failures or risks noted to the Board via the Audit Committee at least twice a year or as and when any material deficiency, failure or risk is noted. Particular attention should be paid to the compliance with the Listing Rules.

(c) To decide on risk levels and related resource allocation, to approve major decisions affecting the Group's risk profile and exposure, and to oversees formal reviews of activities associated with the effectiveness of risk management processes.

CORPORATE GOVERNANCE REPORT (CONTINUED)

(d) To review the Group's procedures for detecting fraud and whistle blowing and ensure that arrangements are properly in place and a comprehensive system of control should be established to ensure such risks are mitigated.

(e) To consider issues raised by external auditor, Audit committee or any member of the Board who has lodged a request for a meeting.

(f) To provide the Board, as and when consider fit, its opinion relating to any matters concerning the internal control and risk management of the Group and to recommend any changes or improvements thereto to the Board, if necessary.

(g) To invite any employee of the Group, through the company secretary of the Company, to attend its meeting as and when required;

(h) To provide the Board, on a half-yearly basis, assessment reports on the Group's internal control and risk management systems.

(i) The committee shall be provided with sufficient resources enabling it to discharge its duties, including but not limited to obtaining advice and assistance from internal or external legal, accounting or other advisors at the expensive of the Company if necessary. The committee shall have access to such information, whether from sources within or outside the Group, as it deems necessary.

One Internal Control and Risk Management Committee meeting has been held during the year to discuss the adequacy and effectiveness of the internal control and risk management systems established by the management of the Group and the findings of the internal control reviews performed by internal audit department of the Group.

The attendance of individual members of the Internal Control and Risk Management Committee meeting during the year is set out below:

	Attendance/ Number of Meeting
Mr. Hui Wing Kuen *(Chairman)*	1/1
Mr. Huang Jing*	1/1
Mr. Wu Jing Ming**	0/1
Mr. Luan Wenpeng***	0/1
Mr. Pan Yuan****	0/1
Mr. Cheng Shi Jie	0/1
Mr. Zeng Xin	1/1
Ms. Li Hong*****	1/1
Mr. Kat Chit	1/1

*: appointed on 18 October 2016
**: resigned on 18 October 2016
***: appointed on 16 May 2016
****: retired on 16 May 2016
*****: resigned on 26 January 2017

CORPORATE GOVERNANCE REPORT (CONTINUED)

CORPORATE GOVERNANCE FUNCTION

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

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

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

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

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

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

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

During the year ended 31 December 2016, the Board has reviewed the Company's corporate governance practices.

AUDITORS' REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" on pages 83 to 87 of this annual report.

The Company's external auditor is Deloitte Touche Tohmatsu. Total auditor's remuneration paid and payable by the Group for the year ended 31 December 2016 amounted to RMB2.9 million, which comprises RMB2.4 million for the audit of the Group's consolidated financial statements for the year ended 31 December 2016 and RMB0.5 million for the review of the Group's interim report for the six months ended 30 June 2016.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2016 on a going concern basis.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its overall responsibility to maintain appropriate and effective risk management and internal control systems in order to safeguard the Group's assets and shareholders' interests, as well as oversee and review the implementation and effectiveness of the systems.

The Group's risk management and internal control systems are featured with a defined management structure with reasonable delegated authority so as to identify and manage potential risks, to safeguard its assets against unauthorized use or disposition, to ensure reliability of financial reporting and compliance with relevant laws and regulations. The systems are designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives, with main purpose of providing reasonable and not absolute assurance against material misstatement or loss.

In order to assist the Board to discharge its duties, the Audit Committee is delegated with the authority and responsibility for reviewing and monitoring of the effectiveness of the risk management and internal control systems on a regular basis to ensure the systems in place are adequate. A sub-committee, the Internal Control and Risk Management Committee ("ICRM Committee"), was established on 24 May 2016. The main objective of the ICRM Committee is to assist the Audit Committee to discharge its oversight responsibility over the risk management and internal control systems of the Group. The ICRM Committee works closely with the Risk Control Department which is supervised by the Audit Committee.

The Group has established an on-going process for identifying, evaluating and managing the significant risks associated with the achievement of its strategic objectives. Different business units are responsible for identifying, assessing and monitoring risks during their daily operations. Their risk responses including control measures implemented to mitigate risk identified will be reported to the Risk Control Department through regular internal meetings. Risk Control Department will prepare risk assessment reports on quarterly basis for the Board and the Audit Committee to discuss and evaluate the effectiveness of the risk management and internal control systems during Board meetings and Audit Committee meetings.

During the year ended 31 December 2016, the Audit Committee with the assistance of ICRM Committee, has conducted a review of the effectiveness of the Group's risk management and internal control systems. The review covers major areas, including financial, operational and compliance controls, risk management functions, and the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions. No significant areas of concern that may affect the Group to achieve its strategic goals have been identified and the Audit Committee accepts that the existing risk management and internal control systems have been functioning effectively to meet the respective financial reporting, operational and compliance needs.

The Company's internal audit department is responsible for providing independent assurance that the Group's risk management, governance and internal control procedures are operating effectively. During the year under review, the Group's internal audit department conducted on-going reviews on the effectiveness of the internal control systems of the Group. The reviews covered major financial and operational controls. The reports of its findings have been submitted to the Audit Committee for review. No significant deficiency but areas for improvement was identified during the course of review and the systems have been operating effectively and adequately.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Based on the results of the review as reported by the Audit Committee, the Board is of the opinion that the risk management and internal control systems which address the Group's financial, operational and compliance risks, are effective and adequate and the Group has duly complied with the provisions of the Corporate Governance Code regarding risk management and internal control code provisions during the year ended 31 December 2016.

The Board has established policy and internal control procedures for the handling and dissemination of insider information in compliance with the requirements under Part XIVA of the Securities and Future Ordinance and the Listing Rules to ensure that disclosures are made on a timely and accurate manner. Such policy has been communicated to all directors and senior management of the Group. Every director and senior management must take all reasonable measures from time to time to ensure that proper safeguards exist to prevent a breach of disclosure requirement. The Chief Financial Officer works closely with directors and senior management in identifying potential inside information and assessing the materiality thereof, and if appropriate, will escalate to the attention of the Board to take appropriate action promptly to ensure compliance of the applicable laws and regulations.

The Company has also taken all reasonable measures from time to time to ensure proper preservation of confidentiality of inside information until disclosure to general public, including restrictive access to inside information to a limited number of employees on a need-to-know basis, ensure the relevant employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality and ensure appropriate confidentiality agreements are in place when the Group enters into significant negotiations.

COMPANY SECRETARY

During the year ended 31 December 2016, Mr. Choi Wai Lung Edward was the Company Secretary. Mr. Choi is a full-time employee of the Company, and has the day-to-day knowledge of the Company's affairs. His biographical details are set out in the "Biographical Details of Directors and Senior Management" section of this annual report. For the year ended 31 December 2016, Mr. Choi had complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

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

Pursuant to article 58 of the Articles, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

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

Procedures by which enquiries may be put to the Board

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

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

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

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

- If a shareholder wishes to propose a person other than a director of the Company (the "Director") for election as a Director, the shareholder must deposit a written notice (the "Notice") to the principal place of business of the Company in Hong Kong at Unit 2605, 26/F West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Sheung Wan, Hong Kong or the branch share registrar of the Company, Boardroom Share Registrars (HK) Ltd., at 31/F, 148 Electric Road, North Point, Hong Kong for the attention of the Company Secretary of the Company.
- The Notice must state clearly the name of the shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the Shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent signed by the person proposed to be elected on his/her willingness to be elected as a Director.

CORPORATE GOVERNANCE REPORT (CONTINUED)

- The period for lodgment of the Notice will commence no earlier than the day after the despatch of the notice by the Company of the general meeting appointed for election of directors of the Company and end no later than seven (7) days prior to the date of such general meeting. If the Notice is received less than 15 days prior to the general meeting, the Company will need to consider the adjournment of the general meeting in order to give shareholders 14 days' notice of the proposal.

- The Notice will be verified with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the company secretary of the Company will ask the Nomination Committee and the Board to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

INVESTOR RELATIONS

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

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

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

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

During the year ended 31 December 2016, the 2016 AGM was held on 16 May 2016. All the resolutions proposed at the 2016 AGM were duly passed by the Shareholders by way of poll and the results of the poll have been published on the websites of the Stock Exchange and the Company. Mr. Ji Wei, the chairman of the Board and Nomination Committee, chaired the 2016 AGM to answer Shareholders' questions. Mr. Wu Jin Ming, an independent non-executive director and member of Nomination Committee, Remuneration Committee, Audit Committee and Internal Control and Risk Management Committee, Mr. Pan Yuan, an independent non-executive director and member of Audit Committee and Internal Control and Risk Management Committee and Mr. Cheng Shi Jie, an independent non-executive director and member of Audit Committee and Internal Control and Risk Management Committee, failed to attend the 2016 AGM due to conflicts with their schedules. The external auditor of the Company, Deloitte Touche Tohmatsu, attended the 2016 AGM to answer Shareholders' questions about the conduct of the audit, the preparation and content of the independent auditor's report and independence of auditor.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The attendance of the Directors at the 2016 AGM is set out below:

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

*: resigned on 26 January 2017
**: appointed on 26 January 2017
***: appointed on 18 October 2016
****: resigned on 18 October 2016
*****: appointed on 16 May 2016
******: retired on 16 May 2016

The forthcoming annual general meeting of the Company will be held on 18 May 2017 ("2017 AGM"). The notice convening the 2017 AGM together with the circular will be published on the websites of the Stock Exchange and the Company and dispatched to Shareholders before 30 April 2017.

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

SIGNIFICANT CHANGES IN CONSTITUTIONAL DOCUMENTS

There was no significant change in the Company's constitutional documents during the year ended 31 December 2016.

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

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

OPINION

We have audited the consolidated financial statements of Wasion Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 88 to 175, which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade and bills receivables	
We identified the recoverability of trade and bills receivables, amounting to RMB2,543,287,000 as at 31 December 2016 as set out in note 21(ii) to the consolidated financial statements as a key audit matter due to magnitude of the amount and the significant judgement by the management is required in determining the appropriate level of provision to be made in respect of irrecoverable amounts, if any. As disclosed in note 4 to the consolidated financial statements, the management determined the carrying amount of trade and bills receivables, taken into consideration the ages of the amounts, creditworthiness of the customers and the historical settlement records and subsequent settlements of the amounts.	Our procedures in relation to recoverability of trade and bills receivables included: • Checking the agreed credit terms with customers to the signed sales contracts, on a sample basis; • Checking the accuracy and completeness of the aged analysis; • Evaluating the reasonableness and adequacy of the provisions provided for the irrecoverable amounts with reference to the aged analysis, creditworthiness of the customers, historical settlement records and subsequent settlements of trade receivables; and • Comparing the aged analysis results with competitors in the same industry.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Capitalisation of development costs	
We identified the capitalisation of development costs, amounting to RMB291,513,000 as at 31 December 2016 as set out in note 16(b) to the consolidated financial statements as a key audit matter due to magnitude of the amount and the significant judgement involved. The Group capitalises certain costs incurred during development phase of internal projects for development of new technology and new products. In order to determine the amount of cost that should be capitalised, the Group must assess whether the cost meets the capitalisation criteria set out in the significant accounting policies per note 3 to the consolidated financial statements, especially on how the intangible asset will generate probable future economic benefits. The Group must also apply judgement in determining whether the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.	Our procedures in relation to capitalisation of development costs included: • Assessing and testing the key controls over the capitalisation of development costs, on a sample basis; • Performing substantive test, on a sample basis, on the addition amount in the development costs during the year, for the occurrence and accuracy of development costs and assessing whether it meets the capitalisation criteria set out in the significant accounting policies per note 3 to the consolidated financial statements; • Inquiring project managers from the development department of the Group for details of material development projects; and • Evaluating the Group's assessment on the expected future economic benefits brought by the intangible asset by checking the budgeted benefits in development project proposals and comparing with the related benefits incurred subsequent to the completion of the project, on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tse Fung Chun.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong

21 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	5	**2,607,504**	2,969,033
Cost of sales		**(1,790,744)**	(2,072,834)
Gross profit		**816,760**	896,199
Other income	6	**111,133**	145,189
Other gains and losses	7	**16,150**	(18,338)
Administrative expenses		**(148,264)**	(136,978)
Selling expenses		**(247,841)**	(244,570)
Research and development expenses		**(147,047)**	(143,330)
Finance costs	8	**(52,564)**	(25,389)
Share of results of an associate	17	**1,062**	(3,108)
Profit before taxation	9	**349,389**	469,675
Income tax expense	10	**(41,484)**	(47,856)
Profit for the year		**307,905**	421,819
Profit (loss) for the year attributable to			
— Owners of the Company		**307,265**	423,533
— Non-controlling interests		**640**	(1,714)
		307,905	421,819
Other comprehensive income (expense)			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation		**21,582**	(6,339)
Fair value changes on available-for-sale investments		**(1,204)**	4
Other comprehensive income (expense) for the year		**20,378**	(6,335)
Total comprehensive income for the year		**328,283**	415,484
Total comprehensive income (expense) for the year attributable to			
— Owners of the Company		**327,643**	417,198
— Non-controlling interests		**640**	(1,714)
		328,283	415,484
Earnings per share	13		
Basic		**RMB30 cents**	RMB42 cents
Diluted		**RMB30 cents**	RMB42 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14(a)	**1,267,972**	1,182,303
Prepaid lease payments	14(b)	**392,604**	400,571
Investment properties	15	**19,752**	16,098
Goodwill	16(a)	**297,919**	300,537
Other intangible assets	16(b)	**361,695**	296,236
Investment in an associate	17	**1,063**	1
Available-for-sale investments	18	**150,878**	83,816
Amounts due from related parties	30(b)	**—**	20,956
Other non-current assets	19	**60,138**	162,111
		2,552,021	2,462,629
CURRENT ASSETS			
Inventories	20	**344,075**	334,104
Trade and other receivables	21	**3,260,764**	2,800,166
Prepaid lease payments	14(b)	**7,918**	7,870
Loan receivables	22	**205,000**	205,000
Pledged bank deposits	23(a)	**183,297**	241,489
Bank balances and cash	23(b)	**940,016**	1,171,836
		4,941,070	4,760,465
CURRENT LIABILITIES			
Trade and other payables	24	**2,166,141**	2,133,520
Tax liabilities		**36,816**	54,452
Borrowings — due within one year	25	**532,967**	300,839
		2,735,924	2,488,811
NET CURRENT ASSETS		**2,205,146**	2,271,654
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,757,167**	4,734,283

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CAPITAL AND RESERVES			
Share capital	26	**10,078**	10,180
Reserves		**4,138,541**	4,090,980
Equity attributable to owners of the Company		**4,148,619**	4,101,160
Non-controlling interests		**29,095**	38,412
		4,177,714	4,139,572
NON-CURRENT LIABILITIES			
Borrowings — due after one year	25	**562,307**	576,248
Deferred tax liability	27	**17,146**	18,463
		579,453	594,711
		4,757,167	4,734,283

The consolidated financial statements on pages 88 to 175 were approved and authorised for issue by the Board of Directors on 21 March 2017 and are signed on its behalf by:

Ji Wei
DIRECTOR

Cao Zhao Hui
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company												
	Share capital RMB'000 (note 26)	Share premium RMB'000	Merger reserve RMB'000 (Note i)	Exchange reserve RMB'000	PRC statutory reserves RMB'000 (Note ii)	Share option reserve RMB'000	Investment revaluation reserve RMB'000	Shares held for share award scheme RMB'000 (Note iii)	Other reserve RMB'000 (Note iv & v)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015	9,588	1,299,957	49,990	(72,563)	224,823	9,881	–	–	32,391	1,691,442	3,245,509	60,732	3,306,241
Profit for the year	–	–	–	–	–	–	–	–	–	423,533	423,533	(1,714)	421,819
Other comprehensive (expense) income for the year	–	–	–	(6,339)	–	–	4	–	–	–	(6,335)	–	(6,335)
Total comprehensive (expense) income for the year	–	–	–	(6,339)	–	–	4	–	–	423,533	417,198	(1,714)	415,484
Subscription of shares	591	638,337	–	–	–	–	–	–	–	–	638,928	–	638,928
Transaction costs attributable to subscription of shares	–	(15,453)	–	–	–	–	–	–	–	–	(15,453)	–	(15,453)
Recognition of equity-settled share-based payment	–	–	–	–	–	11,461	–	–	–	–	11,461	–	11,461
Issue of shares upon exercise of share options	1	76	–	–	–	–	–	–	–	–	77	–	77
Transfer to PRC statutory reserves	–	–	–	–	37,577	–	–	–	–	(37,577)	–	–	–
Acquisition of additional interests in a subsidiary (Note v)	–	–	–	–	–	–	–	–	(4,809)	–	(4,809)	(31,292)	(36,101)
Acquisition of a subsidiary (note 28)	–	–	–	–	–	–	–	–	–	–	–	2,128	2,128
Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	8,558	8,558
Dividend recognised as distribution (note 12)	–	–	–	–	–	–	–	–	–	(191,751)	(191,751)	–	(191,751)
At 31 December 2015	10,180	1,922,917	49,990	(78,902)	262,400	21,342	4	–	27,582	1,885,647	4,101,160	38,412	4,139,572
Profit for the year	–	–	–	–	–	–	–	–	–	307,265	307,265	640	307,905
Other comprehensive income (expense) for the year	–	–	–	21,582	–	–	(1,204)	–	–	–	20,378	–	20,378
Total comprehensive income (expense) for the year	–	–	–	21,582	–	–	(1,204)	–	–	307,265	327,643	640	328,283
Recognition of equity-settled share-based payment	–	–	–	–	–	5,816	–	–	–	–	5,816	–	5,816
Transfer to PRC statutory reserves	–	–	–	–	34,540	–	–	–	–	(34,540)	–	–	–
Shares repurchased and cancelled (note 26)	(102)	(37,381)	–	–	–	–	–	–	–	–	(37,483)	–	(37,483)
Transaction cost attributable to shares repurchased	–	(160)	–	–	–	–	–	–	–	–	(160)	–	(160)
Purchase of shares under share award scheme (note 31)	–	–	–	–	–	–	–	(25,119)	–	–	(25,119)	–	(25,119)
Acquisition of additional interests in a subsidiary (Note v)	–	–	–	–	–	–	–	–	(17,103)	–	(17,103)	(10,497)	(27,600)
Disposal of a subsidiary (note 29)	–	–	–	–	–	–	–	–	1,563	(1,563)	–	–	–
Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	540	540
Dividend recognised as distribution (note 12)	–	–	–	–	–	–	–	–	–	(206,135)	(206,135)	–	(206,135)
At 31 December 2016	10,078	1,885,376	49,990	(57,320)	296,940	27,158	(1,200)	(25,119)	12,042	1,950,674	4,148,619	29,095	4,177,714

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016

Notes:

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

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

(iii) Shares held for share award scheme represents the own shares of the Company repurchased by a trustee for an employees' share award scheme.

(iv) Other reserve of RMB12,042,000 includes an amount of RMB33,164,000 representing the excess of the balance of plan asset over the carrying amount of shares held under share award plan of the Company, which was recognised upon termination of the plan in prior years.

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

During the year ended 31 December 2016, the Group acquired an additional 24% equity interest in an existing subsidiary from the non-controlling interests. The difference between the amount of consideration and the carrying value of the interests acquired amounting to RMB17,103,000 is recorded in other reserve.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**349,389**	469,675
Adjustments for:		
Amortisation of intangible assets	**60,091**	44,766
Bank interest income	**(11,957)**	(6,513)
Depreciation of investment properties	**304**	230
Depreciation of property, plant and equipment	**41,410**	45,215
Dividend income from available-for-sale investments	**(3,485)**	(3,485)
Finance costs	**52,564**	25,389
Gain on disposal of a subsidiary	**(740)**	—
Interest income from available-for-sale investments	**(3,832)**	(3,003)
Interest income from consideration receivable for disposal of a subsidiary	**(906)**	(1,344)
Interest income from loan receivables	**(24,383)**	(24,536)
Net loss (gain) on disposal of property, plant and equipment	**32**	(101)
Net foreign exchange (gain) loss	**(15,442)**	18,439
Release of prepaid lease payments	**7,918**	6,204
Share of results of an associate	**(1,062)**	3,108
Share-based payment expenses	**5,816**	11,461
Operating cash flows before movements in working capital	**455,717**	585,505
(Increase) decrease in inventories	**(9,489)**	2,648
Increase in trade and other receivables	**(425,135)**	(427,621)
Increase in trade and other payables	**44,857**	658,683
Cash generated from operations	**65,950**	819,215
Income tax paid	**(60,437)**	(50,866)
NET CASH FROM OPERATING ACTIVITIES	**5,513**	768,349

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
INVESTING ACTIVITIES			
Placement of pledged bank deposits		(435,230)	(496,292)
Placement of short-term bank deposits		(150,000)	(150,000)
Purchase of property, plant and equipment		(124,773)	(226,899)
Expenditure on intangible assets		(125,550)	(99,497)
Investment in available-for-sale investments		(68,266)	(54,000)
Disposal of a subsidiary, net of cash and cash equivalents disposed of	29	(1,346)	—
Withdrawal of pledged bank deposits		493,422	498,022
Withdrawal of short-term bank deposits		150,000	—
Deposit refunded (paid) for purchase of a piece of land and certain properties		81,950	(75,554)
Interest received		37,260	43,702
Repayment from related parties		20,956	—
Interest income received from available-for-sale investments		3,832	3,003
Dividends received from available-for-sale investments		3,485	3,485
Proceeds from disposal of property, plant and equipment		169	1,023
Advances of short-term loan receivables under entrusted loan contracts		—	(105,000)
Repayment of advances of short-term loan receivables under entrusted loan contracts		—	105,000
Acquisition of a subsidiary, net of cash and cash equivalents acquired	28	—	2,468
NET CASH USED IN INVESTING ACTIVITIES		(114,091)	(550,539)
FINANCING ACTIVITIES			
Repayment of borrowings		(854,581)	(1,526,563)
Dividends paid		(206,135)	(191,751)
Interest paid on borrowings		(62,316)	(25,389)
Shares repurchased and cancelled		(37,483)	—
Acquisition of additional interests in subsidiaries		(27,600)	(36,101)
Shares repurchased for share award scheme		(25,119)	—
Transaction cost attributable to shares repurchased and cancelled		(160)	—
New borrowings raised		1,071,850	1,614,627
Proceeds from subscription of shares		—	638,928
Capital injection by non-controlling interests		—	8,558
Proceeds from issue of shares upon exercise of share options		—	77
Transaction costs attributable to subscription of shares		—	(15,453)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(141,544)	466,933
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(250,122)	684,743
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		1,021,836	327,434
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		18,302	9,659
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		790,016	1,021,836
Represented by:			
Bank balances and cash		940,016	1,171,836
Less: Short-term bank deposit	23(b)	(150,000)	(150,000)
		790,016	1,021,836

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL

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

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

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

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

(a) Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

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

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

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2017.

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

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

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

HKFRS 9 "Financial Instruments" (Continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

HKFRS 15 "Revenue from Contracts with Customers"

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

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

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

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

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue are required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

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

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

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group as lessee has non-cancellable operating lease commitments of HK$6,670,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

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

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

Business combinations

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU") (or groups of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit (or groups of CGUs).

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

Investment in an associate

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate (Continued)

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

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

Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and the titles have passed.

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

Service income is recognised when services are provided.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

Investment properties

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as lessor

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

The Group as lessee

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

Leasehold land and building

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

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

Intangible assets

Intangible assets acquired separately

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Internally-generated intangible assets — research and development expenditure

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

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

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

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

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

Intangible assets acquired in a business combination

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

Financial assets

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

Effective interest method

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 "Financial Instruments: Recognition and Measurement" permits the entire combined contract to be designated as at FVTPL.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Loans and receivables

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

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

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

Available-for-sale investments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

Financial liabilities and equity instruments

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

Financial liabilities at amortised cost

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Equity instruments

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity-settled share-based payment transactions (Continued)

Awarded shares granted to employees

When trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held for share award scheme and deducted from total equity. No gain or loss is recognised on the transactions of the Company's own shares.

The fair value of services received is determined by reference to the fair value of share awards granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award reserve).

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Government grants

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

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

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

Retirement benefit costs

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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees after deducting any amount already paid.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets other than goodwill

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

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgements in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Capitalisation of development cost

Careful judgement by the Group's management is applied when deciding whether the recognition requirements for intangible assets arising from development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at the time of incurrence of such costs.

Key sources of estimation uncertainly

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

(i) Estimated impairment of trade and bills receivables, retentions held by trade customers and loan receivables

The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, with reference to the ages of the amounts, current creditworthiness, past collection history and subsequent settlement of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required.

As at 31 December 2016, the carrying amounts of (a) trade and bills receivables is approximately RMB2,543.3 million (2015: RMB2,297.8 million), net of allowance for doubtful debts of approximately RMB19.7 million (2015: RMB19.7 million), (b) retentions held by trade customers is approximately RMB284.4 million (2015: RMB215.5 million) and (c) loan receivables is approximately RMB205.0 million (2015: RMB205.0 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainly (Continued)

(ii) Estimated carrying amounts of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected or changes in facts and circumstances which result in downward revision of future cash, a material impairment loss may arise. The carrying amount of goodwill of approximately RMB297.9 million (2015: RMB300.5 million) as at 31 December 2016 was allocated to the power advanced metering infrastructure, communication and fluid advanced metering infrastructure and advanced distribution operations segments. Details of the recoverable amount calculation are disclosed in note 16(a).

(iii) Estimated impairment of other intangible assets

The Group tests whether other intangible assets have suffered any impairment in accordance with its accounting policy whenever there is any indication that the assets may have been impaired. The recoverable amounts of other intangible assets have been determined based on discounted cash flows method. The directors consider that the recoverable amount exceeded the carrying amount of the other intangible assets and no impairment was recognised during the year. Where the actual future cash flows is different from the original estimate, an impairment loss/further impairment loss may arise. As at 31 December 2016, the carrying amount of other intangible assets is approximately RMB361.7 million (2015: RMB296.2 million).

5. REVENUE AND SEGMENT INFORMATION

Information reported to the Group's Chief Executive Officer, being the chief operating decision maker (the "CODM"), for the purposes of resources allocation and assessment of segment performance focuses on business lines of the Group.

In previous years, the Group's reportable and operating segments under HKFRS 8 are as follows:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

5. REVENUE AND SEGMENT INFORMATION (Continued)

During the current year, management of the Group has restructured its segment reporting in accordance with the future development strategy of the Group. CODM has used the new segment information for the decision making, resources allocation and segment performance assessment and the Group's reportable and operating segments under HKFRS 8 are changed to below:

(a) Power advanced metering infrastructure segment, which engages in the development, manufacture and sale of smart power meters and provision of respective system solution;

(b) Communication and fluid advanced metering infrastructure segment, which engages in the development, manufacture and sale of communication terminals and water, gas and heat metering products and provision of respective system solution; and

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

The power advanced metering infrastructure segment includes development, manufacturing and sale of standardised and non-standardised smart meter products, each of which is considered as a separate operating segment by the CODM. For segment reporting, these two operating segments have been aggregated in to a single reportable segment due to their similar nature of products and production processes.

Segment revenue and results

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

For the year ended 31 December 2016

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Consolidated RMB'000
Segment revenue	1,590,680	501,873	514,951	2,607,504
Segment profit	261,041	65,105	76,607	402,753
Unallocated income and gains/losses				48,581
Share of results of an associate				1,062
Central administration costs				(50,443)
Finance costs				(52,564)
Profit before taxation				349,389

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2015 (restated)

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Consolidated RMB'000
Segment revenue	1,919,462	622,959	426,612	2,969,033
Segment profit	296,124	108,323	111,880	516,327
Unallocated income and gains/losses				27,323
Share of results of an associate				(3,108)
Central administration costs				(45,478)
Finance costs				(25,389)
Profit before taxation				469,675

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

5. REVENUE AND SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	2016 RMB'000	2015 RMB'000
		(restated)
SEGMENT ASSETS		
Power advanced metering infrastructure	2,941,869	2,685,787
Communication and fluid advanced metering infrastructure	1,283,115	1,147,259
Advanced distribution operations	1,320,361	1,145,366
Total segment assets	5,545,345	4,978,412
Unallocated assets	1,957,746	2,244,682
Consolidated assets	7,503,091	7,223,094
SEGMENT LIABILITIES		
Power advanced metering infrastructure	1,196,035	1,243,564
Communication and fluid advanced metering infrastructure	441,824	490,737
Advanced distribution operations	414,461	334,441
Total segment liabilities	2,052,320	2,068,742
Unallocated liabilities	1,273,057	1,014,780
Consolidated liabilities	3,325,377	3,083,522

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

5. REVENUE AND SEGMENT INFORMATION (Continued)

Other segment information

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

For the year ended 31 December 2016

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Segment total RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to non-current assets (Note)	**77,800**	**49,445**	**129,972**	**257,217**	**2,858**	**260,075**
Depreciation and amortisation of property, plant and equipment and intangible assets	**51,329**	**24,309**	**18,104**	**93,742**	**11,028**	**104,770**
Release of prepaid lease payments	**547**	**266**	**1,727**	**2,540**	**5,378**	**7,918**
(Gain) loss on disposal of property, plant and equipment	**(26)**	**3**	**55**	**32**	**—**	**32**

For the year ended 31 December 2015 (restated)

	Power advanced metering infrastructure RMB'000	Communication and fluid advanced metering infrastructure RMB'000	Advanced distribution operations RMB'000	Segment total RMB'000	Unallocated RMB'000	Consolidated RMB'000
Additions to non-current assets (Note)	65,353	25,637	322,013	413,003	11,080	424,083
Depreciation and amortisation of property, plant and equipment and intangible assets	46,055	17,410	15,845	79,310	10,671	89,981
Release of prepaid lease payments	544	252	30	826	5,378	6,204
Gain on disposal of property, plant and equipment	(60)	(37)	(4)	(101)	—	(101)

Note: Non-current assets exclude financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

5. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from major customers

The directors are not aware of any external customer that individually contributed over 10% of the consolidated revenue in any of the two years ended 31 December 2016.

Geographical information

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

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

	Revenue from external customers Year ended 31 December		Non-current assets (Note)	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
PRC	**2,209,900**	2,665,771	**2,345,825**	2,304,713
Africa	**347,096**	194,822	**—**	—
Other overseas countries	**50,508**	108,440	**—**	—
	2,607,504	2,969,033	**2,345,825**	2,304,713

Note: Non-current assets exclude financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

6. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Other income comprises:		
Bank interest income	**11,957**	6,513
Change in fair value of financial assets classified as held for trading	**9,686**	3,304
Dividend income from available-for-sale investments	**3,485**	3,485
Government grants (Note i)	**32,283**	78,924
Interest income from available-for-sale investments	**3,832**	3,003
Interest income from consideration receivable for disposal of a subsidiary	**906**	1,344
Interest income from loan receivables (Note ii)	**24,383**	24,536
Refund of value-added tax ("VAT") (Note iii)	**20,942**	20,879
Rental income from investment properties	**1,678**	1,235
Others	**1,981**	1,966
	111,133	145,189

Notes:

(i) Government grants mainly comprise financial subsidies from the PRC governments for the immediate rewards of the Group's contribution to the relevant provinces and the continuous technological advancements of the Group in its products with no future related costs or obligations.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

7. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Other gains (losses) comprises:		
Net foreign exchange gain (loss)	**15,442**	(18,439)
Net (loss) gain on disposal of property, plant and equipment	**(32)**	101
Gain on disposal of a subsidiary (note 29)	**740**	—
	16,150	(18,338)

8. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on borrowings	**54,756**	32,204
Interest on factoring of trade receivables	**7,560**	—
Less: amounts capitalised in the cost of qualifying assets	**(9,752)**	(6,815)
	52,564	25,389

For the year ended 31 December 2016, the borrowing costs capitalised of RMB9,752,000 (2015: RMB6,815,000) arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.12% (2015: 3.2%) to expenditures on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

9. PROFIT BEFORE TAXATION

	2016 RMB'000	2015 RMB'000
Profit before taxation has been arrived at after charging:		
Staff costs (including directors' emoluments):		
Salaries and benefits	**248,245**	250,956
Retirement benefit scheme contributions	**18,601**	16,822
Share-based payment expenses	**5,816**	11,461
	272,662	279,239
Capitalised in development costs	**(60,102)**	(62,565)
Capitalised in inventories	**(22,090)**	(21,550)
	190,470	195,124
Auditor's remuneration	**2,915**	2,829
Depreciation of property, plant and equipment	**44,679**	45,215
Depreciation of investment properties	**304**	230
Release of prepaid lease payments	**7,918**	6,204
Amortisation of intangible assets (included in selling expenses, administrative expenses and research and development expenses)	**60,091**	44,766
Total depreciation and amortisation	**112,992**	96,415
Capitalised in inventories	**(3,269)**	(3,207)
	109,723	93,208
Cost of inventories recognised as expense	**1,790,744**	2,072,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

10. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
The charge comprises:		
PRC Enterprise Income Tax ("EIT")		
— Current year	59,327	67,892
— Overprovision in prior years	(16,526)	(18,372)
	42,801	49,520
Deferred taxation (note 27)		
— Current year	(1,317)	(1,664)
	41,484	47,856

Notes:

(i) **Hong Kong**

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

(ii) **PRC**

PRC EIT was calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except that certain PRC subsidiaries which are approved as enterprises that satisfied the condition as high technology development enterprises and obtained the Certificate of High New Technology Enterprise continue to enjoy the preferential tax rate of 15% for a consecutive three years from year 2014 to 2016, year 2015 to 2017 or year 2016 to 2018, respectively.

(iii) **Other jurisdictions**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

10. INCOME TAX EXPENSE (Continued)

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

	2016 **RMB'000**	2015 RMB'000
Profit before taxation	**349,389**	469,675
Tax at the income tax rate of 25%	**87,347**	117,419
Tax effect of expenses not deductible for tax purpose	**19,601**	23,771
Tax effect of income not taxable for tax purpose	**(2,588)**	(4,634)
Tax effect of share of results of an associate	**(265)**	777
Tax effect of tax losses not recognised	**2,798**	4,273
Utilisation of tax losses previously not recognised	**(1,092)**	(1,732)
Effect of tax concessions/exemption granted to PRC and Macao subsidiaries	**(47,791)**	(73,646)
Overprovision in prior years	**(16,526)**	(18,372)
Income tax expense for the year	**41,484**	47,856

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and employees' emoluments

Details of emoluments paid or payable to each of the thirteen (2015: twelve) directors are set out as follows:

For the year ended 31 December 2016

	Directors' fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonuses RMB'000 (Note i)	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:					
Ji Wei	—	518	—	15	533
Cao Zhao Hui (Note ii)	—	560	50	23	633
Zeng Xin	—	538	—	23	561
Zheng Xiao Ping	—	558	—	23	581
Wang Xue Xin	—	560	—	23	583
Li Hong	—	380	—	23	403
Non-executive director:					
Kat Chit	—	260	—	—	260
Independent non-executive directors:					
Hui Wing Kuen (Note iii)	398	—	—	—	398
Huang Jing (Note iv)	42	—	—	—	42
Luan Wenpeng (Note iv)	39	—	—	—	39
Cheng Shi Jie	158	—	—	—	158
Wu Jin Ming (Note v)	158	—	—	—	158
Pan Yuan (Note v)	98	—	—	—	98
	893	3,374	50	130	4,447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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

For the year ended 31 December 2015

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

Notes:

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

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

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

(iv) Mr. Huang Jing and Mr. Luan Wenpeng were appointed as directors of the Company on 18 October 2016 and 16 May 2016, respectively.

(v) Mr. Wu Jin Ming and Mr. Pan Yuan resigned and retired as directors of the Company on 18 October 2016 and 16 May 2016, respectively.

(vi) Mr. Chan Cheong Tat retired as a director of the Company on 15 May 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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

No directors waived any emoluments for any of the two years ended 31 December 2016.

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

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

(b) Employees' emoluments

The five highest paid individuals of the Group for the year ended 31 December 2016 included four (2015: four) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining one (2015: one) individual for the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**1,815**	1,415
Retirement benefit scheme contributions	**16**	14
	1,831	1,429

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2016 No. of employees	2015 No. of employees
HK$1,500,001 to HK$2,000,000	**—**	1
HK$2,000,001 to HK$2,500,000	**1**	—
	1	1

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

12. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends recognised as distribution during the year:		
2015 final dividend — HK$0.24, equivalent to RMB0.201, per share (2015: 2014 final dividend — HK$0.24, equivalent to RMB0.194, per share)	**206,135**	191,751

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of HK$0.24, equivalent to RMB0.212, per share (2015: final dividend in respect of the year ended 31 December 2015 of HK$0.24, equivalent to RMB0.201, per share), in an aggregate amount of HK$243,572,000, equivalent to RMB215,318,000, (2015: HK$243,572,000, equivalent to RMB206,135,000), has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

13. EARNINGS PER SHARE

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

	2016 RMB'000	2015 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	**307,265**	423,533

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,013,705,745**	999,432,059
Effect of dilutive potential ordinary shares in respect of share options	**41,543**	8,809,140
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,013,747,288**	1,008,241,199

The weighted average number of ordinary shares shown above has been arrived at after deducting the shares held by the trustee of the share award scheme of the Company as set out in note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

14. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS

(a) Property, plant and equipment

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2015	846,115	4,367	232,706	37,542	22,031	91,747	1,234,508
Additions	–	143	38,731	4,058	1,986	181,981	226,899
Acquisition of a subsidiary (note 28)	–	–	562	92	–	–	654
Transfer	–	–	2,157	–	–	(2,157)	–
Disposals/written off	(555)	–	(3,149)	(66)	(146)	–	(3,916)
Exchange realignment	–	118	–	59	107	–	284
At 31 December 2015	845,560	4,628	271,007	41,685	23,978	271,571	1,458,429
Additions	–	4	11,499	5,788	1,521	115,713	134,525
Transfer	261,338	–	495	301	–	(262,134)	–
Transfer to investment properties	(4,106)	–	–	–	–	–	(4,106)
Disposals/written off	–	(7)	(629)	(19)	(802)	–	(1,457)
Disposal of a subsidiary (note 29)	–	–	(235)	(54)	–	–	(289)
Exchange realignment	–	133	–	38	79	–	250
At 31 December 2016	1,102,792	4,758	282,137	47,739	24,776	125,150	1,587,352
DEPRECIATION							
At 1 January 2015	62,235	3,885	124,047	30,818	12,644	–	233,629
Provided for the year	15,326	200	22,538	5,185	1,966	–	45,215
Eliminated on disposals/ written off	(151)	–	(2,681)	(34)	(128)	–	(2,994)
Exchange realignment	–	116	–	56	104	–	276
At 31 December 2015	77,410	4,201	143,904	36,025	14,586	–	276,126
Provided for the year	15,245	252	22,937	4,365	1,880	–	44,679
Transfer to investment properties	(148)	–	–	–	–	–	(148)
Eliminated on disposals/ written off	–	(7)	(494)	(10)	(745)	–	(1,256)
Eliminated on disposal of a subsidiary (note 29)	–	–	(235)	(26)	–	–	(261)
Exchange realignment	–	131	–	34	75	–	240
At 31 December 2016	92,507	4,577	166,112	40,388	15,796	–	319,380
CARRYING VALUES							
At 31 December 2016	1,010,285	181	116,025	7,351	8,980	125,150	1,267,972
At 31 December 2015	768,150	427	127,103	5,660	9,392	271,571	1,182,303

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

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

(a) Property, plant and equipment (Continued)

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

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

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

(b) Prepaid lease payments

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

	2016 RMB'000	2015 RMB'000
Non-current assets	392,604	400,571
Current assets	7,918	7,870
	400,522	408,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

15. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2015 and 31 December 2015	17,098
Transfer from property, plant and equipment	4,106
At 31 December 2016	21,204
DEPRECIATION	
At 1 January 2015	770
Provided for the year	230
At 31 December 2015	1,000
Provided for the year	304
Transfer from property, plant and equipment	148
At 31 December 2016	1,452
CARRYING VALUES	
At 31 December 2016	19,752
At 31 December 2015	16,098

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

The fair values of the Group's investment properties at 31 December 2016 were RMB23,350,000 (2015: RMB18,332,000). The fair values have been arrived at based on valuations carried out by 湖南中和房地產評估諮詢有限公司 (2015: 湖南鵬程資產評估有限責任公司), independent valuers not connected with the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

16. GOODWILL/OTHER INTANGIBLE ASSETS

(a) Goodwill

	RMB'000
COST	
At 1 January 2015	297,919
Arising on acquisition of a subsidiary (note 28)	2,618
At 31 December 2015	300,537
Disposal of a subsidiary (note 29)	(2,618)
At 31 December 2016	297,919

For the purposes of impairment testing, goodwill arising on business combinations as set out above was allocated, at acquisition, to individual cash-generating units ("CGUs") which are in the following segments and the carrying amounts are as follows:

	2016 RMB'000	2015 RMB'000
Power advanced metering infrastructure		
CGU:		
Company A	**128,053**	128,053
Company B	**56,831**	56,831
Total goodwill under power advanced metering infrastructure	**184,884**	184,884
Communication and fluid advanced metering infrastructure		
CGU: Company C	**53,495**	53,495
Advanced distribution operations		
CGU:		
Company D	**37,720**	37,720
Company E	**12,250**	12,250
Company F	**9,570**	9,570
Lineng Technology (as defined in note 28)	**—**	2,618
Total goodwill under advanced distribution operations	**59,540**	62,158
	297,919	300,537

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

16. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

(a) Goodwill (Continued)

During each of the year ended 31 December 2015 and 2016, management of the Group determines that there is no impairment of any of the CGUs containing goodwill.

The recoverable amounts of the CGUs have been determined based on a value in use calculation.

For the year ended 31 December 2016, the calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates ranging from 13.41% to 16.09%. The cash flows beyond the 5-year period are extrapolated using a steady growth rate. For the CGUs of power advanced metering infrastructure, a rate of 3% is used. This growth rate is based on the global economic growth rate. For the CGU of communication and fluid advanced metering infrastructure and the CGUs of advanced distribution operations, rates of 5% and 9% are used, respectively. These growth rates are based on the directors' best estimate on the average growth rate of these specific industries.

For the year ended 31 December 2015, the calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 15.00%. The cash flows beyond the 5-year period are extrapolated using a steady growth rate. For the CGUs of power advanced metering infrastructure and the CGU of communication and fluid advanced metering infrastructure, a rate of 3% is used. This growth rate is based on the global economic growth rate. For the CGUs of advanced distribution operations, a rate of 9% is used. This growth rate is based on the Directors' best estimate on the average growth rate of this specific industry.

For both years, other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of any of the CGUs to exceed the aggregate recoverable amount of the relevant CGUs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

16. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

(b) Other intangible assets

	Development costs	Acquired patents, copyrights and trademarks	Acquired technology	Customer relationship and contracts	Premium on land	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2015	399,517	73,918	95,257	63,669	46,713	679,074
Additions	98,036	1,461	—	—	—	99,497
At 31 December 2015	497,553	75,379	95,257	63,669	46,713	778,571
Additions	122,868	2,682	—	—	—	125,550
At 31 December 2016	620,421	78,061	95,257	63,669	46,713	904,121
AMORTISATION						
At 1 January 2015	244,587	59,863	85,297	40,694	7,128	437,569
Provided for the year	34,320	2,956	2,954	3,602	934	44,766
At 31 December 2015	278,907	62,819	88,251	44,296	8,062	482,335
Provided for the year	50,001	3,876	2,954	2,326	934	60,091
At 31 December 2016	328,908	66,695	91,205	46,622	8,996	542,426
CARRYING VALUES						
At 31 December 2016	291,513	11,366	4,052	17,047	37,717	361,695
At 31 December 2015	218,646	12,560	7,006	19,373	38,651	296,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

16. GOODWILL/OTHER INTANGIBLE ASSETS (Continued)

(b) Other intangible assets (Continued)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

17. INVESTMENT IN AN ASSOCIATE

	2016 RMB'000	2015 RMB'000
Cost of unlisted investment in an associate	**20,000**	20,000
Share of post-acquisition losses	**(15,122)**	(15,639)
Less: effect of elimination of gain on transfer of intangible assets from the Group to an associate to the extent of the Group's interest therein	**(3,815)**	(4,360)
	1,063	1

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

Name of entity	Form of entity	Country of establishment/ principal operations	Proportion of ownership interest and voting rights held by the Group 2016	2015	Principal activity
Smart Metering Solution (Changsha) Co., Ltd. ("Smart Metering")	Established	PRC	**40%**	40%	Research, development, manufacturing, and selling meter products, meter data management system, smart meter solution system and provide relevant consulting services

Smart Metering is co-established by the Group and an independent third party and the Group is able to exercise significant influence over Smart Metering because it has power to appoint two out of five directors.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

17. INVESTMENT IN AN ASSOCIATE (Continued)

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

	2016 RMB'000	2015 RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income		
Revenue	141,241	73,587
Profit (loss) and total comprehensive income (expense) for the year	1,327	(9,133)
Profit (loss) for the year attributable to the Group	517	(3,653)
Reconciliation to the share of results of an associate:		
Profit (loss) for the year attributable to the Group	517	(3,653)
Amortisation of gain on transfer of intangible assets from the Group to the associate to the extent of the Group's interest therein	545	545
Share of results of an associate	1,062	(3,108)
Financial information of consolidated statement of financial position		
Intangible assets	14,011	18,717
Other non-current assets	13,167	13,553
Current assets	30,842	35,734
Current liabilities	(45,827)	(57,103)
Net assets of the associate	12,193	10,901
Reconciliation to the carrying amount of interest in the associate:		
Net assets attributable to the Group's ownership interests in the associate	4,878	4,361
Effect of elimination of gain on transfer of intangible assets from the Group to the associate to the extent of the Group's interest therein	(3,815)	(4,360)
Carrying amount of the Group's interest in the associate	1,063	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

18. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB'000	2015 RMB'000
Available-for-sale investments comprise:		
Equity securities listed in Hong Kong measured at fair value	67,060	—
Unlisted equity securities, at cost less impairment (Note i)	33,812	33,812
Investment in trust fund, at fair value (Note ii)	50,006	50,004
	150,878	83,816

Notes:

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

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

19. OTHER NON-CURRENT ASSETS

	2016 RMB'000	2015 RMB'000
Life insurance products (Note i)	36,096	33,808
Consideration receivable for disposal of a subsidiary (Note ii)	21,000	21,000
Deposit paid for purchase of a piece of land	—	13,600
Deposit paid for purchase of certain properties	3,042	93,703
	60,138	162,111

Notes:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

19. OTHER NON-CURRENT ASSETS (Continued)

Notes: (Continued)

(i) (Continued)

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

Particulars of the policies are as follows:

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

The carrying amount of the life insurance products as at 31 December 2016 approximates the Cash Value of the insurance policies and the expected life of the policies remained unchanged from the initial recognition. The entire balance of the life insurance policies is denominated in United States Dollar ("USD"), being a currency other than the functional currency of the relevant group entities.

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

20. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**124,112**	162,631
Work in progress	**84,907**	72,756
Finished goods	**135,056**	98,717
	344,075	334,104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

21. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade and bills receivables, gross	**2,562,979**	2,317,539
Less: Allowance for doubtful debts (Note i)	**(19,692)**	(19,692)
Trade and bills receivables, net (Note ii)	**2,543,287**	2,297,847
Retentions held by trade customers (Note iii)	**284,397**	215,535
Deposits and prepayments	**254,094**	195,794
Other receivables (Note iv)	**178,986**	90,990
	3,260,764	2,800,166

Notes:

(i) The entire balance of the allowance for doubtful debts as at 31 December 2015 and 2016 are individually impaired trade receivables which are in severe financial difficulties. Movements in the provision for impairment of trade and bills receivables are as follows:

	RMB'000
At 1 January 2015, 31 December 2015 and 31 December 2016	19,692

(ii) Included in the Group's trade receivable is trade balance with an associate of RMB27,532,000 (2015: RMB93,035,000). Due to the nature of business, the settlement terms of trade receivables are based on the achievement of certain milestones of each sales transaction, and accordingly, the Group generally allows credit periods ranging from 90 days to 365 days to its trade customers, except for certain customers, the credit periods may beyond 365 days. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts, presented based on the revenue recognition dates at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
0–90 days	**1,430,510**	1,675,389
91–180 days	**277,667**	204,873
181–365 days	**345,692**	321,461
Over 1 year	**489,418**	96,124
	2,543,287	2,297,847

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. 93% (2015: 95%) of the trade receivables that are neither past due nor impaired have good credit rating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

21. TRADE AND OTHER RECEIVABLES (Continued)

Notes (Continued)

(ii) (Continued)

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB178,050,000 (2015: RMB111,456,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The directors consider no deterioration in credit qualities of these debtors and the settlements after the end of the reporting period from those debtors are satisfactory, the directors conclude that no provision for impairment loss is required. The Group does not hold any collateral over these balances. The average age of these receivables is approximately 495 days (2015: 401 days).

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

	2016 RMB'000	2015 RMB'000
Days overdue:		
0–90 days	**117,393**	59,693
91–180 days	**14,377**	16,949
181–365 days	**10,351**	6,349
Over 1 year	**35,929**	28,465
	178,050	111,456

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

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

	2016 RMB'000	2015 RMB'000
Hong Kong dollars ("HKD")	**124**	124
USD	**234,289**	50,430

(iii) Included in the retentions held by trade customers is an aggregate amount of RMB96,510,000 (2015: RMB78,058,000) that is expected to be realised after twelve months from the end of the reporting period.

(iv) The balance includes (i) value-added-tax receivables of RMB65,818,000 (2015: RMB14,094,000) and (ii) an amount of RMB9,681,000 (2015: RMB9,681,000) due from an associate arising from the transferring of certain intangible assets during the year ended 31 December 2014. The amount due from an associate is unsecured, interest free and is expected to be repaid within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

22. LOAN RECEIVABLES

	2016 and 2015 RMB'000
Fixed-rate loan receivables	205,000

The amounts represent short-term loans advanced by the Group to certain independent third parties under entrusted loan contracts. During the year ended 31 December 2016, the maturity day of the amounts of RMB100,000,000 and RMB105,000,000 have been extended to September 2017 and October 2017, respectively. During the year ended 31 December 2015, an amount of RMB105,000,000 (2016: nil) has been settled, and new loans of RMB105,000,000 (2016: nil) was arranged with the same borrowers.

These entrusted loans carry fixed interests at 12% (2015: 12%) per annum and are repayable within twelve months from the end of the reporting period.

Certain land and buildings of the borrowers have been pledged to the Group, and the Group is not permitted to sell these assets in the absence of default of the borrowers. As at 31 December 2016, the fair value of the pledged assets, which has been assessed by the management with reference to recent market prices for similar land and buildings in similar locations and conditions, is greater than the respective loan balances. The pledge will be released upon settlement of the relevant loans.

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

(a) Pledged bank deposits

The pledged bank deposits are pledged to banks to secure credit facilities granted to the Group. The deposits were pledged to secure bills payables and short-term bank borrowings and are therefore classified as current assets. The deposits carry fixed interest rate ranging from 0.35% to 2.20% (2015: 0.35% to 2.55%) per annum and will be released upon settlement of the relevant borrowings.

(b) Bank balances and cash

Bank balances and cash comprise cash held by the Group and bank balances that carry interest rates ranging from 0.01% to 1.15% (2015: 0.01% to 1.15%) per annum and have original maturity of three months or less, except for an amount of RMB150,000,000 (2015: RMB150,000,000) representing short-term bank deposits with maturity of more than three months and carrying interest of market rate ranging from 2.20% to 2.40% (2015: 2.84%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

23. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH (Continued)

(b) Bank balances and cash (Continued)

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

	2016	2015
	RMB'000	RMB'000
HKD	**11,611**	80,000
USD	**214,685**	218,521

24. TRADE AND OTHER PAYABLES

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

	2016	2015
	RMB'000	RMB'000
Trade and bills payables		
0–90 days	**1,413,624**	1,470,814
91–180 days	**460,745**	333,313
181–365 days	**87,320**	39,305
Over 1 year	**38,834**	37,901
	2,000,523	1,881,333
Other payables (Note)	**165,618**	245,787
Consideration payable on acquisition of a subsidiary (note 28(i))	**—**	6,400
	2,166,141	2,133,520

Note: Included in the balance is an amount of RMB1,035,000 (2015: RMB229,000) due to an associate. The amount is non-trade in nature, unsecured, interest free and is repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

24. TRADE AND OTHER PAYABLES (Continued)

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

	2016 RMB'000	2015 RMB'000
HKD	11,031	3,704

25. BORROWINGS

	2016 RMB'000	2015 RMB'000
Unsecured bank loans and trust receipt loans	1,095,274	877,087

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

	2016			2015		
	Fixed-rate borrowings RMB'000	Floating-rate borrowings RMB'000	Total RMB'000	Fixed-rate borrowings RMB'000	Floating-rate borrowings RMB'000	Total RMB'000
Within one year	282,496	250,471	532,967	189,960	110,879	300,839
More than one year, but not exceeding two years	27,000	389,729	416,729	—	260,368	260,368
More than two years, but not exceeding five years	—	145,578	145,578	—	315,880	315,880
	309,496	785,778	1,095,274	189,960	687,127	877,087
Less: Amounts due within one year shown under current liabilities	(282,496)	(250,471)	(532,967)	(189,960)	(110,879)	(300,839)
Amounts due after one year	27,000	535,307	562,307	—	576,248	576,248

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

25. BORROWINGS (Continued)

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

	2016	2015
Effective interest rate:		
Fixed-rate borrowings	**2.65% to 4.35% per annum**	3.15% to 4.35% per annum
Variable-rate borrowings	**2.02% to 4.35% per annum**	1.44% to 4.00% per annum

At 31 December 2016, borrowings of the Group amounting to RMB10,257,000 (2015: RMB118,356,000) were denominated in USD, being a currency other than the functional currency of the relevant group entities.

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

	2016 RMB'000	2015 RMB'000
Expiring within one year	**2,222,129**	1,132,949
Expiring over one year	**161,810**	45,912
	2,383,939	1,178,861

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

26. SHARE CAPITAL OF THE COMPANY

Ordinary shares of HK$0.01 each:

	Number of shares	Nominal value HK$'000
Authorised		
At 1 January 2015, 31 December 2015 and 31 December 2016	100,000,000,000	1,000,000

	Number of shares	Nominal value RMB'000
Issued and fully paid		
At 1 January 2015	951,851,675	9,588
Issue of shares upon exercise of share options (Note i)	30,000	1
Issue of shares upon subscription of shares (Notes ii and iii)	75,000,000	591
At 31 December 2015	1,026,881,675	10,180
Share repurchased and cancelled (Note iv)	(12,000,000)	(102)
At 31 December 2016	1,014,881,675	10,078

Notes:

(i) During the year ended 31 December 2015, 30,000 (2016: Nil) ordinary shares of HK$0.01 each in the Company were issued upon the exercise of share options under the share option scheme of the Company as set out in note 31 with proceeds of approximately HK$96,000 (equivalent to approximately RMB77,000) (2016: Nil).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

26. SHARE CAPITAL OF THE COMPANY (Continued)

Notes: (Continued)

(iv) During the year ended 31 December 2016, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK$0.01 each of the Company	Price per share		Aggregate consideration paid
		Highest	Lowest	
		HK$	HK$	RMB'000
February 2016	6,000,000	4.09	3.13	17,244
April 2016	4,000,000	4.08	3.91	13,603
May 2016	2,000,000	3.95	3.89	6,636
	12,000,000			37,483

The above ordinary shares were cancelled upon repurchase.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

27. DEFERRED TAXATION

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

	Fair value adjustments of intangible assets on business combinations RMB'000
At 1 January 2015	20,127
Credit to profit or loss	
— release upon amortisation of intangible assets	(1,664)
At 31 December 2015	18,463
Credit to profit or loss	
— release upon amortisation of intangible assets	(1,317)
At 31 December 2016	17,146

As at 31 December 2016, the Group had unused tax losses of RMB112,136,000 (2015: RMB140,375,000). No deferred tax asset has been recognised in respect of any of the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward for a period of five years from the respective year of assessment.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB1,807 million (2015: RMB1,612 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

28. ACQUISITION OF A SUBSIDIARY

For the year ended 31 December 2015

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

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

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

	Lineng Technology RMB'000
Consideration transferred:	
Consideration payable (Note i)	6,400
Fair value of assets acquired and liabilities recognised at the date of acquisition:	
Property, plant and equipment	654
Inventories	2,050
Trade and other receivables (Note ii)	11,745
Bank balances and cash	2,468
Trade and other payables	(11,007)
	5,910
Goodwill arising on acquisition (Note iii)	
Consideration	6,400
Plus: non-controlling interests (Note iv)	2,128
Less: net assets acquired	(5,910)
	2,618
Cash inflow arising from the acquisition	
Bank balances and cash acquired	(2,468)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

28. ACQUISITION OF A SUBSIDIARY (Continued)

Notes:

(i) The consideration payable was settled during the year ended 31 December 2016.

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

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

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

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

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

29. DISPOSAL OF A SUBSIDIARY

On 13 September 2016, the Group completed the disposal of 100% of the equity interest in Lineng Technology to an independent third party for a consideration of RMB10,000,000 for the future development strategy of the Group.

The net assets of Lineng Technology at the date on which control was lost were as follows:

	RMB'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	28
Goodwill	2,618
Inventories	2,787
Trade and other receivables	3,761
Bank balances and cash	1,346
Trade and other payables	(1,280)
Net assets disposed of	9,260
Gain on disposal of a subsidiary:	
Consideration received	10,000
Net assets disposed of	(9,260)
Gain on disposal	740
Cash outflow arising from the disposal	
Bank balances and cash disposed of	(1,346)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

30. RELATED PARTY DISCLOSURES

(a) Transaction

Relationship	Transaction	2016 RMB'000	2015 RMB'000
An associate	Sales of goods by the Group	**29,226**	96,283
	Consultancy fee paid by the Group	**—**	9,381
	Rental income received by the Group	**474**	549

(b) Balances

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

	2016 RMB'000	2015 RMB'000
Companies beneficially owned and controlled by certain directors of the Company	**—**	20,956

The amounts were unsecured, interest-free and fully settled during the year.

The balances with an associate as at 31 December 2016 and 2015 are set out in notes 21 and 24.

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

	2016 RMB'000	2015 RMB'000
Short-term benefits	**6,132**	5,353
Retirement benefit scheme contributions	**146**	144
	6,278	5,497

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

31. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

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

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

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

As at 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 18,000,000 (2015: 18,000,000), representing approximately 1.8% (2015: 1.8%) of the then issued share capital of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share option scheme (Continued)

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

Category	Date of grant	Vesting period	Exercisable period	Exercise price HK$	Outstanding at 1.1.2015	Exercised during the year	Outstanding at 31.12.2015	Exercise during the year	Outstanding at 31.12.2016
Employees/ Consultants	7.2.2007	7.2.2007 to 6.2.2009	7.2.2009 to 6.2.2017	3.200	30,000	(30,000)	—	—	—
	10.2.2014	10.2.2014 to 9.2.2016	10.2.2016 to 9.2.2024	4.680	9,000,000	—	9,000,000	—	9,000,000
	10.2.2014	10.2.2014 to 9.2.2016	10.2.2017 to 9.2.2024	4.680	9,000,000	—	9,000,000	—	9,000,000
Total					18,030,000	(30,000)	18,000,000	—	18,000,000
Exercisable at year end					30,000		—		9,000,000
Weighted average exercise price (HK$)					4.680	3.200	4.680	N/A	4.680

For the year ended 31 December 2015, the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$11.98 (2016: N/A).

Share-based payment expenses amounted to RMB5,816,000 (2015: RMB11,461,000) has been recognised in profit or loss for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

31. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Share award scheme

The Company's share award scheme (the "Share Award Scheme") was adopted pursuant to a resolution passed on 3 May 2016. Pursuant to the Share Award Scheme under which eligible employees are entitled to participate. The purpose of the Share Award Scheme is to recognise the contributions by certain employees and to provide them with incentives in order to retain them for the continual operation and development of the Group and also to attract suitable personnel for further development of the Group. The Share Award Scheme became effective on 3 May 2016 and, unless otherwise terminated or amended, will remain in force for 10 years.

The Share Award Scheme is operated through a trustee which is independent of the Group and has the right to, among other conditions, in its sole discretion, determine whether the shares are to be purchased on or off the Stock Exchange from time to time, unless during the year at which the directors of the Company are prohibited by the Listing Rules or any corresponding codes or securities dealing restrictions adopted by the Company. In any given financial year of the Company, the maximum number of shares to be purchased by the trustee for the purpose of the Share Award Scheme shall not exceed 10% of the total number of issued shares as at the beginning of that financial year.

The directors would notify the trustee of the Share Award Scheme in writing upon the making of any award to any participants. Upon the receipt of such notice, the trustee would set aside the appropriate number of awarded shares in the pool of shares. No new shares would be allotted and issued to satisfy the awards made under the Share Award Scheme.

During the year ended 31 December 2016, 7,500,000 ordinary shares of the Company have been acquired at an aggregate cost of HK$29,681,000 (equivalent to RMB25,119,000). As at 31 December 2016, no participant has been awarded any share under the Share Award Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

32. CAPITAL RISK MANAGEMENT

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

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

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

33. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables:		
Amounts due from related parties	–	20,956
Other non-current assets	55,318	53,144
Trade and other receivables	2,932,947	2,588,044
Loan receivables	205,000	205,000
Pledged bank deposits	183,297	241,489
Bank balances and cash	940,016	1,171,836
	4,316,578	4,280,469
Available-for-sale financial assets:		
Available-for-sale investments	150,878	83,816
Financial liabilities		
Financial liabilities at amortised cost:		
Trade and other payables	2,074,059	1,964,125
Borrowings	1,095,274	877,087
	3,169,333	2,841,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

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

Market risk

(i) Currency risk

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

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

	Assets		Liabilities	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**11,736**	80,124	**11,031**	3,704
USD	**483,293**	297,461	**10,257**	118,356
	495,029	377,585	**21,288**	122,060

One of the Group's subsidiaries, Gam Sheng Macao Commercial Offshore Limited, of which its functional currency is USD, has an aggregate amount of intra-group balances of RMB9,634,000 (2015: RMB49,397,000) which are denominated in RMB as at 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

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

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

	HKD		USD	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Decrease in post-tax profit for the year	**(35)**	(3,821)	**(17,739)**	(6,717)

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

(ii) Interest rate risk

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates of bank balances and borrowings. the analysis is prepared assuming the amount of the outstanding at the end of the reporting period was outstanding for the whole year. A 10 basis points (2015: 10 basis points) increase or decrease for bank balances and 50 basis points (2015: 50 basis points) for borrowings are used and represent management's assessment of the reasonably possible change in interest rates for the year ended 31 December 2016.

If interest rates had been 10 or 50 basis points higher/lower, as appropriate, and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2016 would decrease/increase by RMB2,869,000 (2015: RMB1,768,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and floating-rate borrowings.

(iii) Equity price risk

The Group is exposed to equity price risk through its equity securities listed in Hong Kong and investment in trust fund, which are accounted for as available-for-sale investments (see note 18). The Group's equity price risk is mainly concentrated on equity instrument which operates in the public utility service provider industry sector quoted on the Stock Exchange and the underlying debt securities of the trust fund. The management is closely monitoring the equity price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analyses

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. For the year ended 31 December 2016, if the prices of the equity instrument and unlisted trust fund had been 5% higher/lower, investment revaluation reserve would increase/decrease by RMB5,853,000 (2015: RMB2,500,000) as a result of the changes in fair value of the equity instrument and unlisted trust fund held by the Group. In the management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk as the year end exposure does not reflect the exposure during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

The Group has concentration of credit risk on liquid funds, which are deposited with several banks with good reputation. The loan receivables disclosed in note 22 are also concentrated in certain independent third parties, and the directors consider the credit risk is significantly reduced as the amounts are pledged by certain assets of the borrowers. As at 31 December 2015, the Group also had concentration of credit risk on amounts due from related parties as the amounts were due from a limited number of related parties. Other than the above, the Group does not have any other significant concentration of credit risk.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 91% (2015: 98%) of the total trade receivables at the end of the reporting period.

Liquidity risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

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

Liquidity risk tables

	Weighted average interest rate	Less than 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31 December 2016 RMB'000
2016								
Non-derivative financial liabilities								
Trade and other payables	—	1,445,445	451,120	137,763	39,731	—	2,074,059	2,074,059
Borrowings	3.25%	217,384	213,513	111,210	443,400	159,937	1,145,444	1,095,274
		1,662,829	664,633	248,973	483,131	159,937	3,219,503	3,169,333

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

33. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments

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

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

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

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

	Fair value as at 31 December		Fair value
	2016	2015	hierarchy
	RMB'000	RMB'000	
Financial asset			
Available-for-sale investments:			
Equity securities listed in Hong Kong (note 18)	**67,060**	—	Level 1
Investment in trust fund, at fair value (note 18)	**50,006**	50,004	Level 2

The fair value of the equity securities listed in Hong Kong was based on quoted bid prices in an active market.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

34. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
— acquisition of property, plant and equipment	**22,251**	69,704
— additions of construction in progress	**530**	930
	22,781	70,634

35. OPERATING LEASES

(a) The Group as lessee

	2016 RMB'000	2015 RMB'000
Minimum lease payments paid under operating leases during the year in respect of rented premises	**6,868**	8,715

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

	2016 RMB'000	2015 RMB'000
Within one year	**4,172**	5,269
In the second to fifth year inclusive	**2,498**	512
	6,670	5,781

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

35. OPERATING LEASES (Continued)

(b) The Group as lessor

Property rental income earned during the year was RMB1,678,000 (2015: RMB1,235,000). Certain properties held have committed tenants for the next three years (2015: three years).

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

	2016 RMB'000	2015 RMB'000
Within one year	**1,161**	474
In the second to fifth year inclusive	**2,455**	869
	3,616	1,343

36. RETIREMENT BENEFIT PLANS

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

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

The total cost of RMB18,601,000 (2015: RMB16,822,000) charged to profit or loss represents contribution paid or payable to the above retirement benefit plans by the Group for the year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Paid up/ issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company Directly 2016	Directly 2015	Indirectly 2016	Indirectly 2015	Principal activities
Oceanbase Group Limited	BVI/ Hong Kong	US$1,000,000	**100%**	100%	**–**	–	Investment holding
Power Well Creation Limited	Hong Kong	HK$2	**100%**	100%	**–**	–	Investment holding
Weisheng Energy Industrial Technology Co., Ltd. ("Weisheng Energy") (Note i)	The PRC	RMB50,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of energy saving products
Changsha Weisheng Import and Export Trading Company Limited ("Weisheng Import and Export") (Note ii)	The PRC	RMB10,000,000	**–**	–	**100%**	100%	Trading of power meters
Hunan Wasion Information Technology Company Limited ("Wasion Information Technology") (Formerly known as Changsha Weisheng Information Technology Company Limited) (Note i)	The PRC	RMB270,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of power meters, data collection terminals and related services
Changsha Vitae Plastic Technology Co., Ltd ("Vitae") (Note iii)	The PRC	RMB20,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of parts of power meters, data collection terminals and related services
Gam Sheng Macao Commercial Offshore Limited	Macao	MOP1,000,000	**–**	–	**100%**	100%	Trading of electronic components
Hunan Weike Power Meters Company Limited ("Hunan Weike") (Note i)	The PRC	HK$100,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of power meters
Hunan Weiming Technology Co., Ltd. ("Hunan Weiming") (Note i)	The PRC	RMB50,000,000	**–**	–	**100%**	100%	Development, manufacturing and sale of water, gas and heat meters

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Paid up/ issued/ registered capital	Proportion of nominal value of issued/registered capital held by the Company Directly 2016	Directly 2015	Indirectly 2016	Indirectly 2015	Principal activities
Wasion Electric Limited ("Wasion Electric") (Note iii)	The PRC	RMB200,000,000	–	–	**100%**	100%	Development, manufacturing and sale of smart distribution devices
Wasion Group Limited ("Changsha Weisheng") (Note iii)	The PRC	RMB1,209,900,000 (2015: RMB600,000,000)	–	–	**100%**	100%	Development, manufacturing and sale of power meters
Wasion Technology Shenzhen Company Limited ("Wasion Shenzhen") (Note ii)	The PRC	RMB10,000,000	–	–	**100%**	100%	Trading of power meters
Hunan Switchgear Co. Ltd. ("Hunan Switchgear") (Note ii)	The PRC	RMB100,000,000	–	–	**65%**	65%	Development, manufacturing and sale of switchgears

Notes:

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

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

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interest and voting rights held by non-controlling interest		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Hunan Switchgear	The PRC	35%	35%	656	329	23,302	22,646
Individually immaterial subsidiaries with non-controlling interests				(16)	(2,043)	5,793	15,766
				640	(1,714)	29,095	38,412

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

	Hunan Switchgear	
	2016 RMB'000	2015 RMB'000
Current assets	165,121	131,724
Non-current assets	50,217	44,913
Current liabilities	(146,764)	(109,640)
Non-current liabilities	(1,815)	(2,114)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

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

	Hunan Switchgear	
	2016	2015
	RMB'000	RMB'000
Revenue	**104,577**	102,615
Profit and total comprehensive income for the year	**1,876**	1,743
Profit and total comprehensive income attributable to owners of the Company	**1,220**	1,414
Profit and total comprehensive income attributable to the non-controlling interests	**656**	329
Profit and total comprehensive income for the year	**1,876**	1,743
Net cash inflow from operating activities	**33,849**	2,001
Net cash outflow from investing activities	**(12,967)**	(571)
Net cash outflow from financing activities	**—**	(3,538)
Net cash inflow (outflow)	**20,882**	(2,108)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

38. EVENTS AFTER THE REPORTING PERIOD

The following significant events took place after the reporting period:

(1) On 12 January 2017, Wasion Information Technology, a subsidiary of the Company, has entered into two investment agreements with two connected persons, pursuant to which, the connected persons have agreed to contribute an aggregate of RMB100.44 million to subscribe for RMB40.02 million of the registered capital of Wasion Information Technology, representing an aggregate of 9% of the enlarged equity interest of Wasion Information Technology. On 13 January 2017, Wasion Information Technology has entered into five additional investment agreements with five independent investors, pursuant to which, the independent investors have agreed to contribute an aggregate of RMB290.26 million to subscribe for RMB115.63 million of the registered capital of Wasion Information Technology, representing 26% of the enlarged equity interest of Wasion Information Technology. Upon completion of the above capital increase, Wasion Information Technology is held as to 65% by the Group, and remains as a subsidiary of the Group. The Group accounts for this as equity transaction and the difference between the amounts of contribution from the two connected persons and the five independent investors and the carrying value of the respective non-controlling interests incurred is recorded in other reserve at RMB48.38 million.

(2) The Company has passed an ordinary resolution in an extraordinary general meeting held on 20 March 2017 to acquire 50.053% of the share capital of Zhuhai Zhonghui Microelectronics Co., Ltd. ("Zhuhai Zhonghui") at an aggregate consideration of RMB52,105,200. Zhuhai Zhonghui is a company established in the PRC which provides professional measurement chip, GPRS wireless module, MCU, reset chip and other embedded software products mainly used in the electric energy metering and information automation area. Up to the date of approving these consolidated financial statements, the above transaction is yet to complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current assets		
Property, plant and equipment	—	47
Investments in subsidiaries	210,612	197,262
Other non-current assets	36,096	33,808
	246,708	231,117
Current assets		
Other receivables	32,197	33,777
Amounts due from subsidiaries	2,610,142	2,142,114
Bank balances and cash	7,983	279,040
	2,650,322	2,454,931
Current liabilities		
Other payables	12,056	4,664
Borrowings — due within one year	248,471	108,879
	260,527	113,543
Net current assets	2,389,795	2,341,388
Total assets less current liabilities	2,636,503	2,572,305
Capital and reserves		
Share capital	10,078	10,180
Reserves	2,156,117	2,044,077
Total equity	2,157,195	2,054,257
Non-current liabilities		
Borrowings — due after one year	479,308	518,248
Total equity and non-current liabilities	2,636,503	2,572,505

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2016

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movements in the company's reserves

	RMB'000
At 1 January 2015	1,348,133
Profit and total comprehensive income for the year	253,274
Shares repurchased and cancelled	638,337
Transaction costs attributable to shares repurchased	(15,453)
Purchase of shares under share award scheme	76
Recognition of equity-settled share-based payment	11,461
Dividend recognised as distribution	(191,751)
At 31 December 2015	2,044,077
Profit and total comprehensive income for the year	375,019
Shares repurchased and cancelled	(37,381)
Transaction costs attributable to shares repurchased	(160)
Purchase of shares under share award scheme	(25,119)
Recognition of equity-settled share-based payment	5,816
Dividend recognised as distribution	(206,135)
At 31 December 2016	2,156,117

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Revenue	2,452,297	2,412,343	2,811,871	2,969,033	**2,607,504**
Profit (loss) for the year attributable to:					
Owners of the Company	323,149	401,125	482,439	423,533	**307,265**
Non-controlling interests	—	—	3,735	(1,714)	**640**
	323,149	401,125	486,174	421,819	**307,905**

ASSETS AND LIABILITIES

	As at 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Total assets	4,265,893	4,741,215	5,618,550	7,223,094	**7,493,091**
Total liabilities	(1,669,216)	(1,868,015)	(2,312,309)	(3,083,522)	**(3,315,377)**
	2,596,677	2,873,200	3,306,241	4,139,572	**4,177,714**
Equity attributable to:					
Owners of the Company	2,596,277	2,872,800	3,245,509	4,101,160	**4,148,619**
Non-controlling interests	400	400	60,732	38,412	**29,095**
	2,596,677	2,873,200	3,306,241	4,139,572	**4,177,714**

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