中國全通
ALL ACCESS

INTELLIGENT SOLUTIONS
ACCESS FOR ALL

CHINA ALL ACCESS (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE : 633

ANNUAL REPORT 2016

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COMPANY

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Chan Yuen Ming
Mr. Shao Kwok Keung (FCPA)
Mr. Xiu Zhi Bao
Mr. Yan Wei
Mr. Tian Zheng

Independent Non-Executive Directors

Mr. Pun Yan Chak
(retired with effect from 14 June 2016)
Mr. Wong Che Man Eddy (FCPA)
Mr. Lam Kin Hung Patrick
Mr. Fung Ka Kin (FCPA) (appointed on 1 April 2016)

AUTHORISED REPRESENTATIVES

Mr. Chan Yuen Ming
Mr. Shao Kwok Keung (FCPA)

AUDIT COMMITTEE

Mr. Wong Che Man Eddy (Chairman) (FCPA)
Mr. Pun Yan Chak (resigned on 1 April 2016)
Mr. Lam Kin Hung Patrick
Mr. Fung Ka Kin (FCPA) (appointed on 1 April 2016)

REMUNERATION COMMITTEE

Mr. Pun Yan Chak (Chairman)
(resigned on 1 April 2016)
Mr. Fung Ka Kin (Chairman) (FCPA)
(appointed on 1 April 2016)
Mr. Wong Che Man Eddy (FCPA)
Mr. Shao Kwok Keung (FCPA)

NOMINATION COMMITTEE

Mr. Lam Kin Hung Patrick (Chairman)
Mr. Wong Che Man Eddy (FCPA)
Mr. Shao Kwok Keung (FCPA)

COMPANY SECRETARY

Mr. Au Ki Lun (CPA)

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 65, International Commerce Centre
1 Austin Road West
Kowloon
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REGISTERED OFFICE

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Grand Cayman KY1-1111
Cayman Islands

AUDITORS

HLB Hodgson Impey Cheng Limited
31/F, Gloucester Tower, The Landmark
11 Pedder Street
Central
Hong Kong

CORPORATE INFORMATION

HONG KONG LEGAL ADVISER

Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
Hong Kong Branch
20 Pedder Street
Central
Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
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Hong Kong

China Construction Bank Corporation
Shenzhen Branch
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Shenzhen
People's Republic of China

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

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North Point
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Royal Bank of Canada Trust Company
(Cayman) Limited
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P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

COMPANY WEBSITE

www.chinaallaccess.com

FINANCIAL SUMMARY

A five year financial summary of the results and of the assets and liabilities of China All Access (Holdings) Limited (the"Company") and its subsidiaries (collectively, the"Group") is set out below. This summary does not form part of the audited financial statements.

	Years ended 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Results					
Revenue	**3,475,595**	7,544,779	7,038,440	4,693,637	606,926
Cost of sales	**(2,859,199)**	(6,565,797)	(6,220,612)	(4,045,059)	(370,701)
Gross profit	**616,396**	978,982	817,828	648,578	236,225
Other revenue	**14,543**	17,797	9,199	14,523	1,757
Other net (loss)/income	**(5,177)**	(8,849)	(563)	1,402	(1,203)
Distribution costs	**(16,510)**	(43,051)	(42,715)	(34,179)	(8,444)
Administrative expenses	**(291,015)**	(313,616)	(353,358)	(253,599)	(44,055)
Research and development expenses	**(33,486)**	(102,536)	(63,022)	(80,366)	(997)
Profit from operations	**284,751**	528,727	367,369	296,359	183,283
Finance income	**66,257**	122,990	88,898	34,575	23,258
Finance costs	**(208,076)**	(225,610)	(181,081)	(132,685)	(766)
(Loss)/gain on disposal of associates	**—**	(3,750)	(1,834)	240,944	—
Gain on disposal of subsidiaries	**160,824**	1,862	2	1,588	—
Share of results of associates	**(193)**	(35)	(47)	16,208	(1,484)
Profit before taxation	**303,563**	424,184	273,307	456,989	204,291
Income tax	**(72,509)**	(111,960)	(79,332)	(118,575)	(34,164)
Profit for the year	**231,054**	312,224	193,975	338,414	170,127
Earnings per share					
Basic (RMB)	**0.123**	0.159	0.146	0.168	0.140
Diluted (RMB)	**0.120**	0.159	0.146	0.168	0.140
Assets and liabilities					
Total assets	**8,284,265**	10,635,510	9,788,787	7,699,636	6,001,049
Total liabilities	**(4,408,826)**	(7,117,559)	(6,563,250)	(5,079,848)	(3,794,496)
Total equity	**3,875,439**	3,517,951	3,225,537	2,619,788	2,206,553

The above financial summary represent the Group as a whole including continuing and discontinued operation.

THE STORY OF

CHINA ALL ACCESS

This modern city, with sun, sea and the brilliant first rays of the morning sun, is full of vitality. Flow of automobiles runs endlessly on the viaduct; aircrafts take off from and land on the busy airport runway; white-collar workers are working in highrise buildings; people are doing morning exercise in the city park - all these are features of a city with harmony, everything seems so harmonious, life with happiness, work with hope and ordinariness with fortune.

The city, the largest city in China, which is known as a first-tier city internationally, is like a huge machine operating at high speed which would not stop running for a second. Functional authorities such as the government, public security, traffic police and fire services are the heart of this machine. Public utilities such as water, electricity, heating and gas as well as the network systems are the blood vessels of this machine that reach every corner of the city and penetrate into every detail of people's life. To ensure the seamless, safe and smooth operation of this machine, apart from the dutiful watch by tens of thousands of workers, technological solutions which are more intelligent than the brain and terminal facilities which are sharper than the eyes are required at the frontline for support.

All access, wisdom and life – this is the story behind this beautiful city seen and happy life enjoyed by people.

China All Access – a leading manufacturer and provider of integrated information communication system solution and innovative devices using new generation information communication technology.

CHAIRMAN'S STATEMENT

FOCUSING ON INNOVATION AND TECHNOLOGY

Following the major milestones achieved in 2015, we built the four key aspects of our business to become much stronger growth drivers. Moreover, our focus on innovation and technology accomplished an important breakthrough in 2016. A summary of our key efforts done in the year was highlighted below for your comprehension of our development strategies.

Continuing Shareholder Structure Optimization

Since our IPO done in 2009, we have been putting in numerous effort in enlarging our shareholder base and diversifying our shareholder portfolio. In 2016, we amended the terms and conditions of the convertible bonds subscribed by Asia Equity Value Ltd and exercised the right of early redemption of the convertible bonds which would serve to, among others, restructure and simplify the portfolio of the Company's investors and help the Company to attract other long term investors with more favourable terms.

Also, in 2016, we entered into the patent licence agreement (the "Patent Licence Agreement") with New Concept Aircraft (Zhuhai) Co., Ltd. ("Zhuhai NCA") and Dr. Li Hiu Yeung ("Dr. Li") in relation to the sub-license of certain patents (the "Patents") to the Group with part of the consideration to be settled by the Company's issue of consideration shares. We have been looking for suitable investment opportunities to expand our business and maximize shareholders' returns continuously. We believe that the Patents have promising potential in different fields of application, and subject to successful development of products and applications under the Patents by the Group, such products and applications might generate substantial value to us.

CHAIRMAN'S STATEMENT

Completing Business Reorganization

Whilst positioning ourselves as an enterprise in the telecommunication and technology, we have been focusing on business reorganization by expanding our business horizon and developing innovations and technology to cope with the industry development trend of "Made In China 2025". Through our continuous efforts, the reorganization has been completed in 2016 and they are highlighted as follows:

1. Disposal of Shenzhen Xingfei

In 2016, we completed the disposal of 54% equity interest in Shenzhen Xing Fei Technology Co., Ltd. ("Shenzhen Xingfei") (which together with its operating subsidiaries were principally engaged in the research and development, manufacturing and sales of mobile phones and mobile power source products) for the cash consideration of RMB702,000,000. Following the completion of such disposal, Shenzhen Xingfei and its subsidiaries ceased to be subsidiaries of the Group. We consider that such disposal represents an attractive return on our investment in the mobile terminals business and it will enable the Group to focus its resources in pursuing development opportunities that may generate higher return in the future.

2. Investment activities to generate higher return

In 2015, in order to better management of our cash usage, we have launched trial in the investment market by subscribing some high yield treasury products and providing facilitating capital to our supply stream. Due to our success in last year, we still managed investment in 2016 to earn reasonable returns under risk-secured approach.

3. Spinning off LCD business and separate listing on Growth Enterprise Market (GEM) of the Stock Exchange

On 8 June 2016, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has granted the Group approval on the Practice Note 15 Proposal regarding the potential spin-off and separate listing of the Group's interest in China Lide Holdings Limited (the display module business of the Group) on the Growth Enterprise Market of the Stock Exchange. The Company will make further announcement(s) in connection with the proposed spin-off as and where appropriate or if required under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

4. Improving operating performance of precision moldings business

Shenzhen Control Electromechanical Co., Ltd., (a non-wholly owned subsidiary of the Group engaging in precision moldings business) has been suffering from a number of development challenges, including (1) over capacity problem; (2) aging of its machinery and equipment; (3) price pressure; (4) order reduction; (5) long outstanding receivables; (6) staffing and cost control issue, since 2014. By two years of continuous effort, we are glad to tell that though the business is still loss-making, it has shown improvement with positive cash flow generated.

CHAIRMAN'S STATEMENT

By Focusing On Innovation And Technology

The pursuit for new business has propelled us to the following new markets:

1. Super Lens High Efficiency Solar Electrical System

The Patents invented by Dr. Li can increase the luminous flux per unit area with the ability by reducing the light-taking distance in respect of the opposite light source with promising potential in different fields of application.

On 18 January 2017, the Company has entered into a framework agreement (the "Framework Agreement") with CECEP Solar Energy Technology Co., Ltd, an A-shares listed company on the Shenzhen Stock Exchange engaging in solar power business ("CECEP"). Pursuant to the Framework Agreement, subject to the obtaining of all necessary consents and approvals by the parties for the proposed cooperation and the certification of a system called "超級鏡陣高效光能電力系統" (Super Lens High Efficiency Solar Electrical System) developed based on the Patents (the "Super Lens Electrical System") (which is capable of increasing the power transforming capability of solar panels numerous times) by an independent third party:

(1) CECEP and us shall complete the sampling, trial and assembly of the Super Lens Electrical System by the second quarter of 2017; and

(2) CECEP shall procure the production and sale of the Super Lens Electrical System whose target sale shall not be less than an aggregate of 1.5 gigawatt for the upcoming three years.

Also, CECEP and the Group shall jointly establish an industry fund to be used for (i) the upgrade of the existing solar energy electricity plants of CECEP using the Super Lens Electrical System and (ii) the marketing activities of the newly built solar energy electricity plants.

We consider that the Super Lens Electrical System represents an important breakthrough of new energy.

2. China Lide Holdings Limited - Organic Light-Emitting Diode ("OLED") display modules and flexible OLED display modules

In 2016, the handset vendors have upgraded their high-end products from TFT modules to OLED and even more advanced flexible OLED display modules. In 2016, in response to the fast-growing trend of OLED display module progress, our subsidiary - China Lide Holdings Limited has developed several OLED products which received wide market recognition. Going forward, we will continue to develop flexible OLED display modules for the market.

CHAIRMAN'S STATEMENT

Aiming At Building High Calibre Team and Creating Value to Shareholders

In 2016, Dr. Li Hiu Yeung has been engaged as a Chief Technology Officer (CTO) of the Company to facilitate the development of applications and product prototypes for the Company based on his exclusive knowledge and expertise regarding the Patents. Dr. Li has more than 30 years of experience in scientific research and technological application, covering: bionics, new energy, optical science, solar energy, telemetry, aero vehicles, etc.

We will continue to focus on innovations and technologies by growing our research & development (R&D) team and employing global talents in joining our team.

Working closely with our management team, I am confident that we will be able to grow to next milestone by concentrating on innovations and technology developments. As a result, we aim at delivering strong performance and creating value to our shareholders.

TECHNOLOGY PAVES THE WAY TO SMART LIVING

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Business reorganisation of China All Access (Holdings) Limited (the "Company") and its subsidiaries (collectively, the "Group") was completed in 2016. The Group completed the disposal of all equity interest in Shenzhen Xing Fei Technology Co., Ltd. ("Shenzhen Xingfei") and the entering into of the patent licence agreement (the "Patent Licence Agreement") with New Concept Aircraft (Zhuhai) Co., Ltd. ("Zhuhai NCA") and Dr. Li Hiu Yeung ("Dr. Li") in 2016 in relation to the sub-license of the patents (the "Patents") to the Group. Major business highlights for the year are as follows:

1. Revenue from continuing operations for the year ended 31 December 2016 increased by approximately 8.07% to approximately RMB3,071,866,000 as compared with 2015;

2. Gross profit from continuing operations for the year ended 31 December 2016 decreased by approximately 1.92 % to approximately RMB587,027,000 as compared with 2015; and

3. Profit attributable to owners of the Company for the year ended 31 December 2016 decreased by approximately 17.80% to approximately RMB228,894,000 as compared with 2015.

Disposal of Shenzhen Xingfei

During the year ended 31 December 2016, the Group completed disposal of 54% equity interest in Shenzhen Xingfei (which together with its operating subsidiaries were principally engaged in the research and development, manufacturing and sales of mobile phones and mobile power source products) for the cash consideration of RMB702,000,000. With the disposal completed, Shenzhen Xingfei and its subsidiaries are no longer subsidiaries of the Group. The Group considers that such disposal brought an attractive return on its investment in the mobile terminals business and it will enable the Group to focus its resources for pursuing future development opportunities that may generate higher return in the future.

Communication Application Solutions and Services

Revenue generated from communication application solutions and services during the year ended 31 December 2016 increased by approximately 6.13% to approximately RMB2,937,909,000 as compared with that of last year, accounting for approximately 95.64% of the Group's total revenue for the year. The increase was mainly due to the increased revenue from display modules businesses.

The Group has continuously speeded up its business development in different areas including emergency communication, public safety and integrated city administration to increase its market share in such areas which underpinned the Group's revenue growth. Moreover, due to the growing demand of smart terminals, customers of the Group have placed more orders which in turn increased the sales volume and shipments. In the future, the Group will explore new opportunities in the vertical markets and address the growing demand for smart city applications.

MANAGEMENT DISCUSSION AND ANALYSIS

Investment

In 2016, the Group continued to manage cash using the investment market as platform. It subscribed some high-yield treasury products and provided facilitating capital to its supply stream to earn reasonable returns under risk-secured approach. Revenue generated from investment increased from approximately RMB74,175,000 for the year ended 31 December 2015 to approximately RMB133,957,000 for the year ended 31 December 2016. Moreover, on 8 June 2016, The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granted the Group approval on the Practice Note 15 Proposal regarding the potential spin-off and separate listing of the Group's interest in China Lide Holdings Limited (the display module business of the Group) on the Growth Enterprise Market of the Stock Exchange. Please refer to the announcement of the Company dated 16 June 2016 for further details. The Company will make further announcement(s) in connection with the proposed spin-off as and where appropriate or if required under the Listing Rules.

FINANCIAL REVIEW

Revenue

Revenue increased from approximately RMB2,842,386,000 for the year ended 31 December 2015 to approximately RMB3,071,866,000 for the year ended 31 December 2016, representing an increase of approximately 8.07%. The increase in revenue during the year as compared with that of last year was mainly attributable to the factors below:

- Communication application solutions and services recorded an increase in revenue from approximately RMB2,768,211,000 for the year ended 31 December 2015 to approximately RMB2,937,909,000 for the year ended 31 December 2016, representing an increase of approximately 6.13%. The increase was mainly due to the increase in revenue from manufacturing and distribution of display modules businesses.

- Investment exhibited an increase in revenue from approximately RMB74,175,000 for the year ended 31 December 2015 to approximately RMB133,957,000 for the year ended 31 December 2016, representing an increase of approximately 80.60%. The increase was mainly due to increase in revenue generated from interest earned from provision of facilitating capital to supply stream in Hong Kong and investment returns from direct investment and high yield treasury products.

Gross profit

Gross profit reduced from approximately RMB598,518,000 for the year ended 31 December 2015 to approximately RMB587,027,000 for the year ended 31 December 2016, representing a decrease of approximately 1.92%. Meanwhile, gross profit margin decreased from approximately 21.06% for the year ended 31 December 2015 to approximately 19.11% for the year ended 31 December 2016. The decrease was mainly attributable to the increase in revenue contribution by display modules which carrying relatively lower gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

Other revenue

Other revenue climbed from approximately RMB12,547,000 for the year ended 31 December 2015 to approximately RMB14,499,000 for the year ended 31 December 2016, representing an increase of approximately 15.56%. It was mainly attributable to government grants in relation to research and development projects of the display modules business.

Other net loss

The Group recorded other net loss of approximately RMB5,160,000 for the year ended 31 December 2016 as compared to approximately RMB7,525,000 for the year ended 31 December 2015. The decrease was mainly due to a loss incurred on disposal of property, plant and equipment of the Group in the last corresponding year.

Distribution costs, administrative expenses and research and development expenses

Distribution costs, administrative expenses and research and development expenses increased from approximately RMB239,544,000 for the year ended 31 December 2015 to approximately RMB339,656,000 for the year ended 31 December 2016, representing an increase of approximately 41.79%. The increase was mainly due to the increase in administrative expenses and research and development expenses due for new solar products. The percentage of distribution costs, administrative expenses and research and development expenses as a percentage of the Group's total revenue increased from approximately 8.43% for the year ended 31 December 2015 to approximately 11.06% for the year ended 31 December 2016, representing an increase of approximately 2.63 percentage points.

Finance income and finance costs

Finance income decreased from approximately RMB116,750,000 for the year ended 31 December 2015 to approximately RMB66,257,000 for the year ended 31 December 2016, representing a decline of approximately 43.25%. The decrease was mainly attributable to the reduction of interest income from bank deposits during the year as compared with that of last year.

Finance costs increased from approximately RMB156,551,000 for the year ended 31 December 2015 to approximately RMB207,613,000 for the year ended 31 December 2016, representing a rise of approximately 32.62%. The rise was mainly the result of increase in finance costs associated with borrowings during the year.

Income tax

Income tax decreased from approximately RMB92,023,000 for the year ended 31 December 2015 to approximately RMB37,591,000 for the year ended 31 December 2016, representing a decrease of approximately 59.15%. The decrease in income tax was mainly due to the reduction in profit from continuing operations.

Profit for the year from continuing and discontinued operations attributable to equity shareholders of the Company

Profit for the year from continuing and discontinued operations attributable to equity shareholders of the Company decreased from approximately RMB278,460,000 for the year ended 31 December 2015 to approximately RMB228,894,000 for the year ended 31 December 2016, representing the Group's decrease of approximately 17.80%. The decrease was mainly due to the increase in finance costs and administrative expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

Liquidity, financial resources and capital structure

As at 31 December 2016, the Group had unrestricted cash and cash equivalents (excluded assets of disposal group classified as held for sale) of approximately RMB48,573,000 (2015: RMB275,065,000), restricted cash (excluded assets of disposal group classified as held for sale) of approximately RMB497,551,000 (2015: RMB419,915,000), bank deposits with original maturities over three months (excluded assets of disposal group classified as held for sale) of approximately RMB1,065,441,000 (2015: RMB1,093,000,000) and borrowings of approximately RMB1,299,731,000 (2015: RMB1,772,121,000). The gearing ratio (calculated by dividing borrowings by total assets) as at 31 December 2016 was approximately 15.69% (2015: 24.22%). As at 31 December 2016, the Group had current assets (excluded assets of disposal group classified as hold for sale) of approximately RMB7,354,675,000 (2015: RMB6,572,479,000) and current liabilities (excluded liabilities of disposal group classified as held for sale) of approximately RMB3,393,042,000 (2015: RMB3,434,453,000). The current ratio (which is calculated by dividing current assets (excluded assets of disposal group classified as held for sale) by current liabilities (excluded liabilities of disposal group classified as held for sale)) was approximately 2.17 as at 31 December 2016, as compared with the current ratio of approximately 1.91 as at 31 December 2015. The increase of the current ratio was mainly attributable to the increase in inventories.

The approach of the board of directors of the Group to manage liquidity is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation.

Foreign exchange exposure

The Group's sales and purchases were mainly denominated in Renminbi. Therefore, the Group is not exposed to significant foreign currency exchange risks. The Group does not employ any financial instruments for hedging purposes. While the Board currently does not expect currency fluctuations to materially impact the Group's operations, the Board will review the foreign exchange exposure of the Group from time to time as appropriate.

Capital expenditure

During the year under review, the Group's total capital expenditure amounted to approximately RMB23,101,000 (2015: RMB73,763,000), which was mainly used for procurement for upgrading plant, machinery and equipment.

Capital commitment

As at 31 December 2016, the Group had capital commitment amounting to approximately RMB75,197,000 (2015: RMB75,253,000). The increase was mainly attributable to the procurement of additional machinery and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS

Charge on material assets

As at 31 December 2016, assets at the Group amounting to approximately RMB493,148,000 (2015: RMB577,926,000) were pledged for the Group's borrowings and bills payable.

Contingent liabilities

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

HUMAN RESOURCES

As at 31 December 2016, the Group had 1,175 employees (2015: 3,787 employees). The decrease in the number of employees was mainly due to (i) centralisation of production facilities, (ii) semi-automation of production lines, and (iii) exit from non-core businesses. The Group offers its employees competitive salary packages, as well as contribution to defined retirement plans.

The Group's employees are remunerated in line with the prevailing market terms and individual performance, with the remuneration package and policies reviewed on a regular basis. Discretionary bonuses may be rewarded to employees after assessment of the performance of the Group and that of the individual employee. The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme for its employees in Hong Kong, and provides its PRC employees with welfare schemes as required by the applicable laws and regulations of the PRC.

PROSPECTS

Looking ahead, the Group will direct all resources to further develop its two major business areas, i.e. communication applications solutions and services and super lens electrical system. The Company expects these two business areas to provide very strong impetus for its growth in the future.

China solar energy market: Huge growth potential increased

According to "The Development Roadmap of China Photovoltaic Industry (2016)" published by the China Photovoltaic Industry Association, the installed photovoltaic ("PV") capacity of China increased to 77.42GW in 2016 with an addition of 34.24GW, and the country remained the world largest solar capacity producer. Globally, the newly installed PV capacity in 2016 was estimated at more than 70GW and, between 2016 and 2020, the worldwide PV market is expected to grow at a compound annual growth rate of 9%.

By offering revolutionary new products to the solar energy sector at a substantially lower cost and operating in a more efficient and environmentally-friendly way, the Group expects the new products using the Patents will be well recognised by the market and potential customers and in turn assume a good share in the existing and newly installed capacity market in China and the global market. As such, the new products will become a substantial revenue growth driver of the Group in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Super Lens Electrical System can improve the situation faced by solar industry

According to "The Development Roadmap of China Photovoltaic Industry (2016)" published by the China Photovoltaic Industry Association, monocrystalline and polycrystalline solar batteries mass produced in 2016 has average power transforming capability of 19.8% and 18.5% respectively. Also, the average cost of investment in photovoltaic power generation system is around RMB7.3/watt, with the industry continuing to rely heavily on subsidies. The Group has developed a system called "超級鏡陣高效光能電力系統" (Super Lens High Efficiency Solar Electrical System) which was developed based on the Patents (the "Super Lens Electrical System") and is capable of increasing the power transforming capability of solar panels numerous times.

On 18 January 2017, the Company has entered into a framework agreement (the "Framework Agreement") with CECEP Solar Energy Technology Co., Ltd, an A-shares listed company on the Shenzhen Stock Exchange (stock code: 000591) engaging in solar power business ("CECEP"). Pursuant to the Framework Agreement, subject to the obtaining of all necessary consents and approvals by the parties for the proposed cooperation and the certification of the Super Lens Electrical System by an independent third party:

(1) The Group and CECEP shall complete the sampling, trial and assembly of the Super Lens Electrical System by the second quarter of 2017; and

(2) CECEP shall procure the production and sale of the Super Lens Electrical System whose target to sale shall be not less than an aggregate of 1.5 gigawatt for the coming three years.

Also, CECEP and the Group shall jointly establish an industry fund to be used for (i) the upgrade of the existing solar energy electricity plants of CECEP using the Super Lens Electrical System; and (ii) the marketing activities of the newly built solar energy electricity plants.

The management considers that the Super Lens Electrical System represents an important breakthrough in the key technology of new energy which can drive down the price of solar energy significantly.

5G progress gives opportunity to LIFI development

The Ministry of Industry and Information Technology ("MIIT") proposed in the 13th Five-Year Plan that China would start to promote development of and launch the Fifth generation ("5G") mobile communication technology by 2020. The technology will greatly enhance connectivity coupled with an enormous increase in number of Internet of things ("IoT") and machine to machine ("M2M") terminals. The Group believes bandwidth will be in short supply by then and optical communication technology, whose spectrum bandwidth has multiple times more than that of radio, will be the only solution. Cost advantage is another major merit of optical communication technology in helping adoption of IoT and M2M applications. With the Patents, the Company is of the view that the Group is well-positioned to tap the huge potential in the telecommunications industry. As a result of the entering into of the Patent Licence Agreement, the Group can make use of the Patents to develop new products and new applications such as visible light communications, light remote transmission and recycling of various light, which can enhance its core competencies.

MANAGEMENT DISCUSSION AND ANALYSIS

'Made in China 2025': Promote advanced automation in manufacturing industry

In 2015, China's State Council announced 'Made in China 2025' as a national initiative to improve the country's manufacturing industry. The aim is to transform China into a global leading and high-tech manufacturing power and the process has already begun. In her plan, the country aims for advanced automation, digitalisation of factory management, large-scale deployment of robots, as well as development of manufacturing industry for advanced manufacturing equipment. In support of the Chinese government's effort, Lead Communications Co., Ltd. has started automation of the production procedures of display modules business. The Group expects its production capacity and product quality to be improved with less manpower required as it continues to take automation forward.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

The current members of the Board and the Group's senior management are listed below.

EXECUTIVE DIRECTORS

- CHAN Yuen Ming, Chairman
- SHAO Kwok Keung, Chief Executive Officer
- XIU Zhi Bao, Head of Planning and Finance Department
- YAN Wei, Executive Director and Vice President
- TIAN Zheng, Executive Director and Vice President

INDEPENDENT NON-EXECUTIVE DIRECTORS

- PUN Yan Chak (retired with effect from on 14 June 2016)
- WONG Che Man Eddy
- LAM Kin Hung Patrick
- Fung Ka Kin (appointed on 1 April 2016)

SENIOR MANAGEMENT

- Dr. Li Hiu Yeung, Chief Technology Officer
- WANG Zhi Yi, Vice-President
- FENG Rui Ju, Vice-President
- AU Ki Lun, Company Secretary and Head of Corporate Affairs Department

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

CHAN Yuen Ming, aged 61, is the Chairman and an executive Director of the Company. Mr. Chan has been with the Group since its establishment in 2006 and is the founder of the Group. Mr. Chan was appointed as an executive Director on 4 December 2007. He is responsible for the Group's overall business development and strategic planning. Since 1990s, he was a key member of the management teams of several communication corporations in the PRC, including Sky Communication Group Co., Ltd ("SkyComm") and its subsidiaries (collectively "SkyComm Group"). These corporations are principally engaged in mobile communication, satellite communication, internet, wireless data and call center businesses. Mr. Chan was the founder of SkyComm Group responsible for establishing the business of SkyComm Group in December 2000. During his time in SkyComm Group up to his resignation from all his positions in the SkyComm Group in December 2008, Mr. Chan was responsible for the overall business development, strategic planning and corporate management and supervision of daily operation of the SkyComm Group. Mr. Chan is currently a director of China All Access Group Limited ("CAA BVI"), All Access Global Limited ("CAA HK"), and other principal operating subsidiaries of the Company (including Shenzhen City Changfei Investment Company Limited ("Changfei Investment") and its subsidiaries (collectively the "Changfei Group")). He is also the director and shareholder of Creative Sector Limited, the controlling shareholder (as defined in the Rules ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange")) of the Company.

SHAO Kwok Keung, aged 55, is the Chief Executive Officer and an executive Director of the Company and has joined the Group since December 2007. Mr. Shao was appointed as an executive Director on 4 December 2007. Mr. Shao is a member of the Remuneration Committee and Nomination Committee of the Board. He is responsible for the corporate management of the Company. Mr. Shao graduated with an honours diploma from Hong Kong Baptist College in 1984 and a master degree in business administration from Warwick University, U.K., in 1994. He is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Possessing more than 20 years of working experience in organizations across different industries, he has taken up finance and management positions in a CPA firm, a financial institution, a television station, satellite communication, telecommunications and consumer electronics product distribution and manufacturing companies. Prior to joining the Group, Mr. Shao was the group financial controller of IDT International Limited (Stock code: 167), a company listed on the Main Board of the Stock Exchange. Mr. Shao is currently a director of CAA BVI, CAA HK and other principal operating subsidiaries of the Company (including Changfei Investment).

XIU Zhi Bao, aged 47, is the Head of the Planning and Finance Department and an executive Director of the Company. Mr. Xiu has been with the Group since 30 August 2006 and was appointed as an executive Director on 24 August 2011. He is also a director of Changfei Investment and several members of Changfei Group. He is responsible for corporate planning and finance aspects of the Group. Mr. Xiu graduated from 杭州電子工業學院 (Hangzhou Electronics Industrial College) in 1992 with a bachelor's degree in economics. He has more than 20 years of experience relating to finance and planning management in the manufacturing and communication industries. Mr. Xiu joined the SkyComm Group in July 1996 and was appointed as the General Manager of the Planning and Finance Department of SkyComm in January 2006. Before joining the Group, Mr. Xiu was responsible for devising financial plan and annual budget of SkyComm and supervising the finance management of SkyComm.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

YAN Wei, aged 37, is the executive Director and Vice President of the Company. Mr. Yan graduated from 山東科技大學 (Shandong University of Science and Technology) in the People's Republic of China (the "PRC") with a bachelor's degree in accounting in 2002 and from 福州大學 (Fuzhou University) in the PRC with a master degree in management and engineering in 2005. In 2010, he obtained a master of business administration in Brandeis University in the United States of America. From February 2015 to July 2015, Mr. Yan was an investment director in Hawking Capital Management Group Limited. Mr. Yan has over 10 years of experience in the field of capital market investment and merger and acquisitions through his work experience in audit firm and investment and asset management companies. He is also a Chairman and the independent non-executive Director of 民盛金科控股股份有限公司 (Meson Fintech Co., Ltd.) (stock code: 002647.sz), which is listed on the Small and Medium Enterprise Board in Shenzhen Stock Exchange

TIAN Zheng, aged 28, is the executive Director and Vice President of the Company. Mr. Tian graduated from 山西師範大學 (Shanxi Normal University) in the PRC with a bachelor 's degree in computer science and technology in 2010. In 2013, he obtained a master of business administration in DePaul University in the United States of America. From June 2013 to July 2015, Mr. Tian worked in Hawking Capital Management Group Limited as an investment manager during which he was responsible for investment projects and mergers and acquisitions projects. He is also an independent non-executive Director of 民盛金科控股股份有限公司 (Meson Fintech Co., Ltd.) (stock code: 002647.sz), which is listed on the Small and Medium Enterprise Board in Shenzhen Stock Exchange.

INDEPENDENT NON-EXECUTIVE DIRECTORS

PUN Yan Chak, aged 59, was an independent non-executive Director of the Company. He joined the Group on 19 August 2009 when he was appointed as an independent non-executive Director and had retired with effect from 14 June 2016. Mr. Pun was the chairman of the Remuneration Committee and a member of the Audit Committee of the Board till 31 March 2016. Mr. Pun graduated from the Chinese University of Hong Kong with a bachelor's degree in science (major in electronics, minor in general business management) in 1981. Upon graduation, he joined Hong Kong Telephone Company Limited (currently known as PCCW) as a Trainee Engineer and was promoted to Project Engineer and Engineer in September 1983 and September 1984 respectively. As an Engineer in the Datacom Engineering, Network Development Department of Hong Kong Telephone Company Limited, Mr. Pun was responsible for packet network capacity planning and development. Mr. Pun became a Chartered Engineer in October 1986. In 1989, Mr. Pun joined the Hong Kong Post Office as a Telecommunications Engineer. In 1993, Mr. Pun joined the Office of the Telecommunications Authority (currently known as the Office of Communications Authority) ("OFCA") as a Telecommunications Engineer. In 2004, Mr. Pun left OFCA and started his consulting career.

WONG Che Man Eddy, aged 57, is an independent non-executive Director of the Company. He joined the Group on 19 August 2009 when he was appointed as an independent non-executive Director. Mr. Wong is the Chairman of the Audit Committee and a member of the Remuneration Committee and Nomination Committee of the Board. Mr. Wong graduated with an honours diploma in accounting from Hong Kong Baptist College in 1984. Mr. Wong has over 20 years of experience in the auditing and accounting profession. He is the sole proprietor of Eddy Wong & Co., Certified Public Accountants, and is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also an independent non-executive director of Sun Hing Vision Group Holdings Limited (Stock code: 125), which is listed on the Main Board of the Stock Exchange.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

LAM Kin Hung Patrick, aged 59, is an independent non-executive Director. He joined the Group on 19 August 2009 when he was appointed as an independent non-executive Director. Mr. Lam is the Chairman of the Nomination Committee and a member of the Audit Committee of the Board. Mr. Lam graduated from the University of London with an honoured Bachelor of Laws degree in 1988, from the University of Hong Kong with the Postgraduate Certificate in Laws in 1989, from the University of London with a Master of Laws degree in 1991 and from the City Polytechnic of Hong Kong (now known as the City University of Hong Kong) with a Postgraduate Diploma in Language and Law in 1991. He was admitted as a solicitor of the Supreme Court of Hong Kong and the Supreme Court of England and Wales in 1991, and was subsequently admitted as an Associate of the Chartered Institute of Arbitrators in 1993, and as a practitioner of the Supreme Court of Tasmania, Australia in 1994. He has been appointed as a China Appointed Attesting Officer since 2003. From 1996 to 2000, Mr. Lam had taken up part-time teaching positions in various tertiary institutions in China and Hong Kong, including the 西江大學 (University of Xijiang), the Open University of Hong Kong, Vocational Training Council and Sun Life of Canada (International) Limited, on subjects of law and building management. Mr. Lam is a practising solicitor and is currently a Consultant in Yip, Tse & Tang, a solicitor's firm in Hong Kong.

FUNG Ka Kin, aged 46, is an independent non-executive Director of the Company. He joined the Group on 1 April 2016 when he was appointed as an independent non-executive Director and the Chairman of the Remuneration Committee and a member of the Audit Committee of the Board. He has over 20 years of experience in the auditing and tax advisory profession. He is practising as a certified public accountant in Hong Kong with Dakin CPA Limited. He is a fellow of Hong Kong Institute of Certified Public Accountants and a fellow of The Taxation Institute of Hong Kong and also a Certified Tax Adviser in Hong Kong. He graduated from the Curtin University of Technology with a degree of Bachelor of Commerce in Accounting in 2000.

SENIOR MANAGEMENT

Dr. Li Hiu Yeung aged 61, has obtained a master degree and doctorate degree in aeroplane design and applied mechanics from 北京航空航天大學研究生院 (Graduate School of Beihang University*) in 1990 and 1994 respectively, during which he was the co-inventor of China's first unmanned aerial vehicle for surveillance purpose powered by solar energy with a patent registered in the PRC. Dr. Li has more than 30 years of experience in scientific research and technological application covering bionics, new energy, optical science, solar energy, telemetry, aero vehicles, etc. From 2000 to 2002, Dr. Li invented the world's first unmanned aerial vehicle with compound wing powered by solar energy with a patent registered in the PRC. From 2003 to 2008, Dr. Li proposed the light group field theory which has re-recognised the essence of light and its motion characteristics and is completely different from classical physics, quantum physics and other optical theories, which formed the foundation for Dr. Li's invention of the Device in 2008. Starting from January 2004, he has been a director and the chief technical officer of 珠海新概念航空航天器有限公司 (New Concept Aircraft (Zhuhai) Co., Ltd.*). In 2008, Dr. Li published a paper in "Frontier Science*" (《前沿科學》) (a science periodical in China) in relation to the light group field theory. Dr. Li joined the Group since July 2016 as the Chief Technology Officer.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

WANG Zhi Yi, aged 42, is the Vice-President and the general manager in the China Business division of the Group. Mr. Wang joined the Group since March 2008. He is responsible for the sales and daily management of the Group's domestic business in China, he also assist vice president on the daily operations of the Group's domestic business. Mr. Wang graduated from Hebei University of Science and Technology in 2002, has more than ten years of experience in the communications industry, Before joining the Group, Mr. Wang was the technical director in SkyComm group.

FENG Rui Ju, aged 56, is the Vice President of the Group. Ms. Feng joined the Group since 1 October 2008. She is responsible for the daily operations of satellite communication business, wireless data communication business and is a supervisor of several members of the Changfei Group. Ms. Feng graduated from 河北廣播電視大學 (Hebei Broadcasting Television University) in July 1982 majoring in electronics technology. She has more than 15 years of experience relating to marketing, business development and administration in the communications industry. Ms. Feng joined the SkyComm Group in January 1998 and was appointed as General Manager of the Satellite Communication Business Department of Hebei SkyComm, a principal subsidiary of SkyComm, in July 2006. Before joining the Group, Ms. Feng was responsible for supervising and coordinating the operation of Hebei SkyComm.

AU Ki Lun, aged 35, is the Company Secretary and the Head of the Corporate Affairs Department. Mr. Au joined the Group in February 2013. He is responsible for corporate secretarial function of the Group. Mr. Au graduated from the Florida International University in April 2005 with a bachelor's degree of arts in economics, in December 2006 with a bachelor's degree in accounting, and in December 2007 with a master degree in accounting. He is a member of the Hong Kong Institute of Certified Public Accountants, a member of the American Institute of Certified Public Accountants and a certified public accountant in the State of Florida, the United States of America. He has over nine years of working experience in accounting, company secretary and investment related positions. Before joining the Group, he was a senior investment manager in ZTE Corporation.

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of China All Access (Holdings) Limited (the "Company") is pleased to present the annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated in the Cayman Islands on 4 December 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. It has its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111,Cayman Islands and principal place of business at Level 65, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of the Group are the provision of communication application solutions and services and investment activities. Other particulars of the subsidiaries of the Company are set out in note 37 to the financial statements.

BUSINESS REVIEW

Please refer to the section headed "Management Discussion and Analysis" of this annual report for a business review of the Group for the year ended 31 December 2016.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	26%	
Five largest customers in aggregate	59%	
The largest supplier		13%
Five largest suppliers in aggregate		44%

None of the Directors, their close associates (as defined under the Listing Rules) or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued shares) had any interest in these major customers and suppliers.

REPORT OF THE DIRECTORS

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2016 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 76 to 192.

TRANSFER TO RESERVES

Profit attributable to shareholders of the Company (the "Shareholders") before dividend of approximately RMB228,894,000 (2015: RMB278,460,000) have been transferred to reserves. Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 35(a) to the financial statements respectively.

The Company's reserves available for distribution to Shareholders as at 31 December 2016 were approximately RMB1,624,515,000 (2015: RMB1,484,279,000). The Directors recommended the payment of a final dividend of HK2.5 cents per share of the Company ("Share(s)") (2015: HK5.5 cents) in respect of the year ended 31 December 2016, subject to the approval by Shareholders at the forthcoming annual general meeting of the Company.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group's total capital expenditures on property, plant and equipment amounted to approximately RMB23,101,000 (2015: RMB73,763,000), which was used for the acquisition of property, plant and equipment. Details of these acquisitions and other movements in property, plant and equipment are set out in note 14 to the financial statements.

BORROWINGS

Particulars of borrowings of the Group during the year are set out in note 30 to the financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 35(c) to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year under review were as follows:

Executive Directors

Mr. Chan Yuen Ming, Chairman
Mr. Shao Kwok Keung, Chief Executive Officer
Mr. Xiu Zhi Bao, Head of Planning and Finance Department
Mr. Yan Wei, Vice President
Mr. Tian Zheng, Vice President

Independent non-executive Directors

Mr. Pun Yan Chak (retired on 14 June 2016)
Mr. Wong Che Man Eddy
Mr. Lam Kin Hung Patrick
Mr. Fung Ka Kin (appointed on 1 April 2016)

In accordance with article 105(A) of the Company's articles of association, not less than one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company. Any Director who retires under this article shall then be eligible for re-election as Director. Mr. Chan Yuen Ming, Mr. Shao Kwok Keung and Mr. Wong Che Man Eddy will retire as Directors. Mr. Chan Yuen Ming, Mr. Shao Kwok Keung and Mr. Wong Che Man Eddy, being eligible, offer themselves for re-election as Directors at the forthcoming annual general meeting of the Company.

DIRECTORS' SERVICE CONTRACTS

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

REPORT OF THE DIRECTORS

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the senior management of the Group by band for the year ended 31 December 2016 is set out below:

Remuneration bands	Number of senior management
Nil to HK$1,000,000	3
HK$1,000,001 to HK$1,500,000	1
	4

Further details of the Directors' remuneration and the five highest paid employees for the year are set out in notes 11 and 12 to the financial statements respectively.

PERMITTED INDEMNITY PROVISIONS

During the year ended 31 December 2016 and up to the date of this report, there was or is permitted indemnity provision (within the meaning in Section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) in the articles of association of the Company being in force. The Company has maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions (if any) brought against its directors and officers arising out of corporate activities.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company, which were not contract of service with any Director or any person engaged in full time employment of the Company, were entered into or existed during the year.

REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF THE DIRECTORS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2016, the interests and short positions of the Directors and chief executives of the Company in any of the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules, were as follows:

Name of Director	Entity in which interest are held	Capacity/ Nature of interest	Number and class of securities Held (Note 1)	Approximate percentage of shareholding (Note 5)
Mr. Chan Yuen Ming ("Mr. Chan")	The Company	Interest of a controlled corporation (Note 2)	582,566,000 ordinary Shares (L)	30.41%
		Beneficial owner	1,000,000 ordinary Shares (L)	0.05%
Mr. Shao Kwok Keung ("Mr. Shao")	The Company	Beneficial owner (Note 3)	9,000,000 ordinary Shares (L)	0.47 %
Mr. Xiu Zhi Bao ("Mr. Xiu")	The Company	Beneficial owner (Note 4)	7,000,000 ordinary Shares (L)	0.37%

Notes:

(1) The letter "L" denotes a long position in the shares or underlying shares of the Company or any of its associated corporations and the letter "S" denotes a short position in the shares or underlying shares of the Company or any of its associated corporations.

(2) These Shares were held by Creative Sector Limited, the entire issued share capital of which was owned by Mr. Chan, an executive Director. Mr. Chan was deemed to be interested in all the Shares in which Creative Sector Limited was interested by virtue of the SFO.

(3) On 10 June 2015, a total of 9,000,000 share options (each share option entitling the holder to subscribe for one Share) were granted to Mr. Shao under the share option scheme of the Company. As at 31 December 2016, all these share options remained outstanding.

(4) On 10 June 2015, a total of 7,000,000 share options (each share option entitling the holder to subscribe for one Share) were granted to Mr. Xiu under the share option scheme of the Company. As at 31 December 2016, all these share options remained outstanding.

(5) Calculated on the basis of 1,915,723,216 Shares in issue as at 31 December 2016.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, the interests and short positions of each person other than a Director or chief executive of the Company, in the Shares or underlying Shares of the Company as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity/ Nature of interest	Number and class interest of securities Held (Note 1)	Approximate percentage of shareholding (Note 7)
Creative Sector Limited	Beneficial owner	582,566,000 ordinary Shares (L)	30.41%
Dundee Greentech Limited	Beneficial owner (Note 2)	362,000,000 ordinary Shares (L)	18.90%
Liu Hailong ("Mr. Liu")	Interest of a controlled corporation (Note 2)	362,000,000 ordinary Shares (L)	18.90%
Asia Equity Value Ltd ("AEV")	Beneficial owner (Note 3)	264,455,557 ordinary Shares (L)	13.80%
	Person having a security interest in shares (Note 3)	4,386,646 ordinary Shares (L)	0.23%
Li Hiu Yeung ("Dr. Li")	Beneficial owner	177,682,000 ordinary Shares (L)	9.27%
Freeman Financial Corportation Limited ("FFCL")	Interest of a controlled corporation (Note 4)	148,497,601 ordinary Shares (L)	7.75%
Tianan Property Insurance Co., Ltd.	Beneficial owner (Note 5)	117,000,000 ordinary Shares (L)	6.11%
Oriental (Asia) Investment Holding Limited	Beneficial owner (Note 6)	109,375,000 ordinary Shares (L)	5.71%
Li Bi	Interest of a controlled corporation (Note 6)	109,375,000 ordinary Shares (L)	5.71%

REPORT OF THE DIRECTORS

Notes:

(1) The letter "L" denotes a person's long position in the Shares or underlying Shares and the letter "S" denotes a person's short position in the Shares or underlying Shares.

(2) Based on the disclosure of interest notice ("DI Notice") filed by each of Dundee Greentech Limited and Mr. Liu Hailong under Part XV of the SFO in respect of their respective interests in Shares and underlying Shares as of 22 July 2016, being the last DI Notice filed by each of them in respect of their respective interests in Shares and underlying Shares by 31 December 2016, Dundee Greentech Limited had long position in 362,000,000 Shares (all being derivative interests) in the capacity of beneficial owner. Mr. Liu Hailong was deemed to be interested in all the Shares in which Dundee Greentech Limited (a company wholly-owned by Mr. Liu Hailong) was interested by virtue of the SFO.

(3) Based on the DI Notice filed by AEV under Part XV of the SFO in respect of its interests in Shares and underlying Shares as of 14 September 2016, being the last DI Notice filed by it in respect of its interests in Shares and underlying Shares by 31 December 2016, AEV had long position in 268,832,203 Shares which comprised (i) beneficial interest in 264,445,557 Shares; and (ii) security interest in 4,386,646 Shares.

(4) Based on the DI Notice filed by FFCL under Part XV of the SFO in respect of its interests in Shares and underlying Shares as of 8 September 2016, being the last DI Notice filed by it in respect of its interests in Shares and underlying Shares by 31 December 2016, these Shares were beneficially held by Freeman Union Limited ("FUL"), which was wholly owned by Freeman United Investments Limited ("FUIL"). FUIL was wholly owned by Ambition Union Limited, which was in turn owned as to 76% by FUIL and 24% by Freeman Corporation Limited ("FCL"). FCL was wholly owned by Freeman Financial Investment Corporation, which was in turn wholly owned by FFCL. FFCL was deemed to be interested in all the Shares in which FUL was interested by virtue of the SFO.

(5) Based on the DI Notice filed by Tianan Property Insurance Co., Ltd. under Part XV of the SFO in respect of its interests in Shares and underlying Shares as of 3 June 2015, being the last DI Notice filed by it in respect of its interests in Shares and underlying Shares by 31 December 2016, Tianan Property Insurance Co., Ltd. had long position in 117,000,000 Shares in the capacity of beneficial owner.

(6) Based on the DI Notice filed by each of Oriental (Asia) Investment Holdings Limited and Ms. Li Bi under Part XV of the SFO in respect of their respective interests in Shares and underlying Shares as of 24 March 2016, being the last DI Notice filed by each of them in respect of their respective interests in Shares and underlying Shares by 31 December 2016, Oriental (Asia) Investment Holdings Limited had long position in 109,375,000 Shares (all being derivative interests) in the capacity of beneficial owner. Ms. Li Bi was deemed to be interested in all the Shares in which Oriental (Asia) Investment Holdings Limited (a company wholly-owned by Ms. Li Bi) was interested by virtue of the SFO.

(7) Calculated on the basis of 1,915,726,216 Shares in issue as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares or the underlying Shares of the Company that were recorded in the register kept by the Company under Section 336 of the SFO.

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

For the year ended 31 December 2016, save for the early redemption of the convertible bonds issued by the Company in the principal amount of HK$230,000,000 and HK$170,000,000 subscribed by Asia Equity Value Ltd on 27 June 2014 and 6 July 2015, respectively, on 24 June 2016 (details of which are set out in the announcement of the Company dated 24 June 2016), neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2016.

REPORT OF THE DIRECTORS

ISSUE OF SECURITIES

For the year ended 31 December 2016, the Company had issued certain securities, details of which are set out below:

(A) Issue of consideration shares pursuant to the Patent Licence Agreement

Pursuant to the Patent Licence Agreement, part of the consideration of HK$470,000,000 (i.e. being HK$410,000,000) for the grant of the sub-licence of the Patents by Dr. Li shall be settled by the Group by the Company's issue of a total of 164,000,000 ordinary shares of HK$0.01 each of the Company (at the price of HK$2.50 per consideration share). Accordingly, the consideration shares had been/shall be issued in the following manner:

(i) HK$200,000,000 had be settled by the allotment and issue of the first batch consideration shares (being 80,000,000 shares) to Dr. Li and/or his nominee on 22 July 2016; and

(ii) HK$210,000,000 shall be settled by the issue of the second batch consideration shares (being 84,000,000 shares) to Dr. Li and/or his nominee at the first anniversary after the allotment and issue of the first batch consideration shares and within ten business days after delivery of the relevant application for shares signed by Dr. Li and/or his nominee.

The closing price of the Shares as quoted on the Stock Exchange on the 11 May 2016, being the last trading date for the shares of the Company before the date of the Patent Licence Agreement, was HK$2.48.

Please refer to the Company's announcements dated 12 May 2016 and 13 June 2016, and the circular of the Company dated 27 June 2016 for further details.

(B) Issue of shares pursuant to HK$230,000,000 convertible notes subscribed by Asia Equity Value Ltd ("AEV")

References are made to the Company's announcements dated 23 June 2014, 24 June 2014, 27 June 2014, 8 January 2015, 20 January 2015, 27 January 2015, 18 February 2015, 9 December 2015 and 24 March 2016 and the Company's circular dated 2 February 2015 in relation to, among others, the convertible bonds in the principal amount of HK$230,000,000 issued by the Company and subscribed by AEV on 27 June 2014 (the "AEV Initial Notes") with an initial conversion price of HK$3.35 per share, which is subject to adjustment pursuant to the terms and conditions of the convertible notes. The conversion price was adjusted to HK$2.17 per conversion share as announced by the Company on 9 December 2015.

The Company received a notice from AEV (as noteholder of the AEV Initial Notes for the exercise of the conversion rights attaching to the AEV Initial Notes to convert the AEV Initial Notes in the aggregate principal amount of HK$28,750,000 at the applicable conversion price of HK$2.17 per conversion share. A total of 13,248,848 ordinary shares of the Company were allotted and issued to AEV on 24 March 2016.

The AEV Initial Notes had been early redeemed by the Company on 24 June 2016 (details of which are set out in the announcement of the Company dated 24 June 2016.)

REPORT OF THE DIRECTORS

EQUITY-LINKED AGREEMENTS SUBSISTED AS AT 31 DECEMBER 2016

In addition to (i) the share option scheme of the Company adopted by the Company on 28 August 2009 (details of which are set out in the paragraph headed "Share option scheme" in this report of the directors), and (ii) issue of consideration shares pursuant to the Patent Licence Agreement (details of which are set out in the paragraph headed "Issue of Securities" in this report of the directors), the following equity-linked agreements (within the meaning of Section 6 of the Companies (Directors' Report) Regulation (Cap. 622D of the Laws of Hong Kong)) entered into by the Company subsisted as at 31 December 2016:

(A) Convertible bonds in the principal amount of HK$350,000,000 held by Oriental (Asia) Investment Holdings Limited

On 26 February 2015, the Company has issued, and ZTE (H.K.) Limited has subscribed convertible bonds in the principal amount of HK$350,000,000 at 100% of the face value of such principal amount with an initial conversion price of HK$3.20 per share, subject to adjustments pursuant to the terms and conditions of the convertible bonds. The subscription is effected to raise additional funds for the Company to enhance the financial flexibility of the Group. Please refer to the Company's announcements dated 23 December 2014 and 26 February 2015 and the Company's circular dated 19 January 2015 for further information.

As set out in the Company's announcement dated 8 July 2015, the conversion price of the convertible bonds was adjusted from HK$3.20 per conversion share to HK$3.177 per conversion share with effect from 8 June 2015. The conversion price was subsequently adjusted to HK$2.34 per conversion share pursuant to resolution passed by the shareholders at the extraordinary general meeting of the Company held on 16 September 2015.

On 30 June 2015, the entire outstanding principal amount of the convertible bonds in the amount of HK$350,000,000 was transferred by ZTE (H.K.) Limited to Oriental (Asia) Investment Holdings Limited.

As at the latest practicable date prior to the printing of this report, no conversion of such convertible bonds had been made by Oriental (Asia) Investment Holdings Limited and the entire principal amount of such convertible bonds remained outstanding. Accordingly, as at 31 December 2016, 149,572,649 ordinary shares of the Company may be issued upon exercise of conversion rights attached to the convertible bonds based on the conversion price of HK$2.34 per conversion share.

REPORT OF THE DIRECTORS

(B) Convertible bonds in the principal amount of HK$847,080,000 issued to Dundee Greentech Limited

On 10 August 2015, the Company has issued, and Dundee Greentech Limited has subscribed for convertible bonds in the principal amount of HK$847,080,000 at 100% of the face value of such principal amount with an initial conversion price of HK$2.34 per conversion share, subject to adjustments pursuant to the terms and conditions of the convertible bonds. The subscription is effected to raise additional funds for the Company to enhance the financial flexibility of the Group.

As at the latest practicable date prior to the printing of this report, no conversion of such convertible bonds had been made by Dundee Greentech Limited and the entire principal amount of such convertible bonds remained outstanding. Accordingly, as at 31 December 2016, 362,000,000 shares may be issued upon exercise of conversion rights attached to the convertible bonds based on the conversion price of HK$2.34 per conversion share.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2016 and up to the date of this report, the Group had undertaken the following acquisitions and disposals of subsidiaries or associated companies:

i) Disposal of 54% equity interest in Shenzhen Xingfei to 福建實達集團股份有限公司 (Fujian Start Group Co., Ltd.) ("Fujian Start")

On 14 August 2015, Changfei Investment Company Limited ("Changfei Investment"), 深圳市騰興旺達有限公司 (Shenzhen City Teng Xing Wang Da Co., Ltd.) ("Tengxing Wangda"), 中興通訊股份有限公司 (ZTE Corporation) ("ZTE"), Mr. Chen Feng and 深圳市隆興茂達投資管理有限合夥企業(有限合夥) (Shenzhen Longxing Maoda Investment Management Limited Partnership Enterprise (Limited Liability Partnership) ("Longxing Maoda") and Fujian Start entered into an agreement, pursuant to which (among other matters) Fujian Start has conditionally agreed to purchase the entire equity interest in Shenzhen Xingfei at a total consideration of approximately RMB1,500 million. Under the terms of the agreement, among other matters:

(1) Changfei Investment has conditionally agreed to sell 54% equity interest in Shenzhen Xingfei (the "Sale Interest") to Fujian Start for a total consideration of RMB702 million payable wholly in cash;

(2) Tengxing Wangda, ZTE, Mr. Chen Feng and Longxing Maoda have conditionally agreed to sell an aggregate of 46% equity interest in Shenzhen Xingfei (the "Minority Sale Interest") to Fujian Start for a total consideration of RMB798 million which was payable as to RMB110 million in cash and RMB688 million in consideration shares to be issued by Fujian Start.

The disposal has been completed in 2016 and Shenzhen Xingfei and its subsidiaries had ceased to be subsidiaries of the Company accordingly.

Please refer to the Company's announcements dated 14 August 2015, 28 January 2016 and 18 May 2016 and the Company's circular dated 24 September 2015 for further details of this disposal.

REPORT OF THE DIRECTORS

ii) Deemed disposal of shares in China Lide Holdings Limited ("China Lide") and grant of put option for the acquisition of interest in China Lide.

On 4 January 2016, China Lide and China All Access Investment Limited ("CAA Investment"), being two of the wholly owned subsidiaries of the Company, entered into the subscription agreement with an investor, pursuant to which the investor agreed to subscribe for shares of China Lide, representing about 25% of the enlarged issued share capital of China Lide, for cash at the subscription price of HK$40,400,000.

Under the subscription agreement, CAA Investment has granted the put option to the investor, pursuant to which the parties have agreed that, if the proposed spin-off is not consummated on or before 31 December 2016, the investor may require CAA Investment to acquire all (but not part) of the relevant shares in China Lide then legally and beneficially owned by the investor in cash.

Please refer to the Company's announcement dated 4 January 2016 for further details of this deemed disposal.

None of the related party transactions set out in note 40 to the financial statements constituted a connected transaction or a continuing connected transaction subject to the disclosure requirements under Chapter 14A of the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in note 31 to the financial statements and in the section headed "Share option scheme" in this report of the directors, at no time during the year were there rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouse or minor (natural or adopted), or were such rights exercised by them; nor was the Company or any of the subsidiaries of the Company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the shareholders of the Company on 28 August 2009. Eligible participants of the Share Option Scheme include: (i) any employee (whether full time or part time, including any executive director) of the Company, its subsidiaries or invested entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any supplier or customer of the Group or any invested entity; (iv) any person or entity that provides research, development or other technological support to the Group or any invested entity; (v) any shareholder of any member of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity; (vi) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any invested entity; (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and (viii) any company wholly owned by one or more eligible participants as referred to in (i) to (vii) above. Subject to the earlier termination of the Share Option Scheme in accordance with its rules, the Share Option Scheme shall remain in force for a period of ten years commencing on 28 August 2009.

REPORT OF THE DIRECTORS

The maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the Shares in issue from time to time. The maximum number of Shares issuable upon the exercise of options granted under the Share Option Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period is limited to 1% of the Shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to Shareholders' approval in a general meeting. Share options granted to a Director, chief executive or substantial Shareholder of the Company, or to any of their associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive Directors of the Company. In addition, any share options granted to a substantial Shareholder or an independent non-executive Director of the Company, or to any of their associates (as defined under the Listing Rules), in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to Shareholders' approval in advance in a general meeting.

The total number of Shares which may be issued upon the exercise of all options (excluding for this purpose options which have lapsed) which may be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 121,682,400 Shares, representing 10% of the Shares in issue as at 28 June 2012 (i.e. the date that the 10% general scheme limit of the Share Option Scheme was refreshed by an ordinary resolution passed by the Shareholders at an extraordinary general meeting of the Company) and approximately 6.63% of the Shares in issue as at the latest practicable date prior to the issue of this report.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, which period may commence from the date of the offer of the share options, and end on a date which is not later than ten years from the date of grant of the share options subject to the provisions for early termination thereof.

The exercise price of the share options is determinable by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of the Shares as quoted on the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer; and (iii) the nominal value of a Share. Share options do not confer rights on the holders to dividends or to vote at Shareholders' meetings of the Company.

On 10 June 2015, a total of 50,000,000 share options (each share option entitling the holder to subscribe for one Share) were granted to eligible participants including two Directors and the rest were employees of the Group.

REPORT OF THE DIRECTORS

Details of the movements in the Company's outstanding share options granted under the Share Option Scheme for the year ended 31 December 2016 were as follows:

	Number of Shares in respect of share options							
Grantee	Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Lapsed or cancelled during the year	Outstanding as at 31 December 2016	Exercisable Period	Exercise price per share (HK$)	Closing price per share on the trading day immediately before the date of grant (HK$)
A. Directors								
Shao Kwok Keung	–	3,000,000	–	–	3,000,000	10 June 2016 to 9 June 2019	3.05	3.01
	–	3,000,000	–	–	3,000,000	10 June 2017 to 9 June 2019	3.05	3.01
	–	3,000,000	–	–	3,000,000	10 June 2018 to 9 June 2019	3.05	3.01
Xiu Zhi Bao	–	2,333,333	–	–	2,333,333	10 June 2016 to 9 June 2019	3.05	3.01
	–	2,333,333	–	–	2,333,333	10 June 2017 to 9 June 2019	3.05	3.01
	–	2,333,334	–	–	2,333,334	10 June 2018 to 9 June 2019	3.05	3.01
B. Employees								
In aggregate	–	11,333,333	–	–	11,333,333	10 June 2016 to 9 June 2019	3.05	3.01
		11,333,333	–	–	11,333,333	10 June 2017 to 9 June 2019	3.05	3.01
		11,333,334	–	–	11,333,334	10 June 2018 to 9 June 2019	3.05	3,01
Total	–	50,000,000	–	–	50,000,000			

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCES

The current environmental protection laws and regulations promulgated by the PRC government impose a progressive scale of fees for the discharge of waste materials and require the payment of fines for pollution and the closure of any facility which causes serious environmental problems. Production plants are required to have environmental protection facilities designed to operate simultaneously with the production facilities. Due to the nature of the businesses of the Group, a certain level of noise, certain amount of waste water and solid waste production materials will be produced during the production processes. Therefore, the Group is required to satisfy tests carried out from time to time by relevant local environmental regulatory authorities for smoke emissions, noise level, solid waste disposal and waste water discharges. Non-compliance with any environmental laws, rules or regulations may, depending on the seriousness of the violation, result in an order for rectification from the authorities, penalties, or an order for cessation of production.

CONTRACTS OF SIGNIFICANCE

Except as disclosed in note 40 to the financial statements and under "Disclosure pursuant to Rule 13.21 of the Listing Rules" below, no Director or an entity connected with a Director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, subsisted at the end of the year or at any time during the year.

Except as disclosed in note 40 to the financial statements, no contract of significance (whether it is in relation to provision of services to the Group or not) had been entered into between the Company or any of its subsidiaries and the controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

REVIEW BY THE AUDIT COMMITTEE

The audit committee of the Board has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters in relation to the annual report of the Group for the year ended 31 December 2016.

The audit committee of the Board has reviewed the annual report of the Group for the year ended 31 December 2016.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding the Company's securities.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

FIVE YEAR SUMMARY

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float as required under the Listing Rules.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK2.5 cents per Share for the year ended 31 December 2016 (2015: HK5.5 cents per Share). The proposed final dividend will be paid to the Shareholders whose names appear on the register of members of the Company on 21 September 2017, if the proposal is approved by the Shareholders at the forthcoming annual general meeting of the Company (the "Annual General Meeting") to be held on 15 June 2017. It is expected that the final dividend will be paid on or about 29 September 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining members who are qualified for attending the forthcoming Annual General Meeting, the register of members of the Company will be closed from 12 June 2017 to 15 June 2017 (both days inclusive), during which period no transfer of the Shares will be effected. In order to qualify for attending the Annual General Meeting or any adjournment thereof, all share transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office (the "Branch Share Registrar") of the Company, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong with effect by no later than 4:00 p.m. on 9 June 2017.

For the purpose of determining members who are qualified for the proposed final dividend for the year ended 31 December 2016 which is subject to approval by the Shareholders at the forthcoming Annual General Meeting, the register of members of the Company will be closed from 19 September 2017 to 21 September 2017 (both days inclusive), during which period no transfer of the Shares will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Branch Share Registrar at the above address by no later than 4:00 p.m. on 18 September 2017.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

As disclosed in the announcement of the Company dated 23 August 2016, on 23 August 2016, the Company and Mr. Chan Yuen Ming ("Mr. Chan") entered into a note purchase agreement (the "Note Purchase Agreement") with Prosper Talent Limited (the "Prosper Talent"), pursuant to which the Company has agreed to issue, and Prosper Talent has agreed to purchase from the Company, US$70,000,000 guaranteed notes (the "Prosper Talent Notes") due 2017. Pursuant to the Note Purchase Agreement, Mr. Chan shall also provide a personal guarantee in favour of Prosper Talent to secure, among others, the due and punctual observance and performance by the Company under the Note Purchase Agreement and other documents in connection with the transaction contemplated under the Note Purchase Agreement.

REPORT OF THE DIRECTORS

Pursuant to the Note Purchase Agreement, the following specific performance obligations are imposed on Mr. Chan that, during the term of the Note Purchase Agreement and the Prosper Talent Notes:

(a) He shall remain as the chairman and an executive director of the Board;

(b) He shall legally and beneficially own the entire issued share capital of Creative Sector; and

(c) He shall procure that Creative Sector shall not, without the prior written consent of Prosper Talent, transfer or agree to transfer any Shares held by Creative Sector.

Any breach of the above specific performance obligations may constitute a breach under the Note Purchase Agreement and also an event of default under the Prosper Talent Notes, pursuant to which Prosper Talent may require the Prosper Talent Notes to be repaid immediately pursuant to the terms and conditions of the Prosper Talent Notes.

As at the latest practicable date prior to the printing of this annual report, the above specific performance obligations continued to subsist.

As disclosed in the announcement of the Company dated 30 December 2016, on 30 December 2016, the Company and Mr. Chan entered into a note purchase agreement (the "Note Purchase Agreement II") with Chance Talent Management Limited ("CTM"), pursuant to which the Company has agreed to issue, and CTM has agreed to purchase from the Company, HK$160,000,000 guaranteed notes (the "Chance Talent Notes") due 2017. Pursuant to the Note Purchase Agreement, Mr. Chan shall also provide a personal guarantee in favour of CTM to secure, among others, the due and punctual observance and performance by the Company under the Note Purchase Agreement II and other documents in connection with the transaction contemplated under the Note Purchase Agreement II.

Pursuant to the Note Purchase Agreement II, the following specific performance obligations are imposed on Mr. Chan that, during the term of the Note Purchase Agreement II and the Chance Talent Notes:

(a) He shall remain as the chairman and an executive director of the Board;

(b) He shall legally and beneficially own the entire issued share capital of Creative Sector;

(c) He shall procure that Creative Sector shall not, without the prior written consent of the CTM, transfer or agree to transfer any Shares held by Creative Sector; and

(d) He shall procure that Creative Sector remains as the single largest shareholder of the Company and that the total number of Shares held by any other person and its affiliates be not more than the total number of Shares held by himself and Creative Sector.

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Any breach of the above specific performance obligations may constitute a breach under the Note Purchase Agreement II and also an event of default under the Chance Talent Notes, pursuant to which CTM may require the Chance Talent Notes to be repaid immediately pursuant to the terms and conditions of the Chance Talent Notes.

As at the latest practicable date prior to the printing of this annual report, the above specific performance obligations continued to subsist.

AUDITORS

The Company has appointed HLB Hodgson Impey Cheng Limited as auditors of the Company for the year ended 31 December 2016. HLB Hodgson Impey Cheng Limited will retire as the Company's auditors at the end of the forthcoming annual general meeting of the Company and, being eligible, will offer themselves for re-appointment. A resolution will be proposed for approval by Shareholders at the forthcoming annual general meeting of the Company to re-appoint HLB Hodgson Impey Cheng Limited as the Company's auditors for the year ending 31 December 2017.

There have been no other changes of auditors in the past three years except for KPMG resigned and HLB Hodgson Impey Cheng Limited was appointed as the auditors of the Company on 20 October 2015.

By Order of the Board
China All Access (Holdings) Limited
Mr. Chan Yuen Ming
Chairman

Hong Kong, 31 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. PREAMBLE

Upholding the core value of "Integrity Foremost, Application Oriented" (信為先，用為本), the vision of "Technology paves the way to smart life" (讓科技開啟智慧生活) and adhering as one of China's most renowned brands in the integrated information and communication industry, the Company actively performs the enterprises' environmental and social responsibilities. The Board is ultimately responsible for leading works relating to environmental, social and governance ("ESG"), including establishing dedicated management teams to manage ESG issues, regarding health and safety, environmental protection and community within each business division, and appointing designated staff to enforce and supervise the implementation of relevant policies.

The Board is committed to making continuous improvements in corporate environmental and social responsibility in order to meet the changing needs of an advancing society. The Board is pleased to present its first ESG report this year which was in accordance with "the Environmental, Social and Governance Reporting Guide" published by The Stock Exchange of Hong Kong Limited as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited to demonstrate its efforts on sustainable development.

II. REPORTING PERIOD AND SCOPE OF THE REPORT

This ESG report covers the operational boundaries including data and activities of the Group's offices in Hong Kong and Beijing, two manufacturing facilities in Shenzhen owned by the Group's production subsidiaries for the financial year ended 31 December 2016 ("FY2016"), unless specifically stated otherwise. For governance matters, please refer to the corporate governance report set out in the Company's 2016 Annual Report from pages 54 to 68. The reporting period of this ESG report is for the financial year 2016, from 1 January 2016 to 31 December 2016, unless specifically stated otherwise.

III. STAKEHOLDER ENGAGEMENT

To conduct the first materiality assessment in identifying and understanding the main concerns and material interests to stakeholders in this ESG report, the Company has engaged with its stakeholders, including employees, suppliers, customers and investors. Stakeholders are selected based on the relevance to and understanding of the Group's business. They have to rank each aspect and issues of ESG according to its importance on the Group's business operations and level of influence the decisions to stakeholders. For this report, the Company has identified employees' health, safety measures, benefits & pay, customer's satisfaction, technology and production innovation as material topics of concern to stakeholders. After assessing the feedback from internal and external stakeholders through an online survey, the Company has reviewed its sustainability strategies, practices and measures undertaken in 2016 and highlighted material and relevant aspects throughout this report so as to align with the stakeholders' expectations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IV. ENVIRONMENTAL SUSTAINABILITY

The Group has been paying great attention to the environmental protection issues during our production process and bearing the responsibility to curb global climate change. The Group continues to update the requirements according to relevant environmental laws and regulations applicable to it to ensure compliance. The Group does not produce material waste nor emit material quantities of pollutants during its production process. During the year under review, the Group has complied with the relevant environmental laws and regulations which are applicable to and have a significant impact on it in all material respects, including wastewater discharge standard, solid waste disposal standard and so on. The Group has adopted effective measures to achieve efficient use of resources, energy saving and waste reduction.

In 2016, the Group has launched its very first green initiative by entering into a patent license agreement to develop "Super Lens Electrical System" which can potentially boost the power transforming capability of solar panels. The Group has viewed this as a milestone towards pursuing a more sustainable, integrated and green energy-oriented future community. Detailed policies and actions being implemented by the Group are described in the following sections.

A.1. Emissions

Manufacturing facilities in Shenzhen

The Group through its wholly-owned subsidiaries currently operate two factories in Shenzhen. The Group conducted regular treatments on the wastes during the manufacturing process, and kept meticulous monitoring and controlling on the emissions especially air emission, waste water, solid waste and noise control, in order to guarantee that the emission amounts were all in compliance with the corresponding discharge standards of the People's Republic of China (the "PRC"). We have never received any complaint on the environmental pollution issue from our surrounding residents and regulators.

The Group is committed to making its integrated information and communication products in ways that protects the environment and its customers. We are committed to managing our manufacturing line, eliminating and reducing the emissions including solid waste, waste water and greenhouse gas. We have been strictly controlling the chemical used during our manufacturing process and guaranteed that there will be minimal hazardous chemical in both our supply chain and production line.

During the year, the Group has commissioned independent environmental consultants to inspect its discharge of industrial wastewater, gas emissions and noise produced. The emission results are generally within the applicable emission guidelines.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Wastewater

Industrial waste water was generated from the manufacturing process of our integrated information and communication business. It was discharged into the local municipal waste water treatment plant for further treatment. It was fully compliant with the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法). The emission results are generally within the applicable emission guidelines.

Solid waste

The main solid waste from the production process is the leftover material and offcuts of the manufactured products and domestic garbage produced from our offices. In order to minimise the solid waste generated from production process, we have planned to adopt the recycle and reuse principle in the short future.

The Group has been continuously performing the separate collection method on its daily domestic garbage to ensure the reuse of the recyclable waste, for example: plastic and cans, they were then collected by the municipal sanitation department for further disposal. Apart from the daily domestic garbage, the Group carefully collects its waste packaging materials by category, such as paper, cardboard and used boxes for centralised recycling and re-usage purpose.

Exhaust gas

Air emission might occur during the Group's manufacturing process. The amounts of emission are generally within the applicable emission guidelines.

Noise control

The noise sources of the Group's manufacturing process mainly include the transport of raw materials; fan and mechanical noise. The noise produced during the Group's daytime and night-time operation fully meets the national noise control requirements. The Group has never received any complaint from its surroundings on noise issue.

Greenhouse gas emission

The Green House Gas ("GHG") emission from the Group's integrated information and communication segment is mainly generated from its purchased electricity consumed by its manufacturing line and daily operation. To reduce the amount of carbon emission, the Group has been implementing several practical measures on saving energy as further described in the next section headed "A.2 Use of Resources".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Offices in Hong Kong and Mainland

The Group is committed to keep its office's daily operation in a waste reduction and energy saving manner, to collect daily waste separately and made appropriate reuse on those recyclable materials, to help reduce the amount of waste water by saving its fresh water consumption every working day, to maintain good management on the electricity consumption system and therefore to minimise the GHG emissions from purchased electricity.

Super Lens Electrical System

In 2016, the Group has its first milestone in pursuing its green initiative by entering into a patent license agreement to develop and manufacture a system called "Super Lens Electrical System" which can improve the power transforming capability of photovoltaic panels. As the patented technology can increase the luminous flux and light intensity per unit area, it would significantly boost the power transforming capability of future photovoltaic panels, making the panels more compact and economical for wider social and green applications. The Group believes that this technology breakthrough can significantly reduce the society's GHG emission and combat the greenhouse effect.

The newly established green optical business segment is headed by the Group's Chief Technology Officer, Dr. Li Hiu Yeung, a well-known scientist and entrepreneur, as the technical director and dean of its research institute. Dr. Li has put forward his theory of "Optical Light Group Field Theory" (光群場論), which is a new understanding of the nature of light and its motion supported by mathematical proof and experimental observations. The patented optical technology can be adopted to enhance many practical applications, such as enhancing the energy efficiency of future photovoltaic solar panels, and enhancing the efficiency of future light-transmitted communication devices.

The Group is in its final stage of researching and commercialising its clean energy products. The products are a set of optical and energy devices which can produce clean energy from photovoltaic effect at the transforming capability significantly higher than conventional solar photovoltaic panels. The sampling, trial and assembly of the Super Lens Electrical System are expected to be completed by the second quarter of 2017.

A.2. Use of Resources

Manufacturing facilities in Shenzhen

The Group strives to save energy and resources through persistent implementation of internal policies and use of advanced technologies in order to ensure resources are fully utilised at each operation procedure. The Group is committed to saving electricity from both its manufacture line and its office daily operation with the following measures:

- Replace old facilities with energy saving facilities;

- Reduce the total amount of equipment by removing unnecessary units;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Use advanced technology to improve the whole manufacturing process, reduce energy consumption by abolishing unnecessary process;
- Switch off facilities, lights, air-conditioning when they are not in use;
- Place posters "Saving Electricity, Turn off the Light when Leaving" in prominent places to encourage internal employees;
- Ensure the cleanliness of office equipment (such as refrigerator, air-conditioner, paper shredder, etc.) to maintain they are running efficiently;
- Replace high electricity consumption lamps with the installation of electricity saving lamps for office lighting;
- Ensure that computers are switched off before the end of a working day.

The main water consumption of the Group comes from the daily use of employees in the working area. In order to guarantee the best utilise of water resources and to save water consumption, the Group has been continuously executing the following measures during its daily operation:

- Adopt advanced technology in order to improve water recycling efficiency;
- Strengthen inspection and maintenance on water tap, water pipelines and water storage;
- Avoid any leakage of water supply system;
- To do regular propaganda and education work on saving every drop of water among staff;
- Place posters "Saving Water Resource" in prominent places to encourage water conservation;
- Collect used water if possible for cooling purposes, floor cleaning and yard washing;
- Fix dripping taps immediately; and
- Turn off water supply system at night and on holidays.

The Group been executing the general basic policies in order to save electricity and water resource described as above. It plans to keep record of its annul electricity consumption and hope to reach a positive reduction on the total electricity consumption year by year.

To make sure that the Group would use the packaging materials in an environmental friendly manner, it chooses environmental friendly and recyclable materials, it keeps the minimum consumption amount of packaging materials through strictly internal consumption control system and avoidance of any unnecessary consumption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Offices in Hong Kong and Mainland

The Group has been implementing several practical measures on saving its electricity and water resource during its daily office operation both in HK and Mainland as below:

- Switch off copy machine, fax machine, air conditioner after office hour;
- Maintain office cooling air-conditioners to 25.5 degree;
- Place posters "Saving Electricity, Turn off the Light when Leaving" in prominent places to encourage internal employees;
- Ensure the cleanliness of office equipment (such as refrigerator, air-conditioner, paper shredder, etc.) to maintain they are running efficiently;
- Replace high electricity consumption lamps with the installation of electricity saving lamps for office lighting;
- Place posters "Saving Water Resource" in prominent places to encourage water conservation; and
- Carry out regular leakage tests on water tap, washers and other defects in the water supply system.

A.3. The Environment and Natural Resources

The main natural resource consumed by the Group is paper from the documentation printing. To minimise the use of paper, the Group has made great efforts from the "starting point" to the "end point" described as below:

- Use environmentally friendly paper to print annual reports and interim reports;
- Disseminate information by electronic means (i.e. via email or e-bulletin boards) as much as possible;
- Set duplex printing as the default mode for most network printers;
- To "think before print": use posters and stickers as the reminder for office staff to avoid unnecessary printings;
- Place boxes and trays beside photocopiers as containers to collect single-sided paper for reuse and used paper for recycling;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Give a second chance: encourage staff to use paper printed on only one-side for draft documents or as scratch paper;

- To exchange the used stationery with new one for recycle.

In 2016, the Group marked its milestone in pursuing its green initiative to develop and manufacture green optical products, which would significantly boost the power generation of future photovoltaic panels. The Group believes that the technology breakthrough can significantly reduce the society's GHG emission and help combat the global warming and greenhouse effect.

V. SOCIAL SUSTAINABILITY

Employment and Labour Practices

B.1. Employment

The Group treasures talent as it is the most valuable asset and key for driving the success and maintaining sustainability of the corporation. The Group is striving to provide them with a safe and suitable platform for developing career professionalism and advancement.

The Group's human resources policies strictly adhere to the applicable employment laws and regulations in Hong Kong, the PRC and other operating regions, including, the Employment Ordinance, Mandatory Provident Fund Schemes Ordinance, Minimum Wage Ordinance, Labour Law of the PRC (中國勞動法), Labour Contract Law of the PRC (中國勞動合同法), Employment Promotion Law of the PRC (中華人民共和國就業促進法) and the social security schemes that are enforced by the State Regulations of the PRC to provide employee benefits. The Group complies with the Social Insurance Law (中國社會保險法) to support employees' social security benefits, including the provision of pension, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund. Its Human Resources Department reviews and updates the relevant company policies regularly in accordance with the latest laws and regulations.

Talent acquisition is vital to business future development. The Group has adopted a set of fair and transparent principles on recruiting outstanding applicants in accordance with the planned role requirements.

To attract high-calibre workforce, the Group offers competitive and fair remuneration and benefits based on individuals' performance, professional qualifications, experiences and market benchmarks and the companies' annual performance. In order to motivate and reward its existing management and employees, it conducts regular salary review to ensure that its staff are recognised by the Group appropriately with regard to their working efforts and contributions. Key management staffs are motivated by share options based on a set of agreed upon performance indicators for the year as a return sharing to recognise their long-term services. Meanwhile, any termination of employment contract would be based on reasonable and lawful grounds. The Group strictly prohibits any kinds of unfair or unreasonable dismissals.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Throughout the Group, management arranges reasonable working hours and leave for its employees who are in line with local employment laws and written agreement with employees. In addition to statutory holidays stipulated by the employment law of local government such as the basic paid annual leave, employees may also entitle to maternity leave, marriage leave and paternity leave.

To cater the needs of employees working at manufacturing facilities, additional employee benefits include the provision of working meals, uniforms and well-equipped dormitories depends on job natures. In 2016, the Group hosted a series of activities for its employees including but not limited to outdoor activities, sport competition, ball game, talent shows, festival banquet, forums and mass events. These events helped its employees to relieve stress, and served to exemplify the Group's corporate culture of the spirit of solidarity and cohesion among its employees.

In terms of internal coaching and communication, the heartening improvement is very much contributed by the effective two-way communication system between the general staff and managerial staff. Employees maintain timely and smooth communication with the management, colleagues and partners of the companies within the Group through the bulletin board posting, emails, training, internal meetings and via the company's website. The interactive communication system benefits the Group's decision-making process and results a barrier-free employer-employee relationship.

As an equal opportunity employer, the Group is committed to create a fair, respectful and diverse working environment by promoting anti-discrimination and equal opportunity in terms of all human resources and employment decisions, for instance, training and promotion opportunities, dismissals and retirement policies irrespective of their gender, race, age, disability, family status, marital status, pregnancy status, sexual orientation, religion beliefs, nationality, social and ethnic origin or any other non-job related factors in all business units. Its equal opportunities policy enforces zero tolerance to any workplace discrimination, harassment or victimization in accordance to relevant government legislation, ordinances and regulations such as Hong Kong's Disability Discrimination Ordinance and Sex Discrimination Ordinance and is monitored by Human Resources Department from time to time.

If there is any violation of anti-discrimination incidents, employees can report to Human Resources Department. Human Resources Department is fully responsible for strictly comply with national and corporate regulations on assessing, dealing with, recording and taking disciplinary actions on such events.

B.2. Health and Safety

To provide and maintain a good working conditions and a safe and healthy working environment, the Group's safety and health policies are in line with various laws and regulations stipulated by the local government, including the Occupational Safety and Health Ordinance, the Production Safety Laws of the PRC (中國安全生產法), Labour Law of the PRC (中國勞動法), Occupational Disease Prevention Law in PRC (中國職業病防治法), Regulation on Work-Related Injury Insurance (工傷保險條例).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has received the certifications under ISO9001, ISO14001 and OHSAS18001 and strictly followed them to set up different internal manuals and procedures such as environment, health and safety control and monitoring procedures (環境及健康安全監測控制程序), Monitoring and measuring equipment control procedures (監視和測量設備控制程序) and other procedures documents in order to meet the specific safety management and comply with the related fire safety regulations, labour protection management regulations and the production site safety regulations. In 2016, it continued to enhance management control over safety and health risks for building up safety bulletins, banners, slogans and warning signs especially in factories area. The Group target to achieve accident-free workplace environment.

In addition, the Group prohibits smoking and drinking liquor in workplace and carries out the cleaning of air-conditioning systems and disinfection treatment of carpets, emergency response drill and safety inspection at regular intervals with an aim to maintain a clean, tidy, smoke-free, non-toxic, non-hazardous, healthy and safe working environment and to examine the health & safety measures' effectiveness. Besides, the Group hold regular health and safety work trainings in emergency management, hazardous materials handling, machine safeguarding and occupational health and safety areas to remind employees to minimize the risk of accidents and enhance the employees' health and safety awareness.

B.3. Development and Training

The Group aims at to fostering a learning culture that could strengthen its employees' professional knowledge and skills, and meanwhile, benefiting the Group to achieve better working performance after receiving appropriate on-the-job training, regular trainings and job rotation opportunities..

The Group offers different in-house, certification training, technical and soft skill training sessions to its staff in order to strengthen work-related skills and knowledge and improving operational efficiency and productivity. In 2016, the Group held a range of regular training and development programmes to encourage lifelong learning. For the newly recruited staffs, the Group provided them with relevant training with regard to their roles and positions. Examples of training topics include: New staff on-boarding, leadership and time management, occupational health and safety, intellectual property rights, corporate management and culture, technology and technical sharing, office software skills. In addition to in-house online study platform, a regional training centre has been established in Beijing where tailored training programmes have been implemented for staffs.

B.4. Labour Standards

The Group strictly abides by the Employment Ordinance of Hong Kong, Labour Law of the PRC, Labour Contract Law of the PRC, Provision on the Prohibition of Using Child Labour of the PRC (中國禁止使用童工規定), Protection of Minors Law of the PRC (中國未成年人保護法) and other related labour laws and regulations in Hong Kong, China, and other regions to prohibits any child and forced labour employment. The Group's internal procedure and guideline have set out the procedures in preventing potential events leading to child labour.

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To combat against illegal employment on child labour, underage workers and forced labour, prior to confirmation of employment, personnel responsible for recruitment requires the job applicants to provide a valid identity documents to ensure that the applicants are lawfully employable and ensure compliance of latest and relevant laws and regulations that prohibits child labour and forced labour. Also, related employment practices are formulated in order to completely eradicate child labour, underage workers and forced labour in the Group.

Operating Practices

B.5. Supply Chain Management

As a socially responsible enterprise, it is critical and vital to maintain and manage a sustainable and reliable supply chain. The Group achieves this goal by conducting comprehensive evaluation of potential and existing suppliers. The principal raw materials used in the production of its products are LCD panels, driver IC, backlight, polarizer, glass cover, touch IC and other auxiliary materials.

In relation to existing suppliers, its quality control force formed from cross-disciplinary departments will conduct regular and coordinated assessments on the suppliers based on an established scoring mechanism. The assessment are based on criteria such as the suppliers' price, product quality, transportation and delivery capacity, reputation, financial situation, after-sales service, complaint mechanism and environmental and social responsibility, to ensure the performance of the suppliers and their products meet our stringent manufacturing standards and rigorous testing procedures. The Group has regularly reviewed its list of qualifying suppliers. Each qualifying supplier has signed with the Group a set of documents including the Quality Agreement, Basic Supply Contract, Green Environmental Agreement, Integrity Agreement and PCN Agreement. To avoid concentration risk, the Group normally requests for supplier tender on a semi-annual basis. Order size to successful supplier will be carefully managed to avoid over-reliance on any single source of supply.

In relation to selection of new suppliers, the Group will follow a set of principles and procedures in identifying competent suppliers. Factors to consider include, but not limited to, their production capacity, quality standard, experience in manufacturing integrated information and communication product, etc. Trial cooperation is offered to the selected suppliers for further evaluation before becoming an approved supplier. At the same time, the Group has a detail assessment on whether the suppliers comply with local laws and regulations on existing business, supply capacity is flexible to meet the Group's demand by understanding the processing and distribution process of the supplier for existing orders and qualifications of the supplier such as ISO14000, OHSAS18000 and SA8000 is suitable to support the Group's customer needs before confirming the cooperation. Legal department, supplier management department and quality assurance department will provide opinions if any risks may involve during the supplier selection process. The Group also conducts on-site investigation for assessment. If there is no significant quality problems and delay in delivery issue, the potential supplier can be qualified as an approved supplier. The Group will make continued commitment in monitoring, reviewing and confirming those suppliers' records. If any products cannot meet its requirements after formally introduced, the Group has right to adjust the orders of next quarter.

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Furthermore, to enhance the effectiveness of the Group's risk management in terms of environmental and social aspects, it is striving its best in engaging with suppliers that could lessen the environmental impacts made in the sourcing activities. Meanwhile, the Group also has strict requirements towards its suppliers to ensure and maintain a good quality of the provision of raw materials and services. Annual review on suppliers is carried out to achieve quality assurance and satisfactory environmental protection practices. It reviews the performance with regards to the environment, safety, health and other aspects of suppliers with fairness annually and carrying out supervision and inspection in an appropriate amount of time.

To facilitate better cooperation and communication with suppliers and maintain a long-term strategic cooperation relation, the Group regularly provides quality management training and give advices on production risk management and handing quality deficiency to its supplier during supplier meeting. Given the solid and steady relationships with its suppliers, the Group did not experience any material delays in receiving supplies from its suppliers in past years. The Group believes that it maintains a good and long-term relationship with selected suppliers by successfully establishing mutual trust and understanding.

B.6. Product Responsibility

With regard to the Group's product health and safety, advertising and labelling, its quality management system and operations are strictly in compliance with the related rules and regulations in the PRC, such as Product Quality Law of the PRC (中國產品質量法) and Law on Protection of Consumer Rights and Interests of the PRC (中國消費者權益保護法). As a leading participant in the integrated information and communication industry in the PRC, the Group has attached a great attention on product responsibility and quality. Its quality management system adheres to internationally recognized technical specification on ISO14001, OHSAS18001 and ISO9001.

The Company's quality assurance department is responsible for handling comprehensive quality control and assurance issues from product development stage, to finished good stage and after-sale services. In the manufacturing process, apart from the products' functional testing and visual inspection, the quality assurance department is responsible for arranging reliability testing, including extreme temperature and humidity test, electrostatic shock test and drop test, and other ordinary automate d testing procedures. These testing can reliably simulate the real conditions where products are used by the Group's customers and identify any manufacturing and design defects.

Our quality assurance department closely listen to its customers' feedback and address most after-sales concerns, including any product complaints and product recalls. The management is opened to bring upon any remedial measure and corrective actions on a timely basis.

If there are any defective products, the Group is responsible for contacting customer who has purchased the product, collecting the sample products from customers for quality testing and analysis and requiring distributors to recall disqualified products if necessary.

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Our Group has issued internal guideline to ensure its sales materials providing accurate and precise descriptions and information to its customers which comply with the relevant laws and regulations for local operations such as Advertising Law of the PRC (中華人民共和國廣告法). Any misrepresentation or exaggeration advertisements are strictly prohibited. The Group's in-house legal counsel and administrative department have closely monitored its released marketing materials and product labelling to prevent inappropriate or exaggerated advertisement. If there is any noncompliance with the Group's internal guideline, management would carry out corrective action immediately. In addition, such internal guidelines have been regularly updated with the latest regulations released by the government.

The Group has been dedicated to protecting and enforcing our intellectual property rights which is crucial to its sustainable business growth in the integrated information and communication industry. Since 2016, the Company has established a comprehensive intellectual property right ("IPR") management and certification system to set out the IPR procedure and to mitigate relevant risks. An IPR management team was established to monitor IPR related risks surrounding all group functions, including R&D, human resources, procurement, sales, production, finance and other functions to ensure that the IPR risk level is controlled within an acceptable range.

The Group generally entered into agreement with its business partners which set out the protection of the Group's intellectual property rights where business partners are only allowed to use intellectual property of the Group in connection with the sale of products and it require its business partners not to participate or assist in any activities that may infringe upon intellectual property rights of the Group. The Group's employees are also responsible to maintain the Group's trade secrets and other proprietary intellectual properties confidentially. The Group believes that its management on observing and protecting its intellectual property rights through registration, maintenance and enforcement measures is effective.

The Group is committed in abiding by the Personal Data (Privacy) Ordinance, Law on Protection of Consumer Rights and Interests of the PRC (中國消費者權益保護法) and Personal Data (Privacy) Ordinance of Hong Kong to ensure its customers' rights are strictly protected. Information collected would only be used for the purpose for which it has been collected and customers would be told about how the data collected would be used in business. The Group prohibits the provision of consumer information to a third party without authorisation from the customers. Customers remain the rights to review and revise their data, and also remain the rights to opt out from any direct marketing activities. All collected personal data is treated confidentially and is kept securely, accessible by designated personnel only. Through internal training and confidential agreements with employees, the Group emphasises on confidentiality obligations and the legal consequences for the breaches of obligations.

B.7. Anti-corruption

To maintain a fair, ethical and efficient business and working environment, the Group strictly adheres to the laws and regulations relating to anti-corruption and bribery irrespective of the area or country where the Group is conducting business such as Law of the PRC on Anti-money Laundering (中國反洗錢法) and Hong Kong's Prevention of Bribery Ordinance (防止賄賂條例). The Group has formulated and strictly enforced its anti-corruption policies as stipulated in operational manuals such as regulation of receiving benefits and hospitality that. The Group does not tolerate any form of corruption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

All employees are expected to discharge their duties with integrity and self-discipline, and they are required to abstain from engaging in bribery, extortion, fraud and money laundering activities or any activities which might exploit their positions against the Group's interests and affect their business decision or independent judgment in the course of business operations.

The Company's audit committee would conduct investigations against any suspicious or illegal behaviour which are related to bribery, extortion, fraud and money-laundering to protect the Group's interests. Corresponding internal assessment, consulting, investigation and punishment procedures are introduced in the Group. The audit committee shall have in-depth investigation and ensure all the relevant information is kept intact and completely recorded. Furthermore, the Group has set up internal whistleblowing policy system to enable its employees to lodge complaints and report any suspicious activities either verbally or in writing. The Group advocates a confidentiality mechanism to protect the whistle-blowers from fear of threats and any disadvantage to the informant's employment relationship. Where criminality is suspected after investigation, disciplinary actions will be taken, including termination of employment and reporting of the matters to the relevant authorities. In addition, the audit committee is responsible for implementing, monitoring and regularly reviewing the daily responsibility of this policy.

Community

B.8. Community Investment

As a well-known brand in the integrated information and communication industry, the Group has been continuously making contributions in the community by sponsoring to different kinds of social activities related to public safety and security, including:

- Cooperate with the PRC local police force in establishing various social security measures; and
- Cooperate with the PRC local community in promoting fire safety measures

The Group also places great emphasis on cultivating social responsibility awareness among its staff and encourage them to participate in charitable community activities. The Group puts a strong emphasis on the staffs and their families' well-being. In 2016, the Group has raised donations for those unfortunate staff families in accidents and illnesses.

In 2016, the Group has first entered into the solar and clean energy sector by entering into a patent licence agreement to develop green optical products for solar application. The Group believes that this technology breakthrough can significantly reduce the society's GHG emission and combat the greenhouse effect. The Group has viewed this initiative a significant milestone towards pursuing a more sustainable, integrated and green energy-oriented community.

Lead Communications Co., Ltd. was recently awarded as the Top 100 enterprises in the Nanshan District, Shenzhen (深圳市南山區工業百強企業) and as one of the Shenzhen green channel enterprises (深圳市綠色通道企業).

Ongoing forth, the Company expects to accelerate its business development in the green energy, emergency communication, public safety and integrated city administration, which will directly benefit the target communities.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to enhancing corporate governance and transparency of the Group by applying the principles and complying with the code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The audit committee of the Board is delegated by the Board with the corporate governance functions set out in code provision D.3.1 of the CG Code and is responsible for reviewing the Company's compliance with the CG Code and making recommendations to the Board.

Save as disclosed below, during the year ended 31 December 2016, the Company was in due compliance with the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules.

Pursuant to E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. Mr. Chan Yuen Ming, an executive Director and the chairman of the Board, did not attend the annual general meeting of the Company held on 14 June 2016 due to other business engagements and instead, Mr. Shao Kwok Keung, an executive Director and the chief executive officer of the Company, took the chair at the annual general meeting. The Board considers that the arrangement is appropriate as Mr. Chan, as chairman of the Board, is responsible for the Group's overall business development and strategy whereas Mr. Shao, as chief executive officer, is responsible for the corporate management of the Company. The Board will regularly review the effectiveness of the segregation of roles to ensure its appropriateness under the Group's prevailing circumstances.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiry with all the Directors and all of them confirmed that they had fully complied with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the year ended 31 December 2016.

BOARD OF DIRECTORS

(A) Composition of the Board

During the year ended 31 December 2016, the composition of the Board was as follows:

Name of Directors	**Other positions in the Company**
Executive Directors:	
Mr. Chan Yuen Ming	Chairman of the Board ("Chairman")
Mr. Shao Kwok Keung	Chief Executive Officer ("CEO") Member of the Remuneration Committee Member of the Nomination Committee
Mr. Xiu Zhi Bao	Head of Planning and Finance Department
Mr. Yan Wei	Vice President of the Company
Mr. Tian Zheng	Vice President of the Company

CORPORATE GOVERNANCE REPORT

Name of Directors	Other positions in the Company
Independent Non-Executive Directors:	
Mr. Pun Yan Chak (retired with effect from 14 June 2016)	Chairman of the Remuneration Committee (resigned on 1 April 2016) Member of the Audit Committee (resigned on 1 April 2016)
Mr. Wong Che Man Eddy	Chairman of the Audit Committee Member of the Remuneration Committee Member of the Nomination Committee
Mr. Lam Kin Hung Patrick	Chairman of the Nomination Committee Member of the Audit Committee
Mr. Fung Ka Kin (appointed on 1 April 2016)	Chairman of the Remuneration Committee (appointed on 1 April 2016) Member of the Audit Committee (appointed on 1 April 2016)

There are no relationship, including financial, business, family or other material/relevant relationships, between members of the Board and between the Chairman and the CEO.

(B) Responsibility of the Board

The Board is responsible for leading the Company by setting the overall strategies and objectives, designing the business development plans, monitoring and controlling its operating and financial performance and making key decisions. The tasks of day-to-day management and operations of the Group are entrusted to the executive Directors and the senior management who are closely supervised by the Board to ensure compliance with the Company's policy and objectives.

CORPORATE GOVERNANCE REPORT

(C) Directors' Attendance at Board and General Meetings

During the year ended 31 December 2016, the Company held eleven Board meetings (excluding Board committee meetings) and two general meetings. The attendance of each Director at these meetings, by name, is set out below:

Name of Directors	Attendance/Number of board meetings held	Attendance/Number of general meetings held
Executive Directors		
Mr. Chan Yuen Ming	11/11	0/2
Mr. Shao Kwok Keung	11/11	2/2
Mr. Xiu Zhi Bao	10/11	0/2
Mr. Yan Wei	11/11	0/2
Mr. Tian Zheng	11/11	0/2
Independent Non-executive Directors		
Mr. Pun Yan Chak (retired with effect from 14 June 2016)	5/5	0/1
Mr. Wong Che Man Eddy	10/11	1/2
Mr. Lam Kin Hung Patrick	11/11	0/2
Mr. Mr. Fung Ka Kin (appointed on 1 April 2016)	9/9	1/2

The individual attendance record of the Directors at meetings of the remuneration committee, nomination committee and audit committee of the Board are set out in the section headed "Board Committees" of this corporate governance report.

(D) Independence of the Independent Non-executive Directors

The Company has received written confirmation from each of the independent non-executive Directors regarding his independence with reference to the requirements of Rule 3.13 of the Listing Rules. Based on these confirmations, the Company considers that each of the independent non-executive Directors to be independent.

(E) Terms of Appointment of the non-executive Directors

Each of the Independent Non-executive Directors is appointed for an initial term of two years renewable automatically for successive term of one year each commencing from the next day after the expiry of the then current term of his appointment, unless terminated by not less than three months' notice in writing served by either the Company or the relevant Independent Non-executive Director expiring at the end of the initial term or at any time thereafter. In accordance with the articles of association of the Company (the "Articles of Association"), at each annual general meeting of the Company, at least one-third of all the Directors (including the Independent Non-executive Directors) shall retire from office by rotation at least once every three years and each of the retiring Director shall be eligible for re-election at the annual general meeting of the Company at which he retires.

CORPORATE GOVERNANCE REPORT

(F) Continuous Professional Development of Directors

To ensure the Directors' contribution to the Board remains informed and relevant and in compliance with code provision A.6.5 of the CG Code, the Company shall arrange and fund suitable training for Directors to develop and refresh their knowledge and skills. During the year under review, the Directors participated in the kinds of training in compliance with code provision A.6.5 of the CG Code as follows:

Name of Directors	Kind of Training
Executive Directors	
Mr. Chan Yuen Ming	A,B
Mr. Shao Kwok Keung	A,B
Mr. Xiu Zhi Bao	A,B
Mr. Yan Wei	A,B
Mr. Tian Zheng	A,B
Independent Non-executive Directors	
Mr. Pun Yan Chak (retired with effect from 14 June 2016)	A,B
Mr. Wong Che Man Eddy	A,B
Mr. Lam Kin Hung Patrick	A,B
Mr. Mr. Fung Ka Kin (appointed on 1 April 2016)	A,B

A: Reading materials on legal and regulatory updates

B: Attending seminar, training and/or conferences relevant to the Group's business or Directors' duties

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles and duties of the Chairman and CEO of the Company are separated and performed by different individuals. The Chairman of the Board, Mr. Chan Yuen Ming, is responsible for the Group's overall business development and strategic planning. Mr. Shao Kwok Keung, the CEO, is responsible for the corporate management of the Company.

BOARD COMMITTEES

In compliance with the Listing Rules and principles of good corporate governance, the Company has established the remuneration committee (the "Remuneration Committee"), the nomination committee (the "Nomination Committee") and the audit committee (the "Audit Committee") of the Board to assist the Board in the overall supervision of the management of the Company.

CORPORATE GOVERNANCE REPORT

(A) Remuneration Committee

The Company established the Remuneration Committee pursuant to a resolution of all Directors passed on 28 August 2009.

The Remuneration Committee currently comprises three members, namely, Mr. Fung Ka Kin (Chairman of the Remuneration Committee and an independent non-executive Director which was appointed on 1 April 2016), Mr. Wong Che Man Eddy (independent non-executive Director) and Mr. Shao Kwok Keung (executive Director).

The role and function of the Remuneration Committee are set out in its written terms of reference. The written terms of reference are published on the websites of the Stock Exchange and the Company. The principal duties of the Remuneration Committee include (1) making recommendations to the Board on the Company's policy and structure for the remuneration of the Directors and the senior management,(2) making recommendations to the Board on the remuneration packages of each executive Director and member of the senior management, (3) making recommendations to the Board on the remuneration packages of non-executive Directors, (4) ensuring that no Director or any of his associate is involved in deciding his own remuneration and (5) reviewing and approving compensation arrangements relating to dismissal or removal of Directors.

During the year ended 31 December 2016, the Remuneration Committee had held two meetings to review and make recommendations to the Board regarding the remuneration of the Directors and the senior management. The attendance record of each member of the Remuneration Committee at its meeting is set out below:

Name of Directors	Attendance/Number of meetings held
Executive Director:	
Mr. Shao Kwok Keung	2/2
Independent Non-executive Directors:	
Mr. Pun Yan Chak (Chairman of the Remuneration Committee) (resigned on 1 April 2016)	1/1
Mr. Wong Che Man Eddy	2/2
Mr. Fung Ka Kin (Chairman of the Remuneration Committee) (appointed on 1 April 2016)	1/1

CORPORATE GOVERNANCE REPORT

(B) Nomination Committee

The Company established the Nomination Committee pursuant to a resolution of all Directors passed on 28 August 2009.

The Nomination Committee currently comprises three members, namely, Mr. Lam Kin Hung Patrick (chairman of the Nomination Committee and an independent non-executive Director), Mr. Wong Che Man Eddy (independent non-executive Director) and Mr. Shao Kwok Keung (Executive Director). The role and function of the Nomination Committee are set out in its written terms of reference. The written terms of reference are published on the websites of the Stock Exchange and the Company. The principal duties of the Nomination Committee include (1) reviewing the structure, size and composition of the Board on a regular basis, (2) identifying suitably qualified candidates for directorship, (3) making recommendations to the Board on the selection of nominated individuals for directorship and matters related to appointment or re-appointment of Directors, (4) assessing the independence of the Independent Non-executive Directors (5) succession planning for Directors, and (6) reviewing the Board's diversity policy.

The Nomination Committee follows a set of procedures when recommending candidates for directorship.

The following criteria are considered in selecting a candidate:

- Integrity, objectivity, and intelligence of the person, with reputations for sound judgment and open mind, and a demonstrated capacity for thoughtful group decision-making;
- Qualification and career experience; and
- Understanding of the Company and its corporate mission.

When a candidate is proposed for directorship of the Company, he or she shall be evaluated on the basis of the criteria set out in the procedures mentioned above. Selection of the suitable candidate is based on a majority vote. Each committee member will be asked to express his or her view before voting. After voting, the chairman of the Nomination Committee will report its recommendations to the Board.

To ensure that the Board has a balance of skills and experience appropriate for the requirements of the business of the Group, the Company has adopted a board diversity policy as set out below.

(i) Policy statement: In determining the optimum composition of the Board, differences in the skills, regional and industry experience, background, race, gender and other qualities of Directors will be taken into account. All Board appointments will be based on merit while taking into account Diversity.

(ii) Measurable objectives: The Nomination Committee shall develop measurable objectives for implementing this policy and make recommendations to the Board. The Nomination Committee shall also review the progress of achieving these objectives as may be adopted by the Board from time to time.

CORPORATE GOVERNANCE REPORT

Based on the business needs of the Group, the following measurable objectives have been set for implementing the policy:

(a) a prescribed proportion of Board members shall be non-executive Directors or independent non-executive Directors;

(b) a prescribed proportion of Board members shall have attained bachelor's degree or above;

(c) a prescribed proportion of Board members shall have obtained accounting or other professional qualifications;

(d) a prescribed proportion of Board members shall have more than seven years of experience in the industry he is specialized in; and

(e) a prescribed proportion of Board members shall have China-related work experience.

(iii) Implementation and monitoring: The Nomination Committee shall review the Board's composition including the skills, knowledge, experience and diversity of perspectives and the effectiveness of the board diversity policy and its measurable objectives at least annually. Based on its review, the Nomination Committee considers that the Company has achieved the measurable objectives set for implementing the board diversity policy of the Company.

During the year ended 31 December 2016, the Nomination Committee had held two meetings to review the structure, size and composition of the Board and the board committees. The attendance record of each member of the Nomination Committee at its meeting is set out below:

Name of Directors	Attendance/Number of meetings held
Executive Director:	
Mr. Shao Kwok Keung	2/2
Independent Non-executive Directors:	
Mr. Lam Kin Hung Patrick (Chairman of the Remuneration Committee)	2/2
Mr. Wong Che Man Eddy	2/2

CORPORATE GOVERNANCE REPORT

(C) Audit Committee

The Company established the Audit Committee pursuant to a resolution of all Directors passed on 28 August 2009. The Audit Committee currently comprises three members, all being independent nonexecutive Directors, namely, Mr. Wong Che Man Eddy (chairman of the Audit Committee), Mr. Pun Yan Chak (resigned on 1 April 2016), Mr. Fung Ka Kin (appointed on 1 April 2016) and Mr. Lam Kin Hung Patrick. The role and function of the Audit Committee are set out in its written terms of reference. The Audit Committee is delegated with the corporate governance functions under code provision D.3.1 of the CG Code. Please refer to the written terms of reference of the Audit Committee published on the websites of the Company and the Stock Exchange for further details.

The principal duties of the Audit Committee include:

On external audit:

- Making recommendations to the Board on appointment, reappointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor;

- Reviewing and monitoring the external auditors' independence as well as the objectives and effectiveness of the audit process in accordance with applicable standards;

- Discussing with the external auditor before the audit commences the nature and scope of the audit and reporting obligations and ensuring co-ordination where more than one audit firm is involved; and

- Developing and implementing policy on the engagement of the external auditor to provide non audit services.

On financial information of the Company:

- Monitoring integrity of the interim and annual financial statements and interim and annual reports and accounts, and reviewing significant financial reporting judgments contained therein before submission to the Board, with a focus on the fairness and reasonableness of any connected transaction;

- Reviewing the Group's financial and accounting policies and practices;

- Reviewing the external auditors' management letter, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or system of control and management response;

- Considering any significant or unusual items that are, or may need to be, reflected in the interim and annual reports and accounts and giving due consideration to any matters that have been raised by the Board; and

CORPORATE GOVERNANCE REPORT

- Meeting with the external auditor of the Company at least once a year, and to discuss any problems or reservations arising from the interim and final audits, and any matters the auditors my wish to discuss (in the absence of the management where necessary).

On internal control and risk management:

- Reviewing the Group's financial controls and its internal control and risk management system;

- Discussing with the Group's management the system of risk management and internal control and ensuring that the management has discharged its duty to have effective systems, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and its training programs and budget;

- Considering any findings of major investigation of risk management and internal control matters as delegated by the Board or on its own initiative and management's responses thereto;

- Ensuring co-ordination between the internal and external auditors and that the internal audit function is adequately resourced and has appropriate standing within the Group; and

- Reporting to the Board on the matters raised in the CG Code.

On corporate governance functions:

- Reviewing the effectiveness of the Group's corporate governance policies and practices and to make recommendations to the Board;

- Ensuring that appropriate monitoring systems are in place to ensure compliance against the relevant internal controls systems, processes and policies;

- Reviewing and monitoring the Group's communication policy with its shareholders;

- Reviewing and monitoring the training and continuous professional development of directors and senior management of the Group;

- Reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements; and

- Reviewing the Company's compliance with the CG Code and disclosure in the corporate governance Report.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2016, the Audit Committee held three meetings to review the annual and interim results of the Company, the internal control and risk management of the Company and the corporate governance of the Company. The attendance record of each member of the Audit Committee at its meeting is set out below:

Name of Directors	Attendance/Number of meetings held
Independent Non-executive Director:	
Mr. Wong Che Man Eddy (Chairman of the Audit Committee)	3/3
Mr. Pun Yan Chak (resigned on 1 April 2016)	1/1
Mr. Lam Kin Hung Patrick	3/3
Mr. Fung Ka Kin (appointed on 1 April 2016)	2/2

AUDITORS' REMUNERATION

For the year ended 31 December 2016, the fees for services rendered by HLB Hodgson Impey Cheng Limited is set out below:

	Fees (RMB'000)
Audit services	3,428
Interim review	857
Other services	1,115
	5,400

COMPANY SECRETARY

The Company Secretary (Mr. Au Ki Lun) is responsible for facilitating the procedures of the Board of Directors of the Company and communications among Directors, between Directors and shareholders and among the management. A brief biography of the Company Secretary is set out in the section headed "Biography of Directors and Senior Management" of this annual report (page 23).

In 2016, the Company Secretary received more than 15 hours of training to upgrade his professional skills and expertise.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Board acknowledges its responsibility for maintaining a sound and effective internal control system for the Company to safeguard the investments of the shareholders and assets of the Company at all times.

The Board has conducted a review on the internal control system and risk management of the Group for the financial year ended 31 December 2016 and are satisfied with the effectiveness of the internal control system and risk management of the Group. Details of the review are set forth below:

(A) Internal Control System

The principal functions of the internal control system are to help achieve the Group's business objectives, safeguard assets and maintain proper accounting records for the provision of reliable financial information. The system is designed to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage rather than eliminate risks of failure when business objectives are being sought.

The following key processes have been adopted by the Board in reviewing the adequacy and integrity of the internal control system for the Group:

(1) Monitoring mechanisms and corporate culture

There are periodic meetings of the Board attended by the Directors. The Board committees and the management of the Company represent the main platform by which the Company's performance and behavior are monitored. The day-to-day business operations are entrusted to the CEO and the management team. Under the supervision of the CEO, the heads of all departments are empowered with the responsibilities to manage their respective operations.

The Board is responsible for setting the business direction and for overseeing the Group's operations with the aid of the various Board committees.

(2) Enterprise risk management framework

The Board recognizes that an effective risk management framework will allow the Group to identify, evaluate and manage the risks that affect the achievement of the Group's objectives within defined risk parameters in a timely and effective manner.

The management of the Group is responsible for identifying the risks affecting the Group and evaluating the effectiveness of the existing controls to determine whether mitigation action shave to be formulated accordingly. Regular internal meetings are conducted by the Group's management to facilitate the exchange of views between the management team members on any issues which may give rise to external risks and internal risks. Upon identification of any risk, the management of the Group formulates action plan and assigns responsible person to execute the plan. In addition, the management is obliged to report to the Board on the progress and the result of all matters relating to the risks identified by the management.

CORPORATE GOVERNANCE REPORT

(B) Internal Audit

The Group has engaged independent contractor Shinewing Risk Services Limited which is responsible for, among others, conducting independent reviews of the adequacy and effectiveness of the Group's internal audit.

(C) Weaknesses in the Internal Control System that Result in Material Losses

During the financial year under review, no weaknesses in internal control that resulted in material losses were identified. The management will continue to take adequate measures to strengthen the control environment in which the Company operates.

The improvement of internal control system is an on-going process and the Board maintains an on-going commitment to strengthen the Group's control environment and processes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Each of the Directors understands and acknowledges his responsibility for the preparation of the consolidated financial statements of the Company which give a true and fair view of the state of affairs of the Company and the Group in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements pursuant to the Hong Kong Companies Ordinance.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as an on-going concern.

The auditors' statement about its reporting responsibilities on the financial statements is set out in the Independent Auditors' Report set out in pages 69 to 75 of this annual report.

COMPLIANCE AND ENFORCEMENT OF THE NON-COMPETE UNDERTAKING FROM CONTROLLING SHAREHOLDERS

None of the Directors or any of their respective associates has engaged in any business that competes or may compete with the business of the Group.

CORPORATE GOVERNANCE REPORT

To protect the Group from potential competition, Mr. Chan Yuen Ming and Creative Sector Limited, being controlling shareholders of the Company (the "Controlling Shareholders"), have given an irrevocable noncompete undertaking (the "Non-compete Undertaking") in favour of the Company on 28 August 2009 pursuant to which each of the Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken with the Company on a joint and several basis that each of the Controlling Shareholders shall, and shall procure that their respective associates (other than the Group) shall, among other matters, not to, directly or indirectly, invest in, be engaged in or participate in any business or activity which would or might compete with the business of the Group. Details of the Non-compete Undertaking have been set out in the sub-paragraph headed "Non-Compete Undertaking" of the paragraph headed "Continuing Connected Transactions" under the section headed "Our relationship with SkyComm Group and our Controlling Shareholders" of the prospectus of the Company dated 4 September 2009 in respect of its initial public offering.

The Company has received the annual confirmations from each of the Controlling Shareholders in respect of their respective compliance with the terms of the Non-compete Undertaking.

In order to properly manage any potential or actual conflict of interests between the Company and the Controlling Shareholders in relation to the compliance and enforcement of the Non-compete Undertaking, the Company has adopted the following corporate governance measures:

a) the independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-compete Undertaking by the Controlling Shareholders;

b) the Company will disclose any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Non-compete Undertaking either through annual report or by way of announcement;

c) the Company will disclose in the corporate governance report of its annual report on how the terms of the Non-compete Undertaking have been complied with and enforced; and

d) in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the Non-compete Undertaking, he/she may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the shareholders of the Company, in particular, the minority shareholders.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

1. *Procedures for shareholders to convene an extraordinary general meeting*

The following procedures for shareholders ("Shareholders", each a "Shareholder") of the Company to convene an extraordinary general meeting ("EGM") of the Company are prepared in accordance with Article 64 of the Articles of Association:

(1) One or more Shareholders (the "Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice, to require an EGM to be called by the Directors for the transaction of any business specified in such requisition.

(2) Such requisition shall be made in writing to the Board or the company secretary of the Company and deposited at the Company's head office and principal place of business in Hong Kong at Level 65, International Commerce Centre, 1 Austin Road West , Kowloon, Hong Kong.

(3) The EGM shall be held within two months after the deposit of such requisition.

(4) If the Directors fail to proceed to convene such meeting within 21 days of the deposit of such requisition, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the Requisitionist(s) by the Company.

2. *Procedures for raising enquiries*

Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, Union Registrars Limited, with contact details as follows:

Address:	Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong
Email:	enquiry@unionregistrars.com
Tel:	(852) 2849 3399
Fax:	(852) 2849 3319

Shareholders may raise enquiry in respect of the Company at the following designated contact, correspondence address, email address and enquiry hotlines of the Company:

Attention:	Mr. Au Ki Lun (Company Secretary)
Address:	Level 65, International Commerce Centre, 1 Austin Road West , Kowloon, Hong Kong.
Email:	oujilun@chinaallaccess.com
Tel:	(852) 3579 2368
Fax:	(852) 3579 2328

CORPORATE GOVERNANCE REPORT

3. Procedures for putting forward proposals at Shareholders' meetings

(i) Proposal for election of a person other than a Director as a Director:

Pursuant to Article 110 of the Articles of Association, a Shareholder wishes to propose a person other than a Director for election as a Director at a general meeting (the "Election Proposal") should lodge, at least seven clear days before the date of the general meeting, (i) a written notice setting out the Election Proposal; and (ii) a written notice signed by the person to be proposed of his willingness to be elected, at either (a) the head office and principal place of business of the Company in Hong Kong at Room 805, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui, Kowloon, Hong Kong, or (b) the branch share registrar and transfer office of the Company in Hong Kong, i.e. Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong.

Shareholders should follow the detailed procedures published on the Company's website in relation to making such Election Proposal.

(ii) Other Proposals:

If a Shareholder wishes to make other proposal (the "Proposal") at a general meeting, he may lodge a written request, duly signed, at the Company's the head office and principal place of business in Hong Kong at Level 65, International Commerce Centre, 1 Austin Road West , Kowloon, Hong Kong marked for the attention of the Company Secretary. The identity of the Shareholder and his request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a Shareholder, the Board will in its sole discretion decide whether the Proposal may be included in the agenda for the general meeting to be set out in the notice of meeting.

The notice period to be given to all the Shareholders for consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(1) Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires approval in an annual general meeting of the Company;

(2) Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution in an extraordinary general meeting of the Company;

(3) Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of an ordinary resolution in an extraordinary general meeting of the Company.

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF CHINA ALL ACCESS (HOLDINGS) LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China All Access (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 76 to 192, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and 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 ("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 Auditors' 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. 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 AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
(i) Intangible assets and goodwill impairment assessment	
Refer to notes 15 and 16 to the consolidated financial statements. The Group has intangible assets (license agreement) of approximately RMB421,090,000 and goodwill of approximately RMB92,735,000 relating to, the business operation of solar electrical system with patents and the business operation of display and touch modules respectively. In the annual impairment review, the management has concluded that there is no impairment in respect of intangible assets and goodwill. This conclusion was based on value in use model that required significant management judgment with respect to the discount rate and underlying cash flows, in particular future revenue growth.	Our procedures in relation to impairment assessment included, but were not limited to: • Evaluating of the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on sampling basis, the accounting and relevance of the input data used. We found the key assumptions were supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter *(Continued)*

(ii) Impairment of trade receivables

Refer to note 21 to the consolidated financial statements.

As of 31 December 2016, the Group had trade receivables with gross amount of approximately RMB2,211,029,000 and an allowance for doubtful debts of approximately RMB153,277,000. The determination as to whether a trade receivable is collectable involved high level of management's judgment. Specific factors management considered include the age of the balances, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management used these information to determine whether an allowance for doubtful debts is required either for a specific transaction or for a customer's balance overall.

How our audit addressed the key audit matter *(Continued)*

Our procedures in relation to management's impairment assessment on trade receivables included, but were not limited to:

- Evaluating management's impairment assessment included testing, on a sample basis, the underlying data used by management to assess the collectability of trade receivables, such as an aged trade receivable analysis and payments from customers;

- Testing the key aged balances where no provision was recognised to check if there were any objective evidences of impairment. This included sample checking of payments received subsequent to the year end date and reviewing historical payment patterns;

- Selecting a sample of the significant trade receivable balances where an allowance for doubtful debts was recognised and understood the rationale behind management's judgment. In order to evaluate these judgments, we checked the age of these balances, the customers' historical payment patterns and any post year-end payments; and

- Assessing the overall allowance for doubtful debts, we also considered the consistency of management's application of policy for recognising allowance for doubtful debts with the prior years.

We consider the management conclusion to be consistent with the available information.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(Continued)*

Key audit matter *(Continued)*	**How our audit addressed the key audit matter** *(Continued)*
(iii) Revenue recognised from provision of communication application solutions and services	
Refer to note 5 to the consolidated financial statements. We identified revenue recognised from provision of communication application solutions and services as a key audit matter as revenue recognised is quantitatively significant to the consolidated statement of profit or loss and material revenue transactions may occur close to the end of the reporting period which require management's effort in verifying appropriate cut-off for goods transferred and/or services rendered. Revenue from provision of communication application solutions and services is recognised when the products are delivered and title has passed and/or the services are rendered. The accounting policy for revenue recognition is disclosed in note 3(x) to the consolidated financial statements. The Group recognised revenue of RMB2,937,909,000 from provision of communication application solutions and services for the year ended 31 December 2016, which is disclosed in the consolidated statement of profit or loss and note 5 to the consolidated financial statements.	Our procedures in relation to revenue recognised from provision of communication application solutions and services included, but were not limited to: • Obtaining an understanding of the revenue business process regarding provision of communication application solutions and services; • Performing test of details, on a sample basis, by comparing the details and amounts of the transactions selected with the details and amounts shown on the underlying documentation including the journal vouchers and sales invoice; • Checking the terms set out in the relevant agreements; and assessing whether the (i) significant risks and rewards of ownership of the products (revenue is substantially recognised from sales of products); (ii) services, of the revenue recognised have been transferred to the customers/are rendered respectively by reviewing the relevant documents, including but not limited to the relevant notices such as delivery notices and acknowledgement to receipts, on a sample basis; and • Testing the recognition of material sales transactions close to the end of the reporting period to assess whether those sales transactions were recorded in appropriate accounting period in accordance with the Group's revenue recognition policy. We found that the amount and timing of the revenue recorded were supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

OTHER INFORMATION IN THE ANNUAL REPORT

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 auditors' report thereon (the "Other Information").

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.

RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND THE AUDIT COMMITTEE 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 of the Company determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment 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 of the Company.

- 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 auditors' 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 auditors' 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 Audit Committee 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 Audit Committee 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.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

From the matters communicated with Audit Committee, 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 auditors' 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 director on the audit resulting in this independent auditors' report is Yu Chi Fat.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Yu Chi Fat
Practising Certificate Number: P05467

Hong Kong, 31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
CONTINUING OPERATIONS			
Revenue	5	**3,071,866**	2,842,386
Cost of sales		**(2,484,839)**	(2,243,868)
Gross profit		**587,027**	598,518
Other revenue	7	**14,499**	12,547
Other net loss	7	**(5,160)**	(7,525)
Distribution costs		**(16,306)**	(17,708)
Administrative expenses		**(290,311)**	(204,207)
Research and development expenses		**(33,039)**	(17,629)
Profit from operations		**256,710**	363,996
Finance income	8(a)	**66,257**	116,750
Finance costs	8(b)	**(207,613)**	(156,551)
Loss on disposals of associates		**—**	(3,750)
Share of results of associates		**(193)**	(35)
Profit before taxation	8	**115,161**	320,410
Income tax	9	**(37,591)**	(92,023)
Profit for the year from continuing operations		**77,570**	228,387
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	10	**153,484**	83,837
Profit for the year from continuing and discontinued operations		**231,054**	312,224
Profit for the year from continuing and discontinued operations attributable to:			
Equity shareholders of the Company		**228,894**	278,460
Non-controlling interests		**2,160**	33,764
		231,054	312,224

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Attributable to equity shareholders of the Company arises from:			
Continuing operations		**86,950**	225,054
Discontinued operations		**141,944**	53,406
Profit for the year		**228,894**	278,460
Earnings per share	13		
From continuing and discontinued operations			
Basic (RMB)		**0.123**	0.159
Diluted (RMB)		**0.120**	0.159
From discontinued operations			
Basic (RMB)		**0.076**	0.030
Diluted (RMB)		**0.076**	0.030

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016
(Expressed in Renminbi)

	2016 RMB'000	2015 RMB'000
Profit for the year	**231,054**	312,224
Other comprehensive income for the year (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
Surplus on revaluation of owner-occupied property	**9,400**	—
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	**14,446**	(38,153)
Other comprehensive income/(losses)	**23,846**	(38,153)
Total comprehensive income for the year	**254,900**	274,071
Attributable to:		
Equity shareholders of the Company	**253,555**	240,307
Non-controlling interests	**1,345**	33,764
Total comprehensive income for the year	**254,900**	274,071

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	14	77,614	86,348
Intangible assets	15	458,125	59,460
Goodwill	16	92,735	92,735
Interest in associates	17	—	193
Prepayment for land leases	18	70,236	71,300
Investment property	19	24,867	—
Other receivables	21	10,000	202,380
Prepayments	22	196,013	221,013
Deferred tax assets	32	—	11,098
		929,590	744,527
Current assets			
Inventories	20	512,882	186,944
Trade and other receivables	21	3,182,490	2,655,058
Prepayments	22	350,881	376,143
Loans receivable	23	1,087,281	1,189,927
Discounted bills receivable	24	11,832	4,188
Bills receivable	25	47,989	372,239
Factored trade receivables	26	549,755	—
Restricted cash	27	497,551	419,915
Bank deposits with original maturities over three months		1,065,441	1,093,000
Cash and cash equivalents	28	48,573	275,065
		7,354,675	6,572,479
Assets of disposal group classified as held for sale	10	—	3,318,504
		7,354,675	9,890,983

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Current liabilities			
Trade and other payables	29	1,342,068	1,390,804
Deferred income		12,192	8,307
Borrowings	30	1,248,739	1,594,341
Convertible bonds	33	—	265,887
Advances on discounted bills receivable	24	11,832	4,188
Advances on factored trade receivables	26	549,755	—
Income tax payable		228,456	170,926
		3,393,042	3,434,453
Liabilities of disposal group classified as held for sale	10	—	2,544,685
		3,393,042	5,979,138
Net current assets		3,961,633	3,911,845
Total assets less current liabilities		4,891,223	4,656,372
Non-current liabilities			
Borrowings	30	50,992	177,780
Convertible bonds	33	948,356	912,709
Deferred consideration payable		—	15,912
Deferred income		7,184	15,885
Deferred tax liabilities	32	9,252	16,135
		1,015,784	1,138,421
NET ASSETS		3,875,439	3,517,951

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
CAPITAL AND RESERVES			
Share capital	35	16,267	15,468
Reserves		3,869,059	3,278,500
Total equity attributable to equity shareholders of the Company		3,885,326	3,293,968
Non-controlling interests		(9,887)	223,983
TOTAL EQUITY		3,875,439	3,517,951

Approved and authorised for issue by the Board of Directors on 31 March 2017.

Mr. Chan Yuen Ming
Chairman and Executive Director

Mr. Shao Kwok Keung
Chief Executive Officer and Executive Director

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company											
	Note	Share capital RMB'000 35(c)	Share premium RMB'000 35(d)(i)	Capital redemption reserve RMB'000 35(d)(ii)	Contributed surplus RMB'000 35(d)(iii)	Capital reserve RMB'000 35(d)(iv)	Share-based compensation reserve RMB'000 35(d)(v)	Statutory general reserve RMB'000 35(d)(vi)	Translation reserve RMB'000 35(d)(vii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015		13,571	1,130,936	95	164,155	136,716	–	78,195	(18,286)	958,564	2,463,946	761,591	3,225,537
Changes in equity for 2015:													
Profit for the year		–	–	–	–	–	–	–	–	278,460	278,460	33,764	312,224
Other comprehensive losses		–	–	–	–	–	–	–	(38,153)	–	(38,153)	–	(38,153)
Total comprehensive income		–	–	–	–	–	–	–	(38,153)	278,460	240,307	33,764	274,071
Acquisition of non-controlling interests		–	–	–	–	(2,200)	–	–	–	–	(2,200)	(718,428)	(720,628)
Disposal of non-controlling interests		–	–	–	–	86,994	–	–	–	–	86,994	147,056	234,050
Issuance of share		1,906	419,176	–	–	49	–	–	–	–	421,131	–	421,131
Repurchase of shares		(9)	(2,361)	9	–	–	–	–	–	(9)	(2,370)	–	(2,370)
Redemption of convertible bonds		–	–	–	–	(5,415)	–	–	–	5,415	–	–	–
Issue of new convertible bonds		–	–	–	–	191,406	–	–	–	–	191,406	–	191,406
Modification on term of convertible bonds		–	–	–	–	16,883	–	–	–	(16,883)	–	–	–
Appropriation of reserve		–	–	–	–	–	–	5	–	(5)	–	–	–
Dividend approved and paid in respect of the previous year	35(b)	–	(67,097)	–	–	–	–	–	–	–	(67,097)	–	(67,097)
Dividend declared and paid in respect of the current year	35(b)	–	(38,149)	–	–	–	–	–	–	–	(38,149)	–	(38,149)
Balance at 31 December 2015		15,468	1,442,505	104	164,155	424,433	–	78,200	(56,439)	1,225,542	3,293,968	223,983	3,517,951
Balance at 1 January 2016		**15,468**	**1,442,505**	**104**	**164,155**	**424,433**	**–**	**78,200**	**(56,439)**	**1,225,542**	**3,293,968**	**223,983**	**3,517,951**
Changes in equity for 2016:													
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**228,894**	**228,894**	**2,160**	**231,054**
Other comprehensive income		**–**	**–**	**–**	**–**	**9,400**	**–**	**–**	**15,261**	**–**	**24,661**	**(815)**	**23,846**
Total comprehensive income		**–**	**–**	**–**	**–**	**9,400**	**–**	**–**	**15,261**	**228,894**	**253,555**	**1,345**	**254,900**
Conversion of convertible bonds		**111**	**31,350**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**31,461**	**–**	**31,461**
Redemption of convertible bonds		**–**	**–**	**–**	**–**	**(4,475)**	**–**	**–**	**–**	**4,475**	**–**	**–**	**–**
Non-controlling interests arising on change in ownership interests in subsidiaries without lost of control		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**11,330**	**11,330**	**22,517**	**33,847**
Disposal of subsidiaries	10	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(257,732)**	**(257,732)**
Acquisition of patents by equity shares		**–**	**–**	**–**	**–**	**370,058**	**–**	**–**	**–**	**–**	**370,058**	**–**	**370,058**
Issue of new shares upon acquisition of patents		**688**	**179,828**	**–**	**–**	**(180,516)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share-based payment		**–**	**–**	**–**	**–**	**–**	**15,673**	**–**	**–**	**–**	**15,673**	**–**	**15,673**
Appropriation of reserve		**–**	**–**	**–**	**–**	**–**	**–**	**11,873**	**–**	**(11,873)**	**–**	**–**	**–**
Dividend approved and paid in respect of the previous year	35(b)	**–**	**(90,719)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(90,719)**	**–**	**(90,719)**
Balance at 31 December 2016		**16,267**	**1,562,964**	**104**	**164,155**	**618,900**	**15,673**	**90,073**	**(41,178)**	**1,458,368**	**3,885,326**	**(9,887)**	**3,875,439**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
Cash generated from/(used in) operations	28(b)	201,654	(574,390)
Tax paid:			
— Hong Kong profits tax paid		(2,611)	(3,478)
— PRC income tax paid		(8,153)	(44,418)
Net cash generated from/(used in) operating activities		190,890	(622,286)
Investing activities			
Payment for the purchase of property, plant and equipment	14	(23,101)	(73,763)
Payment for the purchase of intangible assets		(51,617)	—
Proceeds from disposal of property, plant and equipment		2,111	28,589
Proceed from change in shareholdings in subsidiaries		33,847	—
Net cash outflow in respect of the acquisition of subsidiaries		—	(8,624)
Net cash inflow in respect of the disposal of subsidiaries	10	454,395	2,232
Proceed from disposal of associates		—	22,000
Payment for potential equity investment		—	(720,628)
(Addition)/withdrawal of structured deposits, net		(170,000)	60,000
Investment in entrusted loans		(100,000)	—
Collection of entrusted loans		110,000	—
Withdrawal/(addition) of bank deposits with original maturities over three months, net		27,559	(790,000)
Interest received from structure deposits		18,412	16,635
Interest received from bank deposits		35,536	71,493
Interest received from entrusted loans		20,128	—
Net cash generated from/(used in) investing activities		357,270	(1,392,066)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Financing activities			
Proceeds from borrowings		**1,155,997**	2,453,834
Repayment of borrowings		**(1,678,277)**	(1,554,954)
Proceeds from sales of equity of non-controlling interest		**—**	234,050
Interest paid		**(139,089)**	(170,084)
Net proceeds from issuance of new shares		**—**	236,545
Net proceeds from issuance of convertible bonds		**—**	1,304,446
Redemption of convertible bonds		**(34,288)**	(279,455)
Repurchase of shares		**—**	(2,370)
Dividends paid to equity shareholders of the Company	35(b)	**(90,719)**	(105,246)
Net cash (used in)/generated from financing activities		**(786,376)**	2,116,766
Net (decrease)/increase in cash and cash equivalents		**(238,216)**	102,414
Cash and cash equivalents at 1 January	28(a)	**275,065**	461,783
Effect of foreign exchange rate changes		**11,724**	(37,735)
Cash and cash equivalents at 31 December	28(a)	**48,573**	526,462

The accompanying notes form an integral part of these consolidated financial statements

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016
(Expressed in Renminbi unless otherwise indicated)

1. GENERAL INFORMATION

China All Access (Holdings) Limited (the "Company") was incorporated in the Cayman Islands on 4 December 2007 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands ("Cayman Companies Law"). The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 September 2009.

At 31 December 2016, the directors of the Company consider the immediate parent and ultimate holding company of the Company to be Creative Sector Limited which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (THE "HKFRSs")

In the current year, the Company and its subsidiaries (together refer to as the "Group") has applied, for the first time, the following new and amended standards (collectively referred to as the "new and amended HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning from 1st January 2016. A summary of the new and amended HKFRSs adopted by the Group is set out as follows:

HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (2011) (Amendments)	Equity Method in Separate Financial Statements
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisition of Interest in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016
(Expressed in Renminbi unless otherwise indicated)

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (THE "HKFRSs") *(Continued)*

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

HKAS 7 (Amendments)	Disclosure Initiative[1]
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2014-2016 cycle[5]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions[2]
HKFRS 4 (Amendments)	Insurance Contracts[2]
HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 15 (Amendments)	Clarifications to HKFRS 15[2]
HKFRS 16	Leases[3]

1 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined.
5 Effective for annual periods beginning on or after 1 January 2017 or 2018, with earlier application permitted.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016
(Expressed in Renminbi unless otherwise indicated)

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (THE "HKFRSs") *(Continued)*

HKFRS 9 (2014) Financial Instruments (Continued)

Key requirements of HKFRS 9 (2014) are described below:

- All recognised financial assets that are within the scope of HKFRS 9 (2014) 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 reporting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, 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 generally 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 reporting periods. In addition, under HKFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading investments) in other comprehensive income, with only dividend income generally recognised in consolidated income statement.

- With regard to the measurement of financial liabilities designated at fair value through profit or loss, HKFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss was presented in consolidated income statement.

- In relation to the impairment of financial assets, HKFRS 9 (2014) 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 the end of each reporting period 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 FINANCIAL STATEMENTS

31 December 2016
(Expressed in Renminbi unless otherwise indicated)

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (THE "HKFRSs") *(Continued)*

HKFRS 9 (2014) Financial Instruments *(Continued)*

Key requirements of HKFRS 9 (2014) are described below: *(Continued)*

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9 (2014), greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced. Based on the Group's financial instruments and risk management policies at 31st December 2016, the application of HKFRS 9 (2014) in the future may have a material impact on the classification and measurement of the Group's financial assets. 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, HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016
(Expressed in Renminbi unless otherwise indicated)

2. APPLICATION OF NEW AND AMENDED HONG KONG FINANCIAL REPORTING STANDARDS (THE "HKFRSs") *(Continued)*

HKFRS 15 Revenue from Contracts with Customers *(Continued)*

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 is 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 financial statements.

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.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

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.

The directors of the Company do not anticipate that the application of other new and amended HKFRSs will have a material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries and the Group's interest in associates.

The consolidated financial statements are presented in Renminbi ("RMB") which is the functional currency of the Group's major subsidiaries. The financial statements presented in RMB have been rounded to the nearest thousand except for per share data. The measurement basis used in the preparation of the financial statements is the historical cost basis, except for otherwise stated.

The preparation of financial statements in conformity with all applicable Hong Kong Financial Reporting Standards (collectively as "HKFRSs" and each as "HKFRS") requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgments made by the management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are disclosed in Note 4.

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 financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

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

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

(b) Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. In addition, these consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the disclosure requirements of the new Hong Kong Companies Ordinance (Cap. 622).

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parities) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intragroup transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests *(Continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 3(h)) or, when appropriate, the cost on initial recognition of an investment in an associate (Note 3(d)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 3(n)).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Notes 3(f) and 3(n)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (Note 3(n)).

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Investment property

Investment property is property held to earn rental. On initial recognition, investment property are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair values of investment properties are included in profit or loss for the period in which they arise.

An owner-occupied property is transferred from property, plant and equipment to investment properties at fair value when it is evidenced by the end of owner-occupation. The difference between the carrying amount and the fair value at the date of transfer is recognised in other comprehensive income and accounted for as a revaluation increase or decrease in accordance with HKAS 16 "Property, Plant and Equipment". On the subsequent sale or retirement of assets, the relevant revaluation reserve is transferred directly to retained profits.

(f) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 3(n)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, together with the fair value of any contingent consideration payable.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities acquired is recorded as goodwill. Where the fair values of the identifiable net assets and contingent liabilities acquired have been determined provisionally, or where contingent or deferred consideration is payable, adjustments arising from their subsequent finalisation are not reflected in the statement of profit or loss if (i) they arise within 12 months of the acquisition date and (ii) the adjustments arise from better information about conditions existing at the acquisition date (measurement period adjustments). Such adjustments are applied as at the date of acquisition and if applicable, prior period amounts are restated.

All changes that are not measurement period adjustments are reported in income other than changes in contingent consideration not classified as financial instruments, which are accounted for in accordance with the appropriate accounting policy, and changes in contingent consideration classified as equity, which is not remeasured.

(h) Investments in equity securities

Investments in securities which do not fall into categories of investments in securities held for trading and held-to-maturity securities are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (Note 3(n)). Dividend income from equity securities is recognised in profit or loss in accordance with the policy set out in Note 3(x).

When the investments are derecognised or impaired (Note 3(n)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(i) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (Note 3(n)). The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially complete. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposals of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of disposal.

Depreciation is recognised in profit or loss on a straight-line basis after taking into account their estimated residual values over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives of property, plant and equipment are as follows:

— Buildings held for own use carried at cost situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

— Leasehold improvement is depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 10 years

—	Electronic equipment	3-5 years
—	Office equipment	5 years
—	Computer software	5 years
—	Motor vehicles	5-10 years
—	Machinery equipment	5-10 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major component) of property, plant and equipment.

Depreciation methods, useful lives of assets and residual values, if any, are reviewed annually.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified above.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (Note 3(n)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (Note 3(n)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

—	Technology know-how	3-5 years
—	Customer relationship	9 years
—	Backlog	1-2 years
—	License agreement (including patents)	3-12 years
—	Trade mark	5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets that allocate the amortisation using unit of production method are on the basis of the expected pattern of consumption of the expected future economic benefits embodied in the asset. The method is applied consistently from period to period, unless there is a change in the expected pattern of consumption of those future economic benefits. The future economic benefits embodied in an asset are absorbed in producing other assets. In this case, the amortisation charge constitutes part of the cost of the other asset and is included in its carrying amount.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(l) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

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

(n) Impairment of assets

(i) Impairment of investment in equity securities and other receivables

Investment in equity securities, trade and other receivables and other financial assets that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) *Impairment of assets* *(Continued)*

(i) Impairment of investment in equity securities and other receivables *(Continued)*

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates accounted for under the equity method in the consolidated financial statements (Note 3(g)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 3(n)(ii). The impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount in accordance with Note 3(n)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Impairment of assets *(Continued)*

(i) Impairment of investment in equity securities and other receivables *(Continued)*

— For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— Property, plant and equipment;

— Intangible assets;

— Goodwill;

— Prepayment; and

— Investments in subsidiaries, and associates in, the Company's statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculations of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016
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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(p) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (Note 3(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Convertible Bonds

(i) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (Note 3(i)). Any excess of proceeds over the amount initially recognised as the derivative component is recognized as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Convertible Bonds *(Continued)*

(ii) Other convertible bonds *(Continued)*

The derivative component is subsequently remeasured in accordance with Note 3(j). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(r) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, Borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand which are not restricted as to use, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for its employees administered by the local government authorities. The Group makes contributions to the retirement scheme at the applicable rate based on the employees' salaries. The contributions are charged to profit or loss on an accrual basis.

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share-based compensation reserve within equity. The fair value is measured at grant date using the Binomial Option Pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the share options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the period of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the share option is exercised (in which case it is transferred to the share premium) or the share option expires (in which case it is released directly to retained profits).

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combination, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016
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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Income tax *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016
(Expressed in Renminbi unless otherwise indicated)

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 3(w)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Company or the Group under the guarantee, and (ii) the amount of that claim on the Company or the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of value added tax or other sales taxes, returns and allowances and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

(ii) Integrated system revenue

Integrated system revenue in respect of a turnkey project is recognised upon completion of each of the separately specified stages of the project provided that the customer has issued an inspection certificate to indicate its acceptance of the services and works provided.

(iii) Applications service income

Revenue from system operation management, application upgrade and system maintenance services is recognised once the relevant service has been rendered to customers.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Rental income

Rental income, including rental invoiced in advance from properties under operating leases, is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(z) Leases

(i) Leased assets

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

(ii) Leased payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Leases *(Continued)*

(iii) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. This will be the case if the following two criteria are met:

— the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and

— the arrangement contains a right to use the assets.

At inception or on reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

(aa) Translation of foreign currencies

Items included in the financial statements of each entity in the Group are measured the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency").

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the date of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ab) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(ac) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others.

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member.

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ac) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies: *(Continued)*

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

(ad) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(ae) Non-current assets (or disposal groups) held-for-sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), (or disposal groups), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographic area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(af) Share-based compensation

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial option pricing model, further details of which are given in Note 31 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(af) Share-based compensation *(Continued)*

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

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

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

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

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4. ACCOUNTING JUDGMENTS AND ESTIMATES

Key sources of estimation uncertainty

The methods, estimates and judgments the directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgments, on matters that are inherently uncertain. Key sources of estimation uncertainty are as follows:

(i) Impairment of property, plant and equipment

The Group reviews the carrying amounts of the assets at the end of each reporting period to determine whether there is objective evidence of impairment. When indication of impairment is identified, management prepares discounted future cash flow to assess the differences between the carrying amount and value in use and provided for impairment loss. Any change in the assumptions adopted in the cash flow forecasts would increase or decrease in the provision of impairment loss and affect the Group's results in future years.

(ii) Impairment of trade receivables

Impairment losses for bad and doubtful debts are assessed and provided for based on the directors' regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. An increase or decrease in the impairment loss would affect the Group's results in future years.

(iii) Impairment on inventories

The Group reviews the carrying amounts of the inventories at the end of each reporting period to determine whether the inventories are carried at lower of cost and net realisable value as in accordance with accounting policy as set out in Note 3(o). Management estimates the net realisable value based on current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's results in future years.

(iv) Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets have been impaired requires an estimation of the value in use of the cash-generating units to which they have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. Any change in the estimates would increase or decrease in the provision of impairment loss and affect the Group's results in future years.

NOTES TO THE FINANCIAL STATEMENTS

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4. ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(v) Income tax

The Group is subject to Hong Kong Profits Tax and PRC Corporate Income Tax. Judgment is required in determining the provision for income tax. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination is uncertain. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Recognition of deferred tax depends on the management's expectation of future taxable profit that will be available. The outcome of their actual utilisation may be different.

5. REVENUE

The principal activities of the Group are the provision of communication application solutions and services and investment activities. Communication application solutions consist of project design, sourcing terminals from external suppliers, development and distribution of terminals and equipment, designing applications pursuant to customer specifications, installation and testing, and application service provision including system operations management, application upgrade and system maintenance. Investment activities represents revenue generated from interest from facilitating capital to supply stream in Hong Kong.

Revenue represents the sales of goods or services rendered to customers and excludes value added tax, other sales taxes and surcharges, allowances for goods returned and interest income. The amount of each significant category of revenue recognised during the year is as follows:

	2016 **RMB'000**	2015 RMB'000
Continuing operations:		
Provision of communication application solutions and services	**2,937,909**	2,768,211
Investment activities	**133,957**	74,175
	3,071,866	2,842,386

NOTES TO THE FINANCIAL STATEMENTS

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6. SEGMENT REPORTING

Continuing operations:

The Group manages its businesses by divisions which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments:

— Provision of communication application solutions and services: including system design, installation, testing, software development, provision of application services for satellite and wireless communication, distribution of satellite receivers and equipment, as well as research and development, manufacture and distribution of wireless terminals and equipment, including display modules, casings and keyboards.

— Investment activities: including revenue generated from interest earned from provision of facilitating capital to supply steam in Hong Kong.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets attributable to the segments' activities with the exception of goodwill, other corporate assets and certain communication equipment which is jointly used by all reportable segments. Segment liabilities include trade creditors and accruals, borrowings, deferred income, income tax payable and deferred tax liabilities attributable to the activities of the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to profit earned/(loss incurred) by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets, is not measured.

The measure used for reporting segment profit is "segment operating profit". Segment operating profit includes the gross profit generated by the segment and certain distribution costs and administrative expenses directly attributable to the segment. Items that are not specifically attributable to individual segments, such as unallocated other revenue, other net income, depreciation of certain communication equipment, amortisation of certain intangible assets, other corporate administrative expenses and share of profits less losses of associates, are excluded from segment operating profit.

NOTES TO THE FINANCIAL STATEMENTS

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6. SEGMENT REPORTING *(Continued)*

Continuing operations: (Continued)

(a) Segment results, assets and liabilities *(Continued)*

In addition to receiving segment information concerning segment operating profit, management is provided with segment information concerning revenue, assets and liabilities used by the segments in their operations.

	Provision of communication application solutions and services		Investment activities		Total	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Revenue from customers (Note)	**2,937,909**	2,768,211	**133,957**	74,175	**3,071,866**	2,842,386
Segment operating profit	**453,070**	524,343	**133,957**	74,175	**587,027**	598,518
Depreciation and amortisation for the year	**31,740**	38,486	**–**	–	**31,740**	38,486
Impairment of trade receivables	**78,917**	13,996	**–**	–	**78,917**	13,996
Impairment of property, plant and equipment	**–**	11,379	**–**	–	**–**	11,379

Note: Revenue from customers amounting to 10 percent or more of the Group's revenue is set out below.

	Provision of communication application solutions and services	
	2016 RMB'000	2015 RMB'000
Customer A	**797,312**	608,532
Customer B	**—**	565,304
Customer C	**—**	396,205
Customer D	**N/A[1]**	297,421
Customer E	**384,711**	—
Customer F	**398,445**	—

1 The corresponding revenue contributed to less than 10 percent of the total revenue of continuing operations.

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6. SEGMENT REPORTING *(Continued)*

Continuing operations: (Continued)

(b) Reconciliation of reportable segment operating profit, assets and liabilities

	2016 RMB'000	2015 RMB'000
Profit		
Reportable segment profit derived from the Group's customers	**587,027**	598,518
Other revenue	**14,499**	12,547
Other net loss	**(5,160)**	(7,525)
Loss on disposal of associates	**—**	(3,750)
Share of results of associates	**(193)**	(35)
Finance income	**66,257**	116,750
Finance costs	**(207,613)**	(156,551)
Unallocated head office and corporate expenses	**(339,656)**	(239,544)
Profit before taxation	**115,161**	320,410
Assets		
Reportable segment assets	**7,353,045**	5,587,889
Unallocated head office and corporate assets	**931,220**	1,729,117
	8,284,265	7,317,006
Liabilities		
Reportable segment liabilities	**3,002,775**	3,459,599
Unallocated head office and corporate liabilities	**1,406,051**	1,113,275
	4,408,826	4,572,874

(c) Geographical segments

The Group's activities are based in the People's Republic of China (the "PRC") and majority of the Group's revenue and operational assets are derived from and located in the PRC for both the current and prior years.

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7. OTHER REVENUE AND NET LOSS

	Note	2016 RMB'000	2015 RMB'000
Continuing operations:			
Other revenue			
Subsidy income	(i)	12,155	10,869
Rental income		196	—
Others		2,148	1,678
		14,499	12,547
Other net loss			
Loss on disposals of property, plant and equipment		(315)	(5,640)
Exchange losses, net		(3,161)	(2,849)
Others		(1,684)	964
		(5,160)	(7,525)

Note:

(i) The amounts represent the subsidies received from local governments for the local business developments. There were no unfulfilled conditions in the year in which they were recognised.

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after:

(a) Finance income

	2016 RMB'000	2015 RMB'000
Continuing operations:		
Interest income from entrusted loans	20,047	—
Interest income from bank deposits	31,172	71,493
Interest income from structured deposits	15,038	16,635
Gain on deemed disposal of convertible bond	—	28,622
	66,257	116,750

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8. PROFIT BEFORE TAXATION *(Continued)*

Profit before taxation is arrived at after:

(b) Finance costs

	2016 RMB'000	2015 RMB'000
Continuing operations:		
Interest expenses:		
- Borrowings	92,036	63,810
- Discounted bills receivable	5,232	4,445
- Convertible bonds	96,419	79,141
- Guaranteed notes	—	1,453
- Factored trade receivables	7,384	—
Less: interest expenses capitalised into property, plant and equipment	—	(4,334)
Bank charges	3,553	2,858
Net loss on early redemption of convertible bonds	2,704	—
Change in fair value of derivative component of convertible bonds	285	9,178
	207,613	156,551

For the year ended 31 December 2015, the borrowing costs have been capitalised at a rate of 6.55%-7.533% per annum.

(c) Staff costs

	2016 RMB'000	2015 RMB'000
Continuing operations:		
Salaries, wages and other benefits	143,563	193,281
Contributions to defined contribution retirement plans	9,252	8,412
	152,815	201,693

As stipulated by the regulations in the PRC, the Group is required to participate in employee pension schemes organised by the PRC government whereby the Group is required to pay annual contributions at a rate of 14% to 20% (2015: 14% to 21%) of the standard wages determined by the relevant authorities in the PRC during the year. Contributions to these retirement schemes vest immediately.

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8. PROFIT BEFORE TAXATION *(Continued)*

(c) Staff costs *(Continued)*

The Group also participates in a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (2015: HK$30,000). Contributions to the scheme vest immediately.

(d) Other items

	Note	2016 RMB'000	2015 RMB'000
Continuing operations:			
Carrying amount of inventories sold		**2,317,914**	2,203,222
Depreciation of property, plant and equipment		**16,095**	21,521
Amortisation of intangible assets		**38,897**	17,010
Amortisation of land lease prepayment		**1,064**	1,269
Write-down of inventories		**1,125**	17,198
Reversal of write-down of inventories		**(38,740)**	(15)
Impairment loss recognised on trade receivables		**78,917**	13,996
Reversal of impairment loss on trade receivables		**—**	(35,519)
Impairment loss on property, plant and equipment		**—**	11,379
Impairment loss on goodwill	16	**—**	727
Net loss on early redemption of convertible bonds		**2,704**	—
Fair value change of investment property	19	**(343)**	—
Auditors' remuneration		**5,400**	4,969
Operating lease charges		**12,927**	12,612
Gross rental income from investment property		**(99)**	—
Less: Direct operating expenses from investment property that generated rental income during the year		**84**	—
Direct operating expenses from investment property that did not generate rental income during the year		**43**	—
		28	—

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9. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2016 RMB'000	2015 RMB'000
Continuing operations:		
Current tax — Hong Kong Profits Tax		
Provision for the year	**2,611**	17,501
Over-provision in respect of prior years	**—**	(4,479)
Current tax — PRC Corporate Income Tax		
Provision for the year	**37,137**	90,832
Over-provision in respect of prior years	**(6,372)**	(15,077)
	33,376	88,777
Deferred tax		
Origination and reversal of temporary differences	**4,215**	3,246
	37,591	92,023

The Company and its subsidiaries which are incorporated in the Cayman Islands and the British Virgin Islands ("BVI"), are not subject to tax on income or capital gains under the current laws of the respective jurisdictions in the Cayman Islands and the BVI. In addition, upon any payment of dividend by the Company or its subsidiaries, no Cayman Islands and BVI withholding tax is imposed.

Hong Kong Profit Tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the year.

Hebei Noter Communication Technology Co., Ltd. ("Hebei Noter"), Beijing All Access Noter Communication Technology Co., Ltd. ("Beijing All Access") and Lead Communications Co., Ltd. ("Lead Communications") are qualified High and New Technology Enterprises ("HNTEs") and entitled to the preferential tax rate of 15% from 2015 to 2017, 2015 to 2017 and 2014 to 2016 respectively.

Management is of the view that the above qualified HNTEs will continue their status upon renewal for 3 years from their respective years of approval.

Other PRC subsidiaries of the Group are subject to standard PRC Corporate Income Tax rate of 25% (2015: 25%).

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9. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(Continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016 RMB'000	2015 RMB'000
Continuing operations:		
Profit before taxation	**115,161**	320,410
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**26,087**	74,169
Tax effect of tax concession	**(13,326)**	(28,445)
Tax effect of non-taxable income	**(8,407)**	(48,759)
Tax effect of non-deductible expenses	**39,352**	103,093
Over-provision in respect of prior years	**(6,372)**	(19,556)
Tax effect of unused tax losses not recognised	**257**	11,521
Actual tax expenses	**37,591**	92,023

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10. DISCONTINUED OPERATIONS/DISPOSAL GROUP HELD FOR SALE

On 14 August 2015, the Group entered into a sale agreement to dispose of a subsidiary for a total consideration of RMB702,000,000, namely Shenzhen Xing Fei Technology Co., Ltd (together with its subsidiaries, the "Xingfei Group"), which carried out a part of the Group's wireless data communication application solutions and services operations. The disposal was effected in order to generate cash flows for the expansion of the Group's other businesses. The transaction was completed in January 2016.

The results of the discontinued operations are as follow:

	Period from 1 January 2016 to 21 January 2016 RMB'000	Period from 1 January 2015 to 31 December 2015 RMB'000
Revenue	**403,729**	4,702,393
Cost of sales	**(374,360)**	(4,321,929)
Gross profit	**29,369**	380,464
Other revenue	**44**	5,250
Other net loss	**(17)**	(1,324)
Distribution costs	**(204)**	(25,343)
Administrative expenses	**(704)**	(109,409)
Research and development expenses	**(447)**	(84,907)
Profit from operations	**28,041**	164,731
Finance income	**—**	6,240
Finance costs	**(463)**	(69,059)
Gain on disposal of subsidiaries	**—**	1,862
Gain on disposal of the Xingfei Group	**160,824**	—
Profit before taxation	**188,402**	103,774
Income tax	**(34,918)**	(19,937)
Profit for the period from discontinued operations	**153,484**	83,837

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10. DISCONTINUED OPERATIONS/DISPOSAL GROUP HELD FOR SALE

(Continued)

The net assets of the Xingfei Group at the date of disposal were as follow:

	21 January 2016 RMB'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	437,559
Intangible assets	90,680
Goodwill	238,620
Interest in associates	2,255
Prepayment for land leases	65,254
Available-for-sale financial assets	15,214
Deferred tax assets	9,715
Inventories	223,622
Trade and other receivables	1,461,344
Prepayments	143,774
Discounted bills receivable	179,538
Bills receivable	527,459
Cash and cash equivalents	247,605
Trade and other payables	(1,753,338)
Deferred income	(84,801)
Borrowings	(784,302)
Advances on discounted bills receivables	(179,538)
Income tax payable	(27,337)
Deferred tax liabilities	(14,415)
Net assets disposed of	798,908
Less: Non-controlling interests	(257,732)
Disposed of net assets attributable to the Group	541,176
Gain on disposal	160,824
Total consideration	702,000
Net cash inflow arising on disposal:	
Cash consideration received	702,000
Less: cash and cash equivalents disposed of	(247,605)
	454,395

For the year ended 31 December 2016, up to the date of the completion of disposal, the net profit of the Xingfei Group was approximately RMB25,089,000. None of the member of the Xingfei Group was wholly-owned subsidiaries of the Company. Accordingly, the Group has recognised the profit of approximately RMB13,549,000 and the remaining was attributable to non-controlling interest of approximately RMB11,540,000.

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10. DISCONTINUED OPERATIONS/DISPOSAL GROUP HELD FOR SALE *(Continued)*

The cash flows of the discontinued operations are as follow:

	Period from 1 January 2016 to 21 January 2016 RMB'000	Period from 1 January 2015 to 31 December 2015 RMB'000
Operating activities	**(3,329)**	795,211
Investing activities	**—**	(199,599)
Financing activities	**(463)**	(592,307)
Net cash (outflows)/inflows	**(3,792)**	3,305

11. DIRECTORS' REMUNERATION

Fees and other emoluments paid or payable to each of the nine (2015: nine) Directors were as follow:

	2016			
	Directors' fees RMB'000	**Salaries, allowances and benefits in kind RMB'000**	**Retirement scheme contributions RMB'000**	**Total RMB'000**
Executive directors				
CHAN Yuen Ming	**103**	**2,772**	**15**	**2,890**
SHAO Kwok Keung	**103**	**1,990**	**15**	**2,108**
XIU Zhi Bao	**103**	**420**	**11**	**534**
YAN Wei	**103**	**204**	**11**	**318**
TIAN Zheng	**103**	**204**	**11**	**318**
Independent non-executive directors				
FUNG Ka Kin (Note (i))	**193**	**—**	**—**	**193**
PUN Yan Chak (Note (ii))	**117**	**—**	**—**	**117**
WONG Che Man, Eddy	**257**	**—**	**—**	**257**
LAM Kin Hung, Patrick	**257**	**—**	**—**	**257**
	1,339	**5,590**	**63**	**6,992**

Notes:

(i) Mr. FUNG Ka Kin was appointed as independent non-executive director on 1 April 2016.

(ii) Mr. PUN Yan Chak retired as independent non-executive director with effect from 14 June 2016.

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11. DIRECTORS' REMUNERATION *(Continued)*

	2015			
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
CHAN Yuen Ming	97	2,693	14	2,804
SHAO Kwok Keung	97	1,869	14	1,980
XIU Zhi Bao	97	436	28	561
YAN Wei (Note (i))	40	87	—	127
TIAN Zheng (Note (i))	40	87	—	127
Non-executive director				
XU Qiang (Note (ii))	169	—	—	169
Independent non-executive directors				
PUN Yan Chak	229	—	—	229
WONG Che Man, Eddy	229	—	—	229
LAM Kin Hung, Patrick	229	—	—	229
	1,227	5,172	56	6,455

Notes:

(i) Mr. Yan Wei and Mr. Tian Zheng were appointed as executive directors on 4 August 2015.

(ii) Mr. Xu Qiang resigned as non-executive director with effect from 1 October 2015.

For the year ended 31 December 2016 and 2015:

No emoluments have been paid to any of the directors or any of the highest paid individuals set out in Note 12 below as an inducement to join or upon joining the Group or as compensation for loss of office during the current and prior years.

No directors waived or agreed to waive any emoluments for the current year.

Except as disclosed in Note 40(a) and (d), no other significant transactions, arrangements and contracts in relation to the Group's business to which the company was a party and in which 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.

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12. SENIOR MANAGEMENT'S EMOLUMENTS AND INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

(a) Five highest paid individuals

Of the five individuals with the highest emoluments, two (2015: two) were directors of the Company whose emoluments are disclosed in Note 11. The aggregate of the emoluments in respect of the other three (2015: three) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other emoluments	3,955	3,636
Retirement scheme contributions	99	21
	4,054	3,657

The emoluments of the three (2015: three) individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
Nil to HK$1,000,000	—	—
HK$1,000,001 to HK$2,000,000	3	3
	3	3

(b) Senior management of the Company

The emoluments of the senior management of the Company are within the following bands:

	2016 Number of individuals	2015 Number of individuals
Nil to HK$1,000,000	3	3
HK$1,000,001 to HK$1,500,000	1	—

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13. EARNINGS PER SHARE

(a) *Basic earnings per share*

The calculation of the basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB228,894,000 (2015: RMB278,460,000) for continuing and discontinued operations and approximately RMB141,944,000 (2015: RMB53,406,000) for discontinued operations, and the weighted average number of 1,867,779,000 ordinary shares in issue during the year ended 31 December 2016 (2015: 1,756,825,000), calculated as follows:

Weighted average number of ordinary shares

	2016 '000	2015 '000
Issued ordinary shares at 1 January	**1,822,474**	1,582,156
Effect of issuance of ordinary shares	**45,305**	174,669
Weighted average number of ordinary shares at 31 December	**1,867,779**	1,756,825

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13. EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB290,151,000 (2015: RMB278,460,000) for continuing and discontinued operations and approximately RMB141,944,000 (2015: RMB53,406,000) for discontinued operations, and the weighted average number of 2,416,174,000 ordinary shares (2015: 1,756,825,000 ordinary shares) for continuing and discontinued operations and of 1,867,779,000 ordinary shares (2015: 1,756,825,000 ordinary shares) for discontinued operations in issue adjusted for the potential dilutive effect caused by the convertible bonds and the issue of new shares upon acquisition of patent (the "Patent"), calculated as follow:

Earnings for the purpose of diluted earnings per share

	2016 RMB'000	2015 RMB'000
For continuing and discontinued operations:		
Profit for the year attributable to equity shareholders of the Company	**228,894**	278,460
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds, net of tax	**61,257**	-
Earnings for the purpose of diluted earnings per share	**290,151**	278,460
For discontinued operations:		
Earnings for the purpose of diluted earnings per share	**141,944**	53,406

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13. EARNINGS PER SHARE *(Continued)*

(b) *Diluted earnings per share* *(Continued)*

Weighted average number of ordinary shares (diluted)

	2016 '000	2015 '000
For continuing and discontinued operations:		
Weighted average number of ordinary shares at 31 December	1,867,779	1,756,825
Effect of dilutive potential ordinary shares:		
Convertible bonds	511,573	—
Patent	36,822	—
Weighted average number of ordinary shares (diluted) as 31 December	2,416,174	1,756,825
For discontinued operations:		
Weighted average number of ordinary shares (diluted) at 1 January and 31 December	1,867,779	1,756,825

No adjustment has been made to the basic earnings per share amount presented for the reporting period in respect of a dilution as the impact of the exercise of share options would have had on antidilutive effect on the basic earnings per share.

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14. PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use RMB'000	Electronic equipment RMB'000	Office equipment RMB'000	Computer software RMB'000	Motor vehicles RMB'000	Machinery equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:									
At 1 January 2015	119,980	77,474	7,099	8,221	27,695	83,634	48,470	243,765	616,338
Additions	9,476	2,867	2,393	1,301	2,634	29,899	8,224	16,969	73,763
Transferred from construction in progress	259,055	–	–	–	–	–	–	(259,055)	–
Disposals	–	(1,882)	(61)	–	(439)	(27,259)	(6,885)	–	(36,526)
Exchange alignment	933	26	151	–	276	–	–	–	1,386
Reclassification to assets of disposal group held for sale	(361,437)	(23,019)	–	(1,581)	(5,645)	(51,931)	(45,017)	(1,679)	(490,309)
At 31 December 2015	28,007	55,466	9,582	7,941	24,521	34,343	4,792	–	164,652
At 1 January 2016	**28,007**	**55,466**	**9,582**	**7,941**	**24,521**	**34,343**	**4,792**	**–**	**164,652**
Additions	**–**	**228**	**241**	**104**	**–**	**20,112**	**2,416**	**–**	**23,101**
Surplus on revaluation recognised in other comprehensive income	**9,400**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9,400**
Transferred to investment property (note 19)	**(25,462)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(25,462)**
Disposals	**–**	**(181)**	**–**	**(1,260)**	**(1,659)**	**(3,655)**	**–**	**–**	**(6,755)**
Exchange alignment	**78**	**30**	**185**	**–**	**233**	**–**	**–**	**–**	**526**
At 31 December 2016	**12,023**	**55,543**	**10,008**	**6,785**	**23,095**	**50,800**	**7,208**	**–**	**165,462**
Accumulated depreciation:									
At 1 January 2015	3,439	62,358	4,401	6,595	7,597	(9,749)	1,894	–	76,535
Charge for the year	13,716	4,465	786	757	3,053	18,730	3,655	–	45,162
Written back upon disposals	–	(1,108)	(5)	–	(63)	(1,121)	–	–	(2,297)
Impairment loss	–	–	–	–	–	11,379	–	–	11,379
Exchange alignment	137	24	37	–	77	–	–	–	275
Reclassification to assets of disposal group held for sale	(12,877)	(18,397)	–	(765)	(2,724)	(15,444)	(2,543)	–	(52,750)
At 31 December 2015	4,415	47,342	5,219	6,587	7,940	3,795	3,006	–	78,304
At 1 January 2016	**4,415**	**47,342**	**5,219**	**6,587**	**7,940**	**3,795**	**3,006**	**–**	**78,304**
Charge for the year	**495**	**782**	**767**	**744**	**2,411**	**8,965**	**1,931**	**–**	**16,095**
Elimination upon transfer to investment property (note 19)	**(2,394)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,394)**
Written back upon disposals	**–**	**(121)**	**–**	**(1,248)**	**(990)**	**(1,970)**	**–**	**–**	**(4,329)**
Exchange alignment	**10**	**28**	**63**	**–**	**71**	**–**	**–**	**–**	**172**
At 31 December 2016	**2,526**	**48,031**	**6,049**	**6,083**	**9,432**	**10,790**	**4,937**	**–**	**87,848**
Net book value:									
At 31 December 2016	**9,497**	**7,512**	**3,959**	**702**	**13,663**	**40,010**	**2,271**	**–**	**77,614**
At 31 December 2015	23,592	8,124	4,363	1,354	16,581	30,548	1,786	–	86,348

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14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying amounts of motor vehicles held under finance leases as at 31 December 2016 amounted to approximately RMB2,063,000.

For the year ended 31 December 2015, the Group encountered a poor performance on the business operation of casings and keyboards, which is identified as a CGU. The directors of the Company assess the recoverable amount of the assets was less than their carrying amounts, resulting in the recognition of an impairment loss of approximately RMB11,379,000 in the consolidated statement of profit or loss. The directors of the Company consider that no impairment to be provided for the year ended 31 December 2016.

At 31 December 2016, buildings held for own use with net book value of approximately RMB9,497,000 (2015: RMB23,592,000) are pledged as securities for the Group's borrowings (Note 30).

15. INTANGIBLE ASSETS

	Technology know-how RMB'000	Customer relationship RMB'000	Backlog RMB'000	License agreement RMB'000	Trade mark RMB'000	Total RMB'000
Cost:						
At 1 January 2015	208,814	126,850	7,245	6,087	45	349,041
Reclassification to assets of disposal group held for sale	(127,079)	(59,773)	(6,735)	(4,864)	–	(198,451)
At 31 December 2015	81,735	67,077	510	1,223	45	150,590
At 1 January 2016	**81,735**	**67,077**	**510**	**1,223**	**45**	**150,590**
Addition (note)	**–**	**–**	**–**	**421,675**	**–**	**421,675**
Exchange alignment	**–**	**–**	**–**	**16,630**	**–**	**16,630**
At 31 December 2016	**81,735**	**67,077**	**510**	**439,528**	**45**	**588,895**
Accumulated amortisation and impairment:						
At 1 January 2015	91,153	45,346	7,245	4,466	1	148,211
Charge for the year	37,415	11,645	–	1,621	9	50,690
Reclassification to assets of disposal group held for sale	(76,247)	(19,925)	(6,735)	(4,864)	–	(107,771)
At 31 December 2015	52,321	37,066	510	1,223	10	91,130
At 1 January 2016	**52,321**	**37,066**	**510**	**1,223**	**10**	**91,130**
Charge for the year	**17,414**	**5,002**	**–**	**16,472**	**9**	**38,897**
Exchange alignment	**–**	**–**	**–**	**743**	**–**	**743**
At 31 December 2016	**69,735**	**42,068**	**510**	**18,438**	**19**	**130,770**
Net book value:						
At 31 December 2016	**12,000**	**25,009**	**–**	**421,090**	**26**	**458,125**
At 31 December 2015	29,414	30,011	–	–	35	59,460

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15. INTANGIBLE ASSETS *(Continued)*

Note:

For the year ended 31 December 2016, as stated in the Company's announcements dated 12 May 2016 and 13 June 2016, the Group entered into the patent licence agreement with 珠海新概念航空航天器有限公司 (New Concept Aircraft (Zhuhai) Co., Ltd.*) and Dr. Li Hiu Yeung, the inventor of the patents in relation to, among others, the sub-licensing of the patents by Dr. Li Hiu Yeung to China All Access Science And Engineering Technology Development Limited 中國全通科學與工程技術發展有限公司 (for itself and on behalf of the Group). Pursuant to the patent licence agreement, part of the consideration shall be settled by the Group by the allotment and issue of the consideration shares to Dr. Li Hiu Yeung.

珠海新概念航空航天器有限公司 (New Concept Aircraft (Zhuhai) Co., Ltd.*) is the sole registered holder of the patents and Dr. Li Hiu Yeung is named as the sole inventor in the relevant patent registration documents. According to the registration certificates of the patents, initial term of the patents are range from 25 March 2009 to 13 December 2029. The Group has adopted the initial term for the amortization of the patents.

Pursuant to the patents acquisition, the consideration shares are as below:

— The Group has paid cash of an amount of approximately RMB51,617,000.

— 80,000,000 shares were allotted and issued by the Company to Dr. Li Hiu Yeung, the inventor of the patents and/or his nominee as part payment of the consideration in accordance with the terms and conditions of the Patent Licence Agreement for the year ended 31 December 2016.

— 84,000,000 shares to be allotted and issued by the Company to Dr. Li Hiu Yeung subsequent to reporting period, the inventor of the patents and/or his nominee as part payment of the consideration in accordance with the terms and conditions of the Patent Licence Agreement.

More details are set out in the Company's circular date 27 June 2016.

* *The English translation of the Chinese name is for identification purposes only, and should not be regarded as the official English translation of such name.*

The amortisation charge for the year are included in administrative expenses in the consolidated statement of profit or loss.

During the year ended 31 December 2016 and 2015, the directors of the Company determined that there was no impairment of the intangible assets.

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16. GOODWILL

	RMB'000
Cost:	
At 1 January 2015	332,082
Reclassification to assets of disposal group held for sales	(238,620)
At 31 December 2015, 1 January 2016 and 31 December 2016	**93,462**
Accumulated impairment losses:	
At 1 January 2015	—
Impairment loss recognised during the year	727
At 31 December 2015, 1 January 2016 and 31 December 2016	**727**
Carrying amount:	
At 31 December 2016	**92,735**
At 31 December 2015	92,735

Impairment tests for group of CGUs containing goodwill

The directors of the Company have assessed the recoverable amount of goodwill as at 31 December 2016 by reference to the valuation as at 31 December 2016 performed by Greater China Appraisal Limited, an independent firm of qualified valuer based on cash flow forecast projections base on financial budget approved by directors of the Company covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3% (2015: 3%), which do not exceed the long-term average growth rates for the business in which the group of units operates. The cash flows are discounted by using a discount rate of approximately 22.67% (2015: 17.31%). The discount rates used are pre-tax and reflect specific risks relating to the relevant operations.

The values assigned to the key assumptions on market development and discount rates are consistent with external information sources. For the year ended 31 December 2016, based on management's assessment results, the directors of the Company have determined that no impairment was recognised in the consolidated statement of profit or loss in respect of the goodwill (2015: an impairment of approximately RMB727,000 from business operation of casings and keyboards).

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2016 RMB'000	2015 RMB'000
— display and touch modules	**92,735**	92,735
— casings and keyboards	**—**	—
	92,735	92,735

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17. INTEREST IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost of investments in associates, unlisted in the PRC	**228**	228
Share of post-acquisition losses and other comprehensive losses in associates, net of dividend received	**(228)**	(35)
	—	193

	2016 RMB'000	2015 RMB'000
Aggregate amounts of the Group's share of associates'		
Loss from continuing operations	**193**	35
Total comprehensive losses	**193**	35

The Group's associates are unlisted corporate entities whose quoted market prices are not available. The Group's associates are accounted for using the equity method in these consolidated financial statements.

18. PREPAYMENT FOR LAND LEASES

The prepayment represents prepaid lease payment for the land owned by the Group in the PRC. The land is used for the industrial building construction.

19. INVESTMENT PROPERTY

	2016 RMB'000	2015 RMB'000
At 1 January	**—**	—
Transfer from property, plant and equipment (note 14)	**23,068**	—
Gain arising on change in fair value	**343**	—
Exchange alignment	**1,456**	—
At 31 December	**24,867**	—

The Group's property interests hold under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment property.

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19. INVESTMENT PROPERTY *(Continued)*

(a) *Fair value hierarchy*

The following table presents the fair value of the Group's investment property measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 *Fair Value Measurement*. The level into which a fair value measurement is classified and determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 valuations: fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market date are not available; and

- Level 3 valuations: fair value measured using significant unobservable inputs.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2016				
Fair value on a recurring basis				
Investment property located in Hong Kong	—	—	24,867	24,867

The Group's policy is to reorganise transfers between levels of fair value hierarchy as at the end of the date of the events or change in circumstances that caused the transfer. During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

The Group's investment property was revalued at the end of each reporting period by an independent firm of surveyors, Greater China Appraisal Limited, who have among their staff member of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The management of the Company have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at the end of each reporting period.

In estimating the fair value of the property, its current use equate to the highest and best use of the property.

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19. INVESTMENT PROPERTY *(Continued)*

(b) Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of investment property is individually determined at the end of the reporting period based on and by adopting investment method. The investment method relying on the capitalisation of rental income is based upon estimates of future results and a set of assumptions specific to property to reflect its tenancy status. The fair value of investment property reflects, among other things, rental income from current term, leases term yield rate, assumptions about rental receivables during the residual period in light of existing tenancies, the assumed capitalisation rate and reversionary yield rate. Judgment by the valuers is required to determine the principal valuation factors, including term yield rate and reversionary yield rate.

Details of valuation techniques used and key inputs to valuation on investment properties which are categorised as Level 3 fair value measurement at the end of the reporting period are as follows:

	Fair value				
	2016 RMB'000	2015 RMB'000	**Valuation techniques**	**Significant unobservable inputs**	**Range**
Property held for investment in Hong Kong	**24,867**	–	Investment method	(i) Reversionary yield (ii) Market rent per square foot	(i) 3.0%

Reversionary yield is the rate taking into account the capitalisation of potential rental income, nature of the property and prevailing market condition. Market rent per square foot is the market rent taking into account the direct comparable market transactions to the related properties.

The fair value measurements are negatively correlated to the reversionary yield, while positively correlated to the market rent per square foot.

At 31 December 2016, investment property with fair value of approximately RMB24,867,000 (2015: nil) are pledged as securities for the Group's borrowings (Note 30).

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20. INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016 RMB'000	2015 RMB'000
Raw materials	**119,772**	204,135
Work in progress	**96,702**	64,168
Consigned manufacturing materials	**1,610**	55,827
Finished goods	**317,364**	129,315
Goods in transit	**65**	11,899
	535,513	465,344
Less: Inventory provision	**(22,631)**	(60,246)
	512,882	405,098
Reclassification to assets of disposal group held for sale	**—**	(218,154)
	512,882	186,944

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	**2,317,914**	6,504,831
Operating costs included in cost of sales	**204,540**	36,098
Write-down of inventories	**1,125**	34,510
Reversal of write-down of inventories	**(38,740)**	(9,642)
	2,484,839	6,565,797
Reclassification to assets of disposal group held for sale	**—**	(4,321,929)
	2,484,839	2,243,868

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21. TRADE AND OTHER RECEIVABLES

	Note	2016 RMB'000	2015 RMB'000
Non-current			
Property deposits	(v)	—	180,000
Rental deposits		—	980
Other receivables from disposal of associates	(ii)	10,000	21,400
		10,000	202,380
Current			
Trade receivables due from related parties		—	333,904
Other trade receivables		2,211,029	2,580,961
Less: Allowance for doubtful debts	21(b)	(153,277)	(74,360)
	21(a) and (c)	2,057,752	2,840,505
Other receivables and deposits	(i), (iv) and (v)	884,738	968,027
Other receivables from disposal of associates	(ii)	10,000	8,200
Performance guarantee deposits		30,000	30,000
Entrusted loans	(iii) and (iv)	200,000	210,000
		3,182,490	4,056,732
Reclassification to assets of disposal group classified as held for sale		—	(1,401,674)
		3,182,490	2,655,058

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21. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(i) At 31 December 2016, RMB670,000,000 (2015: RMB500,000,000) of other receivables and deposits were structured deposits in a commercial bank, with maturity periods of 12 months. The deposits could be withdrawn prior to maturity.

(ii) At 31 December 2016, the other receivables from disposal of associates represent the remaining balance of consideration for the disposal of associates to Mr. Zhu Wei Min ("Mr. Zhu"). A total amount of approximately RMB20,000,000 (2015: RMB29,600,000) will be payable by instalment till 2019.

(iii) At 31 December 2016, RMB200,000,000 of entrusted loans were provided by a subsidiary of the Company to third parties through a financial institution. RMB100,000,000 each is due on 23 January 2017 and 23 March 2017 respectively. The Group does not hold any collateral over this balance from the third party.

At 31 December 2015, RMB200,000,000 of entrusted loans were provided by the subsidiaries of the Company to a third party through a financial institution. RMB100,000,000 is due on 29 July 2016. The Group does not hold any collateral over this balance from the third party.

At 31 December 2015, an amount of RMB10,000,000 is due on 15 July 2016. The Group does not hold any collateral over this balance from the third party.

(iv) On 15 August 2015, the Group entered into several agreements with a third party pursuant to which the Group agreed to entrust the third party to quote pricing and/or purchase equipment and raw materials on behalf of the Group based on pre-defined terms. The third party will refund the prepayment without interest if the predefined terms are not satisfied. At 31 December 2015, deposits for purchases of raw materials amounted to RMB376,500,000. The Group does not hold any collateral over this balance from the third party.

(v) On 10 August 2015, the Group entered into an agreement with a third party to purchase building for Hebei office. At 31 December 2016, deposits for purchases of building amounted to RMB171,000,000 (2015: RMB180,000,000). The agreement was terminated during the year end 31 December 2016 and a settlement plan was entered into by the purchaser and the vendor. The deposit would be settled in full by way of a number of installments in 2017 with interest bearing at a rate of 8% p.a.

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21. TRADE AND OTHER RECEIVABLES *(Continued)*

(a) *Ageing analysis*

As of the end of the reporting period, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	2016 RMB'000	2015 RMB'000
Within 1 month	860,377	1,846,642
1 to 2 months	131,953	384,746
2 to 3 months	359,410	128,630
3 to 6 months	38,307	400,706
Over 6 months but within 1 year	137,102	22,028
Over 1 year	530,603	57,753
Trade receivables, net of allowance for doubtful debts	2,057,752	2,840,505

(b) *Impairment of trade receivables*

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	74,360	91,878
Impairment loss recognised	78,917	18,001
Reversal of impairment loss	—	(35,519)
At 31 December	153,277	74,360

The Group may grant credit up to 18 months to its customers according to the negotiation and relationship with these customers.

Credit terms could be extended for certain well-established customers on a case-by-case basis. The Group does not obtain collateral from customers.

More details are set out in note 42(a) of credit risk.

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21. TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**1,689,693**	1,414,777
Less than 1 month past due	**157,395**	529,677
1 to 3 months past due	**92,616**	483,551
3 to 12 months past due	**34,959**	354,747
More than 12 months past due	**83,089**	57,753
	368,059	1,425,728
	2,057,752	2,840,505

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group or with sound financial background. For any significant amounts past due, the Group would actively seek repayment from the debtors and the Group would enforce its legal right to the contractually due amount when considered necessary. There have been no disputes over the balances due from these customers, therefore the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

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22. PREPAYMENTS

	Note	2016 RMB'000	2015 RMB'000
Non-current			
Prepayment for machineries	(i)	196,013	221,013
Current			
Prepayment for material purchases		327,707	471,023
Other prepayments		23,174	33,564
		350,881	504,587
Reclassification to assets of disposal group held for sales		—	(128,444)
		350,881	376,143

Notes:

(i) During the year ended 31 December 2015, the Group entered into an agreement with a third party to purchase manufacturing machines. As at 31 December 2015, the Group prepaid an amount of approximately RMB221,013,000 in accordance with the agreement. During the year ended 31 December 2016, the Group and the vendor entered into a supplemental agreement to amend the agreement of the types of the machinary equipment to be acquired. A refund of approximately RMB25,000,000 was paid to the Group, resulting the prepayment for purchasing machinary equipment reduced to an amount of approximately RMB196,013,000 in accordance with the supplemental agreement.

Subsequent to the reporting period, the Group has obtained a favour from the parent of the vendor to guarantee the purchase/prepayment of machineries.

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23. LOANS RECEIVABLE

	2016 RMB'000	2015 RMB'000
Loans receivable	**1,087,281**	1,189,927

At 31 December 2016, the loans receivable with a carrying amount of approximately RMB1,087,281,000 (2015: RMB1,189,927,000) which are neither past due nor impaired at the reporting date for which the Group believes that the amounts are considered as recoverable. These loans receivable that were neither individually nor collectively considered to be impaired relate to a number of borrowers for whom there was no recent history of default.

At 31 December 2016, loans receivable with an aggregate carrying value of approximately RMB997,831,000 (2015: RMB1,189,927,000) are secured by goods under lien with carrying values of approximately HK$1,223,000,000 (2015: HK$1,420,300,000) (equivalent to approximately RMB1,093,974,000 (2015: RMB1,189,927,000)) which the directors of the Company consider they are approximate to fair values.

The Group has a policy for allowance of bad and doubtful debts which is based on the evaluation of collectability of accounts and on management's judgment, including the current creditworthiness, collaterals and the past collection history of each client.

At each of the reporting date, the Group's loans receivable were individually determined to be impaired. In determining the recoverability of the loans receivable, the Group considers any change in the credit quality of the loans receivable. The directors believe that there is no impairment required for the year ended 31 December 2016 and 2015.

A maturity profile of the loans receivable at the end of the reporting periods, based on the maturity date, is as follows:

	2016 RMB'000	2015 RMB'000
On demand or within 1 year	**997,831**	1,189,927
On demand or 1-2 years	**89,450**	—
	1,087,281	1,189,927

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23. LOANS RECEIVABLE *(Continued)*

An aged analysis of the loans receivable (that are not considered to be impaired) as at the end of the reporting period, based on the payment due date, is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**1,087,281**	1,189,927

The loans receivable bear interest at 0.5% – 1% per month (2015: 1% per month).

At 31 December 2016 and 2015, the Group's loan receivables are denominated in Hong Kong dollar.

24. DISCOUNTED BILLS RECEIVABLE

For the year ended 31 December 2016

At 31 December 2016, the Group has discounted its bills receivable of approximately RMB4,070,000 to banks and approximately RMB7,762,000 to a subsidiary of ZTE Corporation with recourse. The subsidiary of the Company still retained the risks and rewards associated with the discounted bills receivable. Accordingly, the advances from banks of approximately RMB4,070,000 and a subsidiary of ZTE Corporation approximately RMB7,762,000 were recognised as liabilities in the consolidated statement of financial position.

For the year ended 31 December 2015

At 31 December 2015, the Group has discounted its bills receivable of approximately RMB53,154,000 to banks and approximately RMB92,651,000 to a subsidiary of ZTE Corporation with recourse. Accordingly, the advances from banks of approximately RMB53,154,000 and a subsidiary of ZTE Corporation approximately RMB92,651,000 received by the Group as consideration for the discounted bills receivable at financial year end were recognised as liabilities.

During the year ended 31 December 2015, the carrying amount of discounted bills receivable of approximately RMB141,617,000 was reclassified to assets and liabilities of disposal group as held for sale.

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25. BILLS RECEIVABLE

For the year ended 31 December 2016

At 31 December 2016, bills receivable amounted to approximately RMB47,989,000 included bank acceptance bills of approximately RMB3,644,000 and no bills receivable had been pledged. Bills receivable of approximately RMB6,579,000 had been endorsed to other parties but not yet due.

For the year ended 31 December 2015

At 31 December 2015, bills receivable amounted to approximately RMB690,160,000, of which approximately RMB317,921,000 is reclassified to assets of disposal group held for sale. The remaining bills receivable amounted to approximately RMB372,239,000 included bank acceptance bills of approximately RMB83,892,000 were pledged as security to issue bills payable for operating use and bills receivable of approximately RMB153,155,000 had been endorsed to other parties but not yet due.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of bills receivable based on the bills received date is as follows:

	2016 **RMB'000**	2015 RMB'000
Within 1 month	**42,400**	187,309
1 to 2 months	**3,139**	139,538
2 to 3 months	**366**	168,579
3 to 6 months	**2,084**	194,334
Over 6 months	**—**	400
	47,989	690,160
Reclassification to assets to disposal group held for sale	**—**	(317,921)
Bills receivable	**47,989**	372,239

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25. BILLS RECEIVABLE *(Continued)*

(b) Bills receivable that are not impaired

The ageing analysis of bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	47,989	690,160
Reclassification to assets of disposal group held for sale	—	(317,921)
Neither past due nor impaired	47,989	372,239

26. FACTORED TRADE RECEIVABLES

At 31 December 2016, the Group factored trade receivables of approximately RMB549,755,000 to financial institution with recourse. The subsidiary of the Company still retained the risks and rewards associated with the factored trade receivables. Accordingly, advances from the factoring of the Group's factored trade receivables have been accounted for as liabilities in the consolidated statement of financial position. The maturity dates are within 6 months. No impairment is made on the factored trade receivables.

At 31 December 2015, the Group had no factored trade receivables.

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27. RESTRICTED CASH

	Note	2016 RMB'000	2015 RMB'000
Guarantee deposits for bills payable	(i)	**82,414**	419,915
Guarantee deposits for bank borrowings	(ii)	**404,418**	—
Government grant	(iii)	**10,719**	—
		497,551	419,915

Notes:

(i) The amount represents cash deposits in certain banks as guarantee deposits for the issuance of bills payable of equivalent amounts, as requested by the banks.

(ii) The amount represents cash deposits pledged as collateral for the borrowings of approximately RMB376,400,000 (2015: nil).

(iii) Restricted cash for government grants represents cash deposits in bank received from government which would be released upon the Group compliance with the conditions attaching to them.

28. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents in the consolidated statement of financial position and consolidated cash flow statement comprise:

	2016 RMB'000	2015 RMB'000
Cash at bank and in hand	**48,573**	526,462
Reclassification to assets of disposal group held for sale	**—**	(251,397)
	48,573	275,065

Renminbi is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. At 31 December 2016, included in cash and cash equivalents were approximately RMB17,000 placed in financial institutions out of the PRC and those cash and cash equivalents are not subject to the foreign exchange control.

Cash at bank earn interests at floating rate based on daily bank deposit rates and is placed with creditworthy banks with no recent history of default.

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28. CASH AND CASH EQUIVALENTS *(Continued)*

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations:

	Note	2016 RMB'000	2015 RMB'000
Profit before taxation			
From continuing operations		**115,161**	320,410
From discontinued operations	10	**188,402**	103,774
Adjustments for:			
Exchange loss, net		**3,161**	2,849
Depreciation of property, plant and equipment	14	**16,095**	45,162
Impairment loss on property, plant and equipment	14	**—**	11,379
Amortisation of intangible assets	15	**38,897**	50,690
Amortisation of land lease prepayment		**1,064**	1,269
Impairment loss recognised on trade receivables	21	**78,917**	18,001
Reversal of impairment loss on recognised trade receivables	21	**—**	(35,519)
Write-down of inventories	20(b)	**1,125**	34,510
Reversal of write down of inventories	20(b)	**(38,740)**	(9,642)
Impairment loss on goodwill	16	**—**	727
Interest income from entrusted loans	8(a)	**(20,047)**	—
Interest income from bank deposits	8(a)	**(31,172)**	(71,493)
Interest income from structured deposits	8(a)	**(15,038)**	(16,635)
Change in fair value of derivative component of convertible bond	8(b)	**285**	9,178
Loss on disposal of property, plant and equipment	7	**315**	5,640
Finance costs		**204,624**	216,432
Gain on disposal of subsidiaries	10	**(160,824)**	(1,863)
Gain on deemed disposal of convertible loans	8(a)	**—**	(28,622)
Loss on disposal of associates	6(b)	**—**	3,750
Share of results of associates	17	**193**	35
Other income — government subsidy		**12,155**	(14,173)
Fair value change of investment property	19	**(343)**	—
Share-based payment expense	35	**15,673**	—
Net loss on early redemption on convertible bond	8(b)	**2,704**	—

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28. CASH AND CASH EQUIVALENTS *(Continued)*

(b) Reconciliation of profit before taxation to cash generated from/(used in) operations: *(Continued)*

	2016 RMB'000	2015 RMB'000
Changes in working capital:		
(Increase)/decrease in inventories	**(288,323)**	149,959
Increase in trade and other receivables	**(245,675)**	(1,392,690)
Decrease in prepayments	**50,262**	200,845
Decrease in bills receivable	**324,250**	219,219
(Increase)/decrease in restricted cash	**(77,636)**	255,777
Decrease/(increase) in loans receivable	**102,646**	(1,189,927)
Decrease in available-for sale financial assets	**—**	971,500
Decrease in trade and other payables	**(76,477)**	(434,932)
Cash generated from/(used in) operations	**201,654**	(574,390)

29. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables due to related parties (Note 40)	**—**	84,735
Bills payable due to related parties (Note 40)	**—**	58,518
Other trade and bills payable	**969,922**	2,141,715
	969,922	2,284,968
Other payables and accruals	**306,195**	753,587
Financial liabilities measured at amortised cost	**1,276,117**	3,038,555
Receipts in advance	**65,951**	33,253
	1,342,068	3,071,808
Reclassification to liabilities of disposal group held for sale	**—**	(1,681,004)
	1,342,068	1,390,804

All of the trade payables, bills payable and other payables and accruals are expected to be settled within one year. Bills payable of approximately RMB82,414,000 (2015: RMB419,915,000) was supported by guarantee deposits of equivalent amount as requested by banks and presented as restricted cash (Note 27).

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29. TRADE AND OTHER PAYABLES *(Continued)*

Included in other payables and accruals, the total minimum finance lease payments of motor vehicles were approximately RMB1,451,000 as at 31 December 2016 and such amount of the present value of minimum finance lease payments were approximately RMB1,403,000. The interest rate of such finance lease is ranged from 2.50% to 4.73% and the charge of finance lease is included in administrative expense.

As of the end of reporting period, the ageing analysis of trade payables and bills payable (which are included in trade and other payables) based on the invoice date are as follows:

	2016 RMB'000	2015 RMB'000
Within 1 month	452,972	729,404
1 to 3 months	311,221	150,747
3 to 6 months	149,297	950,659
Over 6 months but within 1 year	12,840	389,449
Over 1 year	43,592	64,709
	969,922	2,284,968

30. BORROWINGS

(a) The analysis of the carrying amount of borrowings is as follows:

	Note	2016 RMB'000	2015 RMB'000
Credit loans	(i)	50,000	1,193,900
Guaranteed loans	(ii)	241,555	498,000
Promissory notes	(iii)	628,710	—
Mortgage loans	(iv)	10,366	231,421
Pledged loans	(v)	369,100	446,800
		1,299,731	2,370,121
Reclassification to liabilities of disposal group held for sale		—	(598,000)
Total borrowings		1,299,731	1,772,121

All of the borrowings are carried at amortised cost.

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30. BORROWINGS *(Continued)*

(a) The analysis of the carrying amount of borrowings is as follows: *(Continued)*

Notes:

(i) At 31 December 2016, credit loan of RMB50,000,000 was provided by commercial bank (2015: RMB600,000,000 were provided by commercial banks and RMB593,900,000 were provided by commercial company). The annual interest rate of the above loan was 5.22% (2015: range from 4.62%-8.00%). The principal is repayable within one year.

(ii) At 31 December 2016, guaranteed loans of approximately RMB200,000,000 (2015: RMB468,000,000) was guaranteed by the Company and Mr. Chan Yuen Ming ("Mr. Chan") (2015: the Company). Guaranteed loans of approximately RMB41,555,000 (2015: RMB30,000,000) were guaranteed by a subsidiary of the Company. The annual interest rate of above loans ranged from 4.88% to 7.00% (2015: 5.06% to 6.34%).

(iii) Promissory note

(a) On 23 August 2016, the Company and Mr. Chan entered into a note purchase agreement (the "Note Purchase Agreement") with Prosper Talent Limited ("Prosper Talent") (which and whose ultimate beneficial owner(s) are third parties independent of the Company and its connected persons), pursuant to which the Company has agreed to issue, and Prosper Talent has agreed to purchase from the Company, US$70,000,000 guaranteed notes (the "Notes") due 2017. Pursuant to the Note Purchase Agreement, Mr. Chan shall also provide a personal guarantee in favour of Prosper Talent to secure, among others, the due and punctual observance and performance by the Company under the Note Purchase Agreement and other documents in connection with the transaction contemplated under the Note Purchase Agreement.

The interest rate will be charged at 13%.

Details are set out in the Company's announcement date 23 August 2016.

(b) On 30 December 2016, the Company and Mr. Chan entered into a note purchase agreement (the "CTM Note Purchase Agreement") with Chance Talent Management Limited ("CTM") (which and whose ultimate beneficial owner(s) are third parties independent of the Company and its connected persons), pursuant to which the Company agreed to issue, and CTM agreed to purchase from the Company, HK$160,000,000 guaranteed notes (the "CTM Notes") due June 2017. Pursuant to the CTM Note Purchase Agreement, Mr. Chan shall provide a personal guarantee in favour of the CTM to secure, among others, the due and punctual observance and performance by the Company under the CTM Note Purchase Agreement and other documents with the transaction contemplated under the CTM Note Purchase Agreement.

The interest rate will be charged at 12%.

Details are set out in the Company's announcement date 30 December 2016.

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30. BORROWINGS *(Continued)*

(a) The analysis of the carrying amount of borrowings is as follows: *(Continued)*

Notes: *(Continued)*

(iv) At 31 December 2016, mortgage loans of approximately RMB1,751,000 (2015: RMB10,711,000) were secured by the Group's building held for own use and investment property with carrying value of approximately RMB34,334,000 (2015: RMB21,457,000). The mortgage loans with an amount of approximately HK$9,631,000 (equivalent to RMB8,615,000) were also guaranteed by the Company. The annual interest rate of above loan charged at 1.38% to 5.39% (2015: 1.23% to 14.95%).

At 31 December 2015, mortgage loans of approximately RMB220,710,000 were secured by two pieces of land of the Group with carrying value of approximately RMB136,554,000 (including an asset of the disposal group). The annual interest rate of above loans ranged from 4.95% to 6.48%.

(v) At 31 December 2016, pledged loans of RMB369,100,000 (2015: RMB406,800,000) were pledged by bank deposits of the Group with carrying value of approximately RMB376,400,000 (2015: RMB419,915,000). The principal is due in 2017 with the interest rate charged from 1.70% to 4.79% (2015: 1.62% to 5.39%).

At 31 December 2016, none (2015: RMB40,000,000) of the loans were pledged by bills receivable of the Group.

(b) At 31 December, the borrowings were repayable as follows:

	2016 RMB'000	2015 RMB'000
Current portion		
Within 1 year	**1,248,739**	2,192,341
Reclassification to liabilities of disposal group held for sale	**—**	(598,000)
	1,248,739	1,594,341

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30. BORROWINGS *(Continued)*

(b) At 31 December, the borrowings were repayable as follows: *(Continued)*

	2016 RMB'000	2015 RMB'000
Non-current portion		
After 1 year but within 2 years	**42,537**	50,939
After 2 years but within 5 years	**1,995**	120,391
After 5 years	**6,460**	6,450
	50,992	177,780
Total borrowings	**1,299,731**	1,772,121

31. SHARE OPTION SCHEMES

A share option scheme (the "Share Option Scheme") was conditionally approved by resolutions of the shareholders of the Company on 28 August 2009.

On 10 June 2015, a total of 50,000,000 share options (each share option entitling the holder to subscribe for one Share) were granted to eligible participants including two directors of the Company and the rest were employees of the Group. Under the Share Option Scheme, the directors of the Company may, at their sole discretion, grant to any eligible participants options to subscribe for ordinary shares of the Company at the highest of (i) the closing price of shares of the Company on Exchange as stated in the Exchange's daily quotation sheet on the date of the offer of grant; (ii) the average closing price of the shares of the Company on Exchange as stated in the Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Company's share. The offer of a grant of options may be accepted within 21 days from the date of the offer. A nominal consideration of HK$1 is payable on acceptance of the grant of an option. The exercise period of the options granted is determinable by the directors of the Company, which commences after the date of offer with a certain vesting period and ends in any event not later than 4 years from the respective date when the share options are granted, subject to the provisions for early termination thereof.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme is an amount equivalent to 10% of the shares of the Company in issue at the date of the 2009 AGM.

The maximum number of shares to be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Group must not in aggregate exceed 30% of the relevant class of shares of the Company in issue from time to time.

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31. SHARE OPTION SCHEMES *(Continued)*

The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval 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 and with an aggregate value in excess of HK$5 million must be approved in advance by the Company's shareholders. The Share Option Scheme does not provide for any minimum period for holding of options or any performance targets before exercise of options.

(a) The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors	16,000,000	1 year from the date of grant	4 years
Options granted to employees	34,000,000	1 year from the date of grant	4 years
	50,000,000		

(b) The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price HK$ per share	Number of shares issuable under the options '000	Weighted average exercise price HK$ per share	Number of shares issuable under the options '000
Outstanding at the beginning of the year	**3.05**	**50,000**	—	—
Granted during the year	**—**	**—**	3.05	50,000
Outstanding at the end of the year	**3.05**	**50,000**	3.05	50,000

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31. SHARE OPTION SCHEMES *(Continued)*

(c) Fair value of share options and assumptions

	2015
Fair value at measurement date	0.727
Share price	3.050
Exercise price	3.050
Expected volatility (expressed as weighted average volatility used in modelling)	37.558%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	4 years
Risk-free interest rate (based on exchange Fund Notes)	0.872

Particulars of the Company's share option scheme are set out in paragraphs headed "Share Option Scheme" in the section headed "Report of the Directors".

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

	Outstanding at 1 January 2016	Granted during the year	Exercised during the year	Lapse during the year	Outstanding at 31 December 2016	Exercise price at 31 December 2016 HK$ per share	Date of grant	Exercisable period
Executive Directors								
– Shao Kwok Keung	3,000,000	–	–	–	3,000,000	3.05	10-Jun-2015	10-Jun-2016 to 9-Jun-2019
	3,000,000	–	–	–	3,000,000	3.05	10-Jun-2015	10-Jun-2017 to 9-Jun-2019
	3,000,000	–	–	–	3,000,000	3.05	10-Jun-2015	10-Jun-2018 to 9-Jun-2019
– Xiu Zhi Bao	2,333,333	–	–	–	7,000,000	3.05	10-Jun-2015	10-Jun-2016 to 9-Jun-2019
	2,333,333	–	–	–	2,333,333	3.05	10-Jun-2015	10-Jun-2017 to 9-Jun-2019
	2,333,334	–	–	–	2,333,334	3.05	10-Jun-2015	10-Jun-2018 to 9-Jun-2019
Employees	11,333,333	–	–	–	11,333,333	3.05	10-Jun-2015	10-Jun-2016 to 9-Jun-2019
	11,333,333	–	–	–	11,333,333	3.05	10-Jun-2015	10-Jun-2017 to 9-Jun-2018
	11,333,334	–	–	–	11,333,334	3.05	10-Jun-2015	10-Jun-2018 to 9-Jun-2019
	50,000,000	–	–	–	50,000,000			

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32. DEFERRED TAXATION

(a) Deferred tax assets and liabilities in the consolidated statement of financial position represent:

(i) The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Revenue recognition RMB'000	Provisions RMB'000	Intangible assets RMB'000	Tax losses carry forward RMB'000	Unrealised intra-group profits RMB'000	Property, plant and equipment RMB'000	Accrued liabilities RMB'000	Total RMB'000
At 1 January 2015	1,781	(17,738)	37,454	(2,279)	(2,460)	1,566	(8,701)	9,623
Charged/(credited) to profit or loss	3,174	4,713	(12,672)	155	20	(753)	5,477	114
	4,955	(13,025)	24,782	(2,124)	(2,440)	813	(3,224)	9,737
Less: Reclassification to assets and liabilities of disposal group held for sale (Note 10)	–	6,491	(13,602)	–	–	(813)	3,224	(4,700)
At 31 December 2015	4,955	(6,534)	11,180	(2,124)	(2,440)	–	–	5,037
At 1 January 2016	**4,955**	**(6,534)**	**11,180**	**(2,124)**	**(2,440)**	**–**	**–**	**5,037**
(Credited)/charged to profit or loss	**(4,955)**	**6,534**	**(1,928)**	**2,124**	**2,440**	**–**	**–**	**4,215**
At 31 December 2016	**–**	**–**	**9,252**	**–**	**–**	**–**	**–**	**9,252**

(ii) Reconciliation to the consolidated statement of financial position:

	2016 RMB'000	2015 RMB'000
Net deferred tax assets resognised in the consolidated statement of financial position	**–**	(20,813)
Net deferred tax liabilities recognised in the consolidated statement of financial positon	**9,252**	30,550
	9,252	9,737
Less: Reclassification to assets and liabilities of disposal group held for sale	**–**	4,700
	9,252	5,037

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32. DEFERRED TAXATION *(Continued)*

(b) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 3(v), the Group has not recognized deferred tax assets in respect of unused tax losses and other temporary differences of certain entities in the Group. The Group determined that it was not probable that these tax losses and other temporary differences could be utilised in foreseeable future. At 31 December 2016, unused tax losses not recognised of approximately RMB172,525,000 (2015: RMB84,451,000) will expire within five years.

(c) Deferred tax liabilities not recognised

The PRC Corporate Income Tax law also imposes a withholding tax rate of 10% or 5%, unless reduced by a tax treaty or agreement, on dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC for earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax. At 31 December 2016, temporary differences relating to the post-2007 undistributed profits of the Group's foreign-invested enterprises amounted to approximately RMB1,153,111,000 (2015: RMB909,521,000). Deferred tax liabilities of approximately RMB111,563,000 (2015: RMB87,204,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits since these earnings are not intended to be distributed in the foreseeable future.

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33. CONVERTIBLE BONDS

(a) *Convertible bonds that contain an equity component*

The movement of the liability component of the convertible bonds recognised in the consolidated statement of financial position is set out below:

	ZTE 2013 Convertible Bond RMB'000 (Note i)	CTM Convertible Bond RMB'000 (Note ii)	Oriental Convertible Bond RMB'000 (Note iii)	Dundee Convertible Bond RMB'000 (Note iv)
Face value of convertible bonds at issued date	158,419	157,240	280,249	710,446
Less: equity component	(5,415)	(4,475)	(48,307)	(143,099)
Liability component on initial recognition	153,004	152,765	231,942	567,347
Less: direct issue costs attributable to liabilities component	(311)	—	(29)	(15)
Liability component on initial recognition, net of direct issue costs	152,693	152,765	231,913	567,332
Liability component at 1 January 2015	158,560	157,777	—	—
Convertible bonds issued during the year	—	—	231,913	567,332
Add: imputed finance cost	132	—	12,731	16,334
Conversion of convertible bond	(158,963)	—	—	—
Derecognition	—	—	(250,712)	—
Exchange alignment	271	3,783	6,068	(20,845)
	—	161,560	—	562,821
Effect of extinguishment of convertible bond				
— Fair value of convertible bond at issued date, net of direct issue costs	—	—	287,280	—
— Equity component	—	—	(65,190)	—
— Imputed finance cost	—	—	5,889	—
— Exchange alignment	—	—	(3,498)	—
Liability component at 31 December 2015	—	161,560	224,481	562,821

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33. CONVERTIBLE BONDS *(Continued)*

(a) Convertible bonds that contain an equity component (Continued)

	ZTE 2013 Convertible Bond RMB'000 (Note i)	CTM Convertible Bond RMB'000 (Note ii)	Oriental Convertible Bond RMB'000 (Note iii)	Dundee Convertible Bond RMB'000 (Note iv)
Liability component at 1 January 2016	—	161,560	224,481	562,821
Effect of extinguishment of convertible bond				
Add: imputed finance cost	—	—	26,901	46,460
Redemption	—	(164,160)	—	—
Exchange alignment	—	2,600	25,264	62,429
Liability component at 31 December 2016	—	—	276,646	671,710

Notes:

(i) On 15 January 2013, the Company issued a tranche of convertible bond to ZTE (H.K.) Limited, being a wholly-owned subsidiary of ZTE Corporation, for the principal amount of HK$201,500,000 (equivalent to approximately RMB158,419,000) with a maturity of two years and interest rate of 10% per annum. On 14 January 2015, ZTE (H.K.) Limited converted 92,177,493 conversion shares of the convertible bonds (principal amount of HK$201,500,000) at HK$2.186 per conversion share.

(ii) On 4 September 2013, the Company issued a tranche of convertible bond to CTM for the principal amount of HK$200,000,000 (equivalent to approximately RMB157,240,000) with a maturity of one year and interest rate of 8% per annum. The convertible bond, at the option of the bond holders, will be partly or fully converted into ordinary shares with a par value of HK$0.01 each of the Company. The initial conversion price of the convertible bond is HK$3.00 per share. On 10 September 2014, the Company, Mr. Chan Yuen Ming and CTM entered into the Supplemental Deed pursuant to which the parties agreed to extend the maturity date of convertible bonds from 4 September 2014 to 4 September 2016. Following the completion of the amendments to the HK$350,000,000 convertible bonds due 2016 of the Company and the declaration of the interim dividends on 2 October 2015 and 31 August 2015 respectively, the conversion price of the convertible bond is adjusted to HK$2.662 per share. On 4 September 2016, the convertible bond was matured and HK$40,000,000 was subsequently repaid during the year ended 31 December 2016. The remaining of the convertible bond has been redeemed by the issuance of the promissory note (Note 30(a)(iii)).

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33. CONVERTIBLE BONDS *(Continued)*

(a) Convertible bonds that contain an equity component *(Continued)*

Notes: *(Continued)*

(iii) On 23 December 2014, the Company entered into the Subscription Agreement with ZTE (H.K.) Limited, pursuant to which the Company has conditionally agreed to issue, and ZTE (H.K.) Limited has conditionally agreed to subscribe for the convertible bonds in the principal amount of HK$350,000,000 at 100% of the face value of such principle due 2017 which may be converted into 109,375,000 conversion shares at the conversion price of HK$3.2 per conversion share (subject to adjustment). On 26 February 2015, the Company has completed the issuance and the proceeds from issuance of these convertible bonds of the net proceeds of approximately HK$349,000,000 were received. Following the completion of the placing and subscription on 8 June 2015, the conversion price of the convertible bond is adjusted to HK$3.177 per share. On 30 June 2015, ZTE (H.K) Limited has transferred all the convertible bonds to a third party company — Oriental (Asia) Investment Holdings Limited. On 20 July 2015, the Company entered into a supplemental deed with Oriental (Asia) Investment Holdings Limited to, among others, extend the maturity date of the convertible bond from 26 February 2017 to 26 February 2018 and adjust of the conversion price to HK$2.34 per conversion shares resulting in amending of terms of convertible bond.

(iv) On 9 June 2015, the Company entered into the subscription agreement with Dundee Greentech Limited pursuant to which the Company has conditionally agreed to issue, and Dundee Greentech Limited has conditionally agreed to subscribe for, the convertible bonds in the principal amount of HK$847,080,000 (equivalent to approximately RMB710,446,000) at 100% of the face value of such principal amount, which may be converted into 362,000,000 conversion shares at the conversion price of HK$2.34 per conversion share (subject to adjustment). The conditions precedent for completion have been fulfilled and the completion took place on 10 August 2015.

(v) At 31 December 2016, none (2015: approximately RMB161,560,000) of the convertible bond was classified as current liabilities which is due to be settled within twelve months after the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

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33. CONVERTIBLE BONDS *(Continued)*

(b) Convertible bonds which do not contain an equity component

The movement of the liability component and embedded financial derivative of the convertible bond recognised in the consolidated statement of financial position is set out below:

	AEV Initial Notes (Note i and iii)		AEV Additional Notes (Note ii and iii)		
	Liability component RMB'000	Convertible bond embedded financial derivatives RMB'000	Liability component RMB'000	Convertible bond embedded financial derivatives RMB'000	Total RMB'000
Carrying amount at 1 January 2015	168,311	15,600	—	—	183,911
Convertible bond issued on 6 July 2015 net of direct transaction costs	—	—	119,798	14,373	134,171
Add: imputed finance cost	10,383	—	5,213	—	15,596
Conversion of convertible bond	(117,545)	(2,947)	—	—	(120,492)
Fair value losses on embedded financial derivatives	—	8,926	—	252	9,178
Exchange alignment	3,833	364	2,856	317	7,370
Carrying amount at 31 December 2015	64,982	21,943	127,867	14,942	229,734
Carrying amount at 1 January 2016	**64,982**	**21,943**	**127,867**	**14,942**	**229,734**
Add: imputed finance cost	**471**	**—**	**5,818**	**—**	**6,289**
Conversion of convertible bond	**(23,858)**	**(7,603)**	**—**	**—**	**(31,461)**
Redemption	**(48,652)**	**(2,841)**	**(139,417)**	**(28,484)**	**(219,394)**
Fair value losses on embedded financial derivatives	**—**	**(12,422)**	**—**	**12,707**	**285**
Exchange alignment	**7,057**	**923**	**5,732**	**835**	**14,547**
Carrying amount at 31 December 2016	**—**	**—**	**—**	**—**	**—**

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33. CONVERTIBLE BONDS *(Continued)*

(b) Convertible bonds which do not contain an equity component *(Continued)*

Notes:

(i) On 27 June 2014, the Company issued a tranche of convertible bonds to Asia Equity Value Ltd ("AEV") for the principal amount of HK$230,000,000 (equivalent to approximately RMB181,794,000) with a maturity of 27 months and interest rate of 7.5% per annum (the "AEV Initial Notes"). The Company will redeem, in eight equal installments, the principal amount of such convertible bonds at 100% of such principal amount together with any accrued but unpaid interest thereto. The convertible bonds, at the option of the bonds holder, will be partly or fully converted into ordinary shares with a par value of HK$0.01 each of the Company. The initial conversion price of the convertible bonds is HK$3.35 per share subject to adjustments pursuant to the terms and conditions of the convertible bonds. Following the completion of the placing and subscription as mentioned in Note 35(c), the conversion price of the convertible bonds is adjusted to HK$2.17 per share.

On 26 February 2015, AEV converted 1,245,719 conversion shares of the convertible bonds (principal amount of HK$2,910,000) at HK$2.336 per conversion share. The Company further issued 3,705,704 shares of the Company at HK$2.336 per share for the repayment of coupon interest to AEV of approximately RMB6,993,000 (equivalent to approximately HK$8,657,000).

On 27 March 2015, AEV converted 4,048,583 conversion shares of the convertible bonds (principal amount of HK$10,000,000) at HK$2.47 per conversion share. The Company further issued 1,723,861 shares of the Company at HK$2.47 per share for the repayment of coupon interest to AEV of approximately RMB3,555,000 (equivalent to approximately HK$4,258,000).

On 17 July 2015, AEV converted 8,547,008 conversion shares of the AEV Initial Notes (principal amount of HK$20,000,000) at HK$2.34 per conversion share.

On 24 March 2016, AEV converted 13,248,848 conversion shares of the AEV Initial Notes (principal amount of HK$28,750,000) at HK$2.17 per conversion share.

(ii) On 6 July 2015, the Company completed the issue of the additional convertible bonds to AEV in the principal amount of HK$170,000,000 (approximately RMB134,171,000) (the "AEV Additional Notes") for a cash consideration of HK$170,000,000, representing 100% of the face value of such principal amount with an initial conversion price of HK$3.07 per share, subject to adjustments pursuant to the terms and conditions of the convertible bonds. Following the completion of the placing and subscription as mentioned in Note 35(c), the conversion price of the convertible bond is adjusted to HK$2.22 per share.

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33. CONVERTIBLE BONDS *(Continued)*

(b) Convertible bonds which do not contain an equity component *(Continued)*

Notes: *(Continued)*

(iii) On 24 June 2016, the Company exercised the right of early redemption in accordance with the terms and conditions of the AEV Initial Notes and the AEV Additional Notes issued to AEV as amended by the deed of amendment dated 24 June 2016 and entered into among the Company, China All Access Group Limited and AEV. Pursuant to the amended terms and conditions, the Company has issued the promissory note with principal amount of HK$270,000,000 to AEV and China All Access Group Limited has executed a guarantee in favour of AEV guaranteeing the payment obligation of the Company pursuant to the promissory note. Upon completion of the early redemption on 24 June 2016, the AEV Initial Notes and the AEV Additional Notes have been cancelled. For details, please refer to the Company's announcement dated 24 June 2016. During the year ended 31 December 2016, the promissory note was fully repaid.

(iv) At 31 December 2016, none (2015: approximately RMB104,327,000) of the convertible bond was classified as current liabilities which is due to be settled within twelve months after the end of the reporting period.

The convertible bond was recognised as liability component and embedded financial derivatives as follows:

- Liability component initially recognised at its fair value, which is the residual amount after deducting the fair value of the derivative component from the net proceeds at the initial recognition, and is subsequently carried at amortised cost.

- Embedded financial derivatives, comprise the fair value of the bonds holders' option to convert the convertible bonds into ordinary shares of the Company at the conversion price; the fair value of the option of the Company to settle the interest or principal in shares if certain conditions are met; the fair value of the bonds holders' option to defer the first four quarterly installments; the fair value of the bonds holders' option to require the Company to redeem the convertible bonds.

  These embedded options are interdependent as only one of these options can be exercised. Therefore, they are not able to be accounted for separately and a single compound derivative was recognised.

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34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Interests in subsidiaries		**83,517**	90,303
Intangible assets		**421,090**	—
Amount due from subsidiaries		**2,404,946**	2,880,671
		2,909,553	2,970,974
Current assets			
Amount due from subsidiaries		**971,829**	118,110
Prepayments		**12,234**	—
Other receivables		**114**	237
Cash and cash equivalents		**1,121**	7,211
		985,298	125,558
Current liabilities			
Amount due to subsidiaries		**35,878**	—
Other payables and accruals		**40,136**	143,087
Income tax payable		**11,443**	8,244
Borrowings		**628,710**	—
Convertible bonds		**—**	265,887
		716,167	417,218
Net current assets/(liabilities)		**269,131**	(291,660)
Total assets less current liabilities		**3,178,684**	2,679,314
Non-current liabilities			
Borrowings		**41,556**	25,134
Convertible bonds		**948,356**	912,709
		989,912	937,843
Net assets		**2,188,772**	1,741,471
Capital and reserves	35		
Share capital		**16,267**	15,468
Reserves		**2,172,505**	1,726,003
Total equity		**2,188,772**	1,741,471

Approved and authorised for issued by the board of directors on 31 March 2017.

Mr. Chan Yuen Ming
Chairman and Director

Mr. Shao Kwok Keung
Chief Executive Officer and Director

NOTES TO THE FINANCIAL STATEMENTS

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35. CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital RMB'000 Note 35(c)	Share premium RMB'000 Note 35(d)(i)	Capital redemption reserve RMB'000 Note 35(d)(ii)	Contribution surplus RMB'000 Note 35(d)(iii)	Capital reserve RMB'000 Note 35(d)(iv)	Share-based compensation reserve RMB'000 Note 35(d)(v)	Translation reserve RMB'000 Note 35(d)(vii)	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2015		13,571	1,130,936	95	90,303	9,880	–	(60,684)	(71,909)	1,112,192
Changes in equity for 2015:										
Profit for the year		–	–	–	–	–	–	–	34,857	34,857
Other comprehensive income		–	–	–	–	–	–	89,501	–	89,501
Total comprehensive income		–	–	–	–	–	–	89,501	34,857	124,358
Issuance of shares		1,906	419,176	–	–	49	–	–	–	421,131
Repurchase of shares		(9)	(2,361)	9	–	–	–	–	(9)	(2,370)
Redemption of convertible bonds		–	–	–	–	(5,415)	–	5,415	–	–
Modification on term of convertible bonds		–	–	–	–	16,883	–	–	(16,883)	–
Issue of new convertible bonds		–	–	–	–	191,406	–	–	–	191,406
Dividends approved and paid in respect of the previous year	35(b)	–	(67,097)	–	–	–	–	–	–	(67,097)
Dividends declared and paid in respect of the previous year	35(b)	–	(38,149)	–	–	–	–	–	–	(38,149)
Balance at 31 December 2015		15,468	1,442,505	104	90,303	212,803	–	34,232	(53,944)	1,741,471
Balance at 1 January 2016		**15,468**	**1,442,505**	**104**	**90,303**	**212,803**	**–**	**34,232**	**(53,944)**	**1,741,471**
Changes in equity for 2016										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,302**	**15,302**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**105,526**	**–**	**105,526**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**105,526**	**15,302**	**120,828**
Conversion of convertible bonds		**111**	**31,350**	**–**	**–**	**–**	**–**	**–**	**–**	**31,461**
Redemption of convertible bonds		**–**	**–**	**–**	**–**	**(4,475)**	**–**	**–**	**4,475**	**–**
Acquisition of patents by equity shares		**–**	**–**	**–**	**–**	**370,058**	**–**	**–**	**–**	**370,058**
Issue of new shares upon acquisition of patents		**688**	**179,828**	**–**	**–**	**(180,516)**	**–**	**–**	**–**	**–**
Share-based payment		**–**	**–**	**–**	**–**	**–**	**15,673**	**–**	**–**	**15,673**
Dividends declared and paid in respect of the current year	35(b)	**–**	**(90,719)**	**–**	**–**	**–**	**–**	**–**	**–**	**(90,719)**
Balance at 31 December 2016		**16,267**	**1,562,964**	**104**	**90,303**	**397,870**	**15,673**	**139,758**	**(34,167)**	**2,188,772**

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35. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2016		2015	
	HK$'000	**Equivalent to RMB'000**	HK$'000	Equivalent to RMB'000
Interim dividends declared and paid of HK2.5 cents in 2015	**–**	**–**	45,562	38,149
Final dividends proposed after the end of the reporting period of HK2.5 cents per ordinary share (2015: HK5.5 cents per ordinary share)	**47,893**	**42,840**	100,236	83,978
	47,893	**42,840**	145,798	122,127

The final dividends proposed after the end of the reporting period has not been recognised as liabilities at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2016		2015	
	HK$'000	**Equivalent to RMB'000**	HK$'000	Equivalent to RMB'000
Final dividends in respect of the previous financial year, approved and paid during the year, of HK5.5 cents per ordinary share (2015: HK5.5 cents per ordinary share)	**105,365**	**90,719**	80,318	67,097

The board of the directors of the Company recommends the payment of a final dividend of HK2.5 cents per share for the year ended 31 December 2016 (2015: HK5.5 cents per share) and to subject to shareholder's approved at the forthcoming annual general meeting of the Company.

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35. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	2016		2015	
	No. of shares '000	Amount HK$'000	No. of shares '000	Amount HK$'000
Authorised:	100,000,000	1,000,000	100,000,000	1,000,000
Ordinary shares, issued and fully paid:				
At 1 January	1,822,474	18,225	1,582,156	15,821
Issuance of new shares (Note)	93,249	932	240,318	2,404
At 31 December	1,915,723	19,157	1,822,474	18,225
		RMB'000		RMB'000
Equivalent to		16,267		15,468

Note: On 14 January 2015, ZTE (H.K.) Limited converted the convertible bonds in the principal amount of HK$201,500,000 and a total of 92,177,493 conversion shares were allotted and issued at HK$2.186 per conversion share. After the conversion, all the convertible bonds issued by the Company in accordance with the subscription agreement have been converted.

On 26 February 2015, approximately HK$11,566,525 due under the convertible bonds subscribed by AEV (comprising repayment of quarterly instalment of HK$2,910,000 and interests of approximately HK$8,656,525) were repaid by 4,951,423 shares (HK$2.336 per share).

On 27 March 2015, the Company allotted and issued in aggregate 5,772,444 shares to AEV to repay in aggregate approximately HK$14,257,937.5 (comprising repayment of quarterly instalment of HK$10,000,000 and interests of HK$4,257,937.5) due under the convertible bonds. The issue price for such shares was HK$2.47 per share.

On 8 June 2015, the Company issued 130,000,000 placing shares to not less than six places at the placing price of HK$2.34 per placing share.

On 17 July 2015, AEV converted the AEV Initial Notes in principal amount of HK$20,000,000 and a total of 8,547,008 conversion shares were allotted and issued at HK$2.34 per conversion share. After the conversion, the outstanding principal amount of the AEV Initial Notes amounted to HK$197,090,000.

On 24 March 2016, AEV converted 13,248,848 conversion shares of the AEV Initial Notes (principal amount of HK$28,750,000) at HK$2.17 per conversion share.

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35. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital *(Continued)*

Note: *(Continued)*

During the year ended 31 December 2016, pursuant to the patents acquisition (note 15), part of the consideration shares are as below:

— 80,000,000 shares were allotted and issued by the Company to Dr. Li Hiu Yeung, the inventor of the patents and/or his nominee as part payment of the consideration in accordance with the terms and conditions of the Patent Licence Agreement.

— 84,000,000 shares to be allotted and issued by the Company to Dr. Li Hiu Yeung subsequent to reporting period, the inventor of the patents and/or his nominee as part payment of the consideration in accordance with the terms and conditions of the Patent Licence Agreement.

(d) Nature and purpose of reserve

(i) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company which is governed by the Cayman Companies Law.

(ii) Capital redemption reserve

Pursuant to the provision of Cayman Companies Law, shares of a company are repurchased wholly out of the Company's profits, the amount by which the Company's issued share capital is diminished on cancellation of the shares repurchased shall be transferred to the capital redemption reserve.

(iii) Contributed surplus

The contribution surplus comprises the difference between the consolidated net assets of CAA BVI over the nominal value of the shares issued by the Company in exchange as at the date of reorganisation on 28 August 2009. The contributed surplus is distributable to the shareholders of the Company.

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35. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserve *(Continued)*

(iv) Capital reserve

Capital reserve comprised the following:

— the liabilities waived by the Controlling shareholders

— the amount allocated to the unexercised equity component of convertible bonds issued by the Company recognised in accordance with the accounting policy adopted for convertible bonds in Note 3(q).

— the difference between the considerations of acquisition or disposal of equity interest from/to non-controlling equity owners and the carrying amount of the proportionate net assets.

(v) Share-based compensation reserve

Share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised. The amount will be transferred to retained earnings when the related options are exercised, expired or forfeited.

(vi) Statutory general reserve

The subsidiaries in the PRC are required to appropriate 10% of its after-tax profit, as determined in accordance with the PRC accounting rules and regulations, to the general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

The statutory general reserve can be used to cover previous years' losses, if any, and may be converted into paid-up capital to shareholders in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital of the PRC subsidiaries.

(vii) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of entities outside the PRC.

(e) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to the equity shareholders of the Company was approximately RMB1,624,515,000 (2015: RMB1,484,279,000). After the end of the reporting period, the directors proposed a final dividend of HK2.5 cents per ordinary share (2015: HK5.5 cents per share), amounting to approximately HK$47,893,000 (2015: HK$100,236,000). This dividend has not been recognised as a liability at the end of the reporting period.

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35. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) Capital management

The Group's objectives in the aspect of managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subjected to externally imposed capital requirements.

The gearing ratio (calculated by dividing borrowings by total assets) as at 31 December 2016 was approximately 15.69% (2015: 24.22%). Details are disclosed in the paragraph headed "Liquidity, financial resources and capital structure" in the section headed "Management Discussion and Analysis" of this annual report.

36. SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Disposals

(i) On 14 August 2015, the Group entered into a sale agreement to dispose of the Xingfei Group for a total consideration of RMB702,000,000, which carried out a part of the Group's wireless data communication application solutions and services operations. The disposal was effected in order to generate cash flows for the expansion of the Group's other businesses. The transaction was completed in January 2016.

Details are set out in Note 10.

(ii) On 4 January 2016, China Lide Holdings Limited and China All Access Investment Limited, being two of the wholly owned subsidiaries of the Company, entered into the subscription agreement with the Investor, pursuant to which the Galaxy Asia Investment Co. Ltd. agreed to subscribe for the subscription shares, representing about 25.0% of the enlarged issued share capital of China Lide Holdings Limited, for cash at the subscription price of HK$40,400,000.

For the year ended 31 December 2016, the fair value of the consideration receivable was approximately RMB33,847,000. The amount of recognised as non-controlling interests was approximately RMB22,517,000. As a result, a positive movement in the Group's equity was approximately RMB11,330,000.

Details are set out in the Company's announcement date 4 January 2016.

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36. SIGNIFICANT TRANSACTIONS WITH NON-CONTROLLING INTERESTS *(Continued)*

Acquisitions

(i) On 28 August 2015, Mr. Zhu, Changfei Investment and Lead Communications entered into the capital reduction agreement in relation to Mr. Zhu's withdrawal of his equity investment in Lead Communications, representing about 16.77% or approximately RMB1,300,000 of the registered capital of Lead Communications. Pursuant to the terms and conditions of the capital reduction agreement, Mr. Zhu will withdraw his equity investment in Lead Communications by way of a reduction of the registered capital of Lead Communications from approximately RMB7,740,000 to approximately RMB6,450,000. The aggregate consideration for the capital reduction payable by Lead Communications to Mr. Zhu is approximately RMB19,562,400. Upon completion of the capital reduction, Mr. Zhu had ceased to hold any equity interest in Lead Communications and Changfei Investment will become the 100% holding company of Lead Communications. For details, please refer to the Company's announcement dated 28 August 2015.

(ii) On 25 September 2015, 廣東全通諾特通信技術有限公司 (Guangdong All Access Noter Communication Technology Co., Ltd.) ("Guangdong All Access") a wholly-owned subsidiary of the Company, entered into agreement with Mr. Zhu and Ms. Liu Wei Li in relation to the acquisition of in aggregate about 6.58% equity interest in Changfei Investment by Guangdong All Access for an aggregate consideration of approximately RMB54,750,000. Upon completion of the acquisition, the Group's equity interest in Changfei Investment had increased from about 60.10% to about 66.68%. For details, please refer to the Company's announcement dated 25 September 2015.

(iii) On 9 October 2015, Guangdong All Access entered into the equity transfer agreement with Beijing Yuefeng, pursuant to which Guangdong All Access has conditionally agreed to acquire 100% equity interest in Zhisheng from the Vendor for a total consideration of RMB1. Zhisheng is an investment holding company principally engaged in holding about 33.32% equity interest in Changfei Investment (the "Changfei Equity Interest"). Upon completion of the Zhisheng acquisition which took place in 22 December 2015, (i) Zhisheng has become a wholly-owned subsidiary of the Company and (ii) the Group's equity interest in Changfei Investment had increased from about 66.68% to 100%. According to the announcement, the consideration for the Zhisheng acquisition was determined by Guangdong All Access and Beijing Yuefeng after arm's length negotiations with reference to, among other factors, (i) the book value of the Changfei Equity Interest in the unaudited management accounts of Zhisheng in the amount of about RMB578,000,000; (ii) the total liabilities of Zhisheng as at 30 June 2015 of about RMB583,000,000 principally representing the interest-bearing borrowings incurred by Zhisheng for payment of its acquisition costs of the Changfei Equity Interest (the "Zhisheng Liabilities"); and (iii) the net liabilities position of Zhisheng of about RMB3,060,000 as at 30 June 2015. For further details, please refer to the Company's announcements dated 9 October 2015, 26 November 2015, 15 December 2015 and 22 December 2015.

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37. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2016 are as follows:

Name of company	Place and date of incorporation/ business	Issued and fully paid up/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
All Access Communication Technology (Shenzhen) Limited* ("All Access Shenzhen") 全通通信技術(深圳)有限公司	The PRC/ 28 June 2013 (Note (b))	RMB60,000,000	100%	–	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
All Access Zhisheng (Shenzhen) Investment Consultancy Co., Ltd.* 全通智盛(深圳)投資咨詢有限公司	The PRC/ 21 October 2013 (Note (c))	RMB100,000 (Note (d))	100%	–	100%	Investment holding
Beijing All Access* 北京全通諾特通信技術有限公司	The PRC/ 21 October 2009 (Note (b))	US$30,000,000	100%	–	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
CAA BVI 中國全通集團有限公司	BVI/ 15 June 2006 (Note (a))	US$10,000	100%	100%	–	Investment holding
CAA HK 全通環球有限公司	Hong Kong/ 18 June 2008	HK$10,000	100%	–	100%	Investment holding
China All Access Capital Limited BVI 中國全通資本有限公司	BVI/ 4 November 2015 (Note (a))	US$1	100%	100%	–	Investment holding
China All Access Investment Limited 中國全通投資有限公司	BVI/ 28 August 2014 (Note (a))	US$1	100%	100%	–	Investment holding

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37. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ business	Issued and fully paid up/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activity
China All Access Ruichang Supply Chain Management (Shenzhen) Co., Ltd.* 全通瑞暢供應鏈管理(深圳)有限公司	The PRC/ 11 February 2014 (Note (c))	RMB5,000,000	100%	–	100%	Supply chain management and cargo agency
China All Access Stockholding Limited BVI 中國全通股份有限公司	BVI/ 28 October 2015 (Note (a))	US$1	100%	100%	–	Investment holding
China Lide Holdings Limited 中國立德控股有限公司	Cayman Islands/ 17 November 2015 (Note (a))	HK$1,333	75%	–	75%	Investment holding
China Lide Group Limited (BVI) 中國立德集團有限公司	BVI/ 17 November 2015 (Note (a))	US$1	75%	–	100%	Investment holding
Guangdong All Access Noter Communication Technology Co., Ltd. ("Guangdong Noter") 廣東全通諾特通信技術有限公司	The PRC/ 20 April 2010 (Note (b))	US$70,000,000	100%	–	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
Hebei Haoguang Communication Technology Limited* 河北浩廣通信科技有限公司	The PRC/ 2 April 2013 (Note (c))	RMB20,000,000	100%	–	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
Hebei Noter* 河北諾特通信技術有限公司	The PRC/ 21 August 2006 (Note (b))	US$22,500,000	100%	–	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance

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37. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ business	Issued and fully paid up/ registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Huizhou All Access Communication Technology Co., Ltd.* 惠州市全通通信技術有限公司	The PRC/ 22 September 2014 (Note (c))	RMB10,000,000 (Note (d))	100%	–	100%	Development and provision of communication equipment, application services system operation management, application upgrade and system maintenance
Huizhou All Access Real Estate Co., Ltd.* ("Huizhou All Access") 惠州市全通房地產開發有限公司	The PRC/ 29 November 2011 (Note (c))	RMB11,000,000	90.91%	–	90.91%	Real estate development
Lide Global Limited 立德環球有限公司	Hong Kong/ 14 December 2015	HK$1	75%	–	100%	Investment holding
Shenzhen Lead Communication Ltd.* 深圳市立德通訊器材有限公司	The PRC/ 17 June 2003 (Note (c))	RMB6,450,000	75%	–	100%	Manufacturing of handset screen
Shanghai All Access Noter Communication Technology Co., Ltd.* 上海全通諾特通信技術有限公司	The PRC/ 23 December 2009 (Note (b))	US$15,000,000	100%	–	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance
Shenzhen City Changfei Investment Company Limited* ("Changfei Investment") 深圳市長飛投資有限公司	The PRC/ 6 February 2004 (Note (c))	RMB27,750,000	100%	–	100%	Investment holding
Shenzhen Kangquan Mechanical and Electrical Co., Ltd.* 深圳市康銓機電有限公司	The PRC/ 2 June 2003 (Note (c))	RMB16,000,000	57.50%	–	57.50%	Manufacturing of handset shell
Shenzhen Wanyu Technologies Co., Ltd.* 深圳萬譽電子技術有限公司	The PRC/ 30 April 2007 (Note (c))	RMB8,000,000	57.5%	–	100%	Manufacturing of handset shell

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37. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of company	Place and date of incorporation/ business	Issued and fully paid up/ registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Tianjin Hailangtong Technology Co., Ltd.* 天津海藍通科技有限公司	The PRC/ 6 May 2011 (Note (b))	US$10,000,000	100%	–	100%	Development and provision of communication equipment, application services system operating management, application upgrade and system maintenance

Notes:

(a) This entity is a limited enterprise established in the BVI.

(b) This entity is a wholly foreign owned limited enterprise established in the PRC.

(c) This entity is a limited liability company established in the PRC.

(d) None of the registered capital has been paid by the end of reporting period.

* The English translation of the company names for entities established in the PRC is for reference only. The official names of the companies established in the PRC are in Chinese.

(i) On 14 August 2015, the Group entered into a sale agreement to dispose of the Xingfei Group for a total consideration of RMB702,000,000, which carried out a part of the Group's wireless data communication application solutions and services operations. The disposal was effected in order to generate cash flows for the expansion of the Group's other businesses. The transaction was completed in January 2016.

Details are set out in note 10.

(ii) On 4 January 2016, China Lide Holdings Limited and China All Access Investment Limited, being two of the wholly owned subsidiaries of the Company, entered into the subscription agreement with the Investor, pursuant to which the Galaxy Asia Investment Co. Ltd. agreed to subscribe for the subscription shares, representing about 25.0% of the enlarged issued share capital of China Lide Holdings Limited, for cash at the subscription price of HK$40,400,000.

Details are set out in the Company's announcement dated 4 January 2016.

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38. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Contracted for:		
Contribution to be made in the paid up capital of an available-for-sale financial asset (Note)	1,000	—
Contribution to be made in the paid up capital of an associate (Note)	20,000	—
Acquisition for the property, plant and equipment	54,197	75,253
	75,197	75,253

Note:

The Group entered into agreements for commitment in contribution of RMB21,000,000 in an available-for-sale financial asset and an associate. Up to the end of the reporting period, the Group did not paid any contribution to the available-for-sale financial asset and the associate.

(b) At 31 December, the total future minimum lease payments under non-cancellable operating leases were as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	15,673	27,469
After 1 year but within 5 years	14,981	38,725
After 5 years	—	1,048
	30,654	67,242

The Group is the lessee in respect of a number of properties. The leases typically run for an initial period of one to eight years, with an option to renew the leases when all the terms are renegotiated. Leasing arrangements with related parties are set out in Note 40(a). None of the leases include contingent rentals.

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39. CONTINGENT LIABILITIES

Financial guarantee issued

At the end of the reporting period, the Company has issued a single guarantee, which was made by the Company, to a bank in respect of a mortgage loan granted to CAA HK that expires upon full repayment of the mortgage loan on 25 February 2035.

As at 31 December 2016, the directors do not consider it is probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company as at 31 December 2016 under the guarantee was the total outstanding amount of the loan of approximately HK$9,631,000 (equivalent to approximately RMB8,615,000) (2015: HK$10,108,000, equivalent to approximately RMB8,468,000).

40. MATERIAL RELATED PARTY TRANSACTIONS

Name of party	Relationship
Chan Yuen Ming 陳元明	Controlling shareholder
ZTE Corporation	Corporation Substantial Shareholder
Subsidiaries of ZTE Corporation 中興通訊股份有限公司及其子公司 (Together referred to as the "ZTE Group") (Note (i))	Subsidiaries of Substantial Shareholder
Shenzhen Zhongxing Xin Telecommunications Equipment Company Limited (Note (i))	Substantial Shareholder
Subsidiaries of Shenzhen Zhongxing Xin Telecommunications Equipment Company Limited 深圳市中興新通訊設備有限公司及其子公司 (Together referred to as the "ZX Group") (note (i))	Subsidiaries of Substantial Shareholder
Associates of the Group	Significant influence
Chance Talent Management Limited ("CTM") (Note (ii))	Subsidiaries of Substantial Shareholder

Notes:

(i) Shenzhen Zhongxing Xin Telecommunications Equipment Company Limited (深圳市中興新通訊設備有限公司), being a limited company established in the PRC, is the controlling shareholder of ZTE Corporation.

(ii) Chance Talent Management Limited being a subsidiary of a non-controlling interest shareholder of the Group. For the year ended 31 December 2016, due to the disposal of subsidiaries of the Company by the non-controlling interest shareholder, CTM has ceased to be related party of the Group.

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40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Material related party transactions

	2016 RMB'000	2015 RMB'000
Sales of goods and rendering of services		
ZTE Group	**9,207**	2,846,571
ZX Group	**30,663**	402
	39,870	2,846,973
Purchases of goods and services		
ZTE Group	**223**	914,352
ZX Group	**85**	16,617
Associates of the Group	**—**	17,683
	308	948,652
Finance costs		
ZTE Group	**365**	132
Professional expense		
ZTE Group	**—**	851

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40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) *Material related party transactions* *(Continued)*

	2016 RMB'000	2015 RMB'000
Rental expenses		
Mr. Chan Yuen Ming	182	182
ZTE Group	—	911
	182	1,093
Capital withdrawal from a subsidiary of the Company		
ZTE Group	—	24,723

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40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Material related party balances

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Trade receivables		
ZTE Group	–	333,434
ZX Group	–	470
Less: Allowance for doubtful debts	–	(993)
	–	332,911
Other receivables		
ZTE Group	–	178
Associates of the Group	–	8,160
	–	8,338
Prepayment		
ZTE Group	–	31,773
Discounted bills receivable		
ZTE Group	–	92,651
Bills receivable		
ZTE Group	–	427,050
Available-for-sale financial assets		
ZTE Group	–	11,000
Associates of the Group	–	4,214
	–	15,214

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40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Material related party balances (Continued)

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Trade payables		
ZTE Group	–	69,026
ZX Group	–	10,335
Associates of the Group	–	5,374
	–	84,735
Bills payable		
ZTE Group	–	53,000
Associates of the Group	–	5,518
	–	58,518
Other payables		
ZTE Group	–	8,443
ZX Group	–	24,621
	–	33,064
Receipts in advance		
ZTE Group	–	7,171

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40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) *Material related party balances (Continued)*

	At 31 December 2016 RMB'000	At 31 December 2015 RMB'000
Bank advances on discounted bills receivable		
ZTE Group	—	92,651
Convertible bonds		
CTM	—	161,560

During the year ended 31 December 2016, due to the disposal of the Xingfei Group, ZTE Group and ZX Group have ceased to be related party of the Group.

(c) *Key management personnel remuneration*

Remuneration for key management personnel of the Group, including amounts payable to the Company's directors as disclosed in Note 11 and certain of the highest paid employees as disclosed in Note 12, is as follows:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	**9,637**	7,152
Post-employment benefits	—	—
Discretionary bonus	—	—
	9,637	7,152

Total remuneration is included in "staff costs" (Note 8(c)).

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40. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Guarantee by related party of the Company

In February 2015, the guaranteed note was repaid by the Group. At 31 December 2015, the convertible bond guaranteed by Mr. Chan Yuen Ming has carrying amount of HK$200,000,000 (equivalent to approximately RMB161,560,000).

At 31 December 2016, the promissory notes guaranteed by Mr. Chan Yuen Ming has carrying amount of HK$160,000,000 and USD70,000,000 (total equivalent to approximately RMB628,710,000).

41. MAJOR NON-CASH TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group entered into the following major non-cash transactions:

For the year ended 31 December 2016, the Group entered into Patent Licence Agreement in respect of intangible asset. Details are set out in note 15.

For the year ended 31 December 2016, the Group settled certain convertible bonds by the issuance of the promissory notes. Further details of the settlement are set out in note 33.

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group is exposed to credit risk, which is the risk of loss arising from a customer or counterparty that will be unable to or unwilling to meet its contractual obligations. The Group's credit risk is primarily attributable to deposits with financial institutions (including restricted cash), trade and other receivables and structured deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect to deposits with financial institutions, the Group only places deposits with financial institutions, which management believes are of high credit rating.

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42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Credit risk *(Continued)*

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Contract sums for the provision of application solutions (other than for sales of terminal equipment) are generally due and payable by instalments at different stages which comprised (i) down payment payable upon signing of contract; and (ii) remaining balance within three months after acceptance of project, subject to 5%-10% retention money, if any, to be withheld by customers in our projects until expiry of the warranty period. For sales of terminal equipment, contract sums are normally payable upon delivery of the relevant terminal equipment. The Group may grant credit up to 18 months to its customers according to the negotiation and relationship with these customers. The Group may also allow payments by instalments to certain customers with sound financial background and with no history of default. Credit terms could be extended for certain well-established customers on a case-by-case basis. The Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor. The default risk of the industry and country in which debtors operate also has an influence on credit risk but to lesser extent. At 31 December 2016, the Group has a certain concentration of credit risk as 7.11% and 20.77% (2015: 17.51% and 38.05%) of the total trade and other receivables was due from the Group's largest debtor and the five largest debtors respectively. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting impairment allowance, if any.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 21.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting period) and the earliest date the Group can be required to pay:

	2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Borrowings	**1,314,474**	**44,159**	**2,355**	**7,633**	**1,368,621**	**1,299,731**
Advances on discounted bills receivable	**11,832**	**–**	**–**	**–**	**11,832**	**11,832**
Advances on factored trade receivable	**549,755**	**–**	**–**	**–**	**549,755**	**549,755**
Trade and other payables	**1,342,068**	**–**	**–**	**–**	**1,342,068**	**1,342,068**
Convertible bonds	**–**	**1,070,788**	**–**	**–**	**1,070,788**	**948,356**
	3,218,129	**1,114,947**	**2,355**	**7,633**	**4,343,064**	**4,171,742**

	2015 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Borrowings	2,265,154	60,953	133,897	7,593	2,467,597	2,370,121
Advances on discounted bills receivable	145,805	–	–	–	145,805	145,805
Trade and other payables	3,038,555	–	–	–	3,038,555	3,038,555
Deferred consideration payable	–	15,212	700	–	15,912	15,912
Convertible bonds	405,417	922,242	–	–	1,327,659	1,178,596
	5,854,931	998,407	134,597	7,593	6,995,528	6,748,989

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42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) *Interest rate risk*

The Group's interest rate risk arises primarily from interest-bearing borrowings at both variable rates and fixed rates that expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group constantly monitors its borrowing portfolio to minimise its interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's financial instruments at the end of the reporting period:

	2016 Effective interest rate %	2016 RMB'000	2015 Effective interest rate %	2015 RMB'000
Variable rate deposits				
Cash at bank and in hand	**0.001-0.30**	**48,573**	0.001-0.25	526,462
Restricted cash	**0.001-1.08**	**497,551**	0.35-3.30	419,915
Structured deposits	**2.80-2.91**	**670,000**	3.35-3.70	500,000
Fixed rate deposits				
Bank deposits with original maturities over three months	**0.14-2.10**	**1,065,441**	1.95-3.16	1,093,000
Entrusted loans	**12.00**	**200,000**	12.00	210,000
Fixed rate borrowings				
Borrowings	**1.70-13.00**	**1,088,365**	1.62-8.00	1,582,700
Advances on discounted bills receivable	**2.64-4.5**	**11,832**	2.95-6.50	145,805
Convertible bonds	**7.78-11.29**	**948,356**	7.52-21.97	1,178,596
Advances on factored trade receivable	**4.35-5.00**	**549,755**	—	—
Variable rate borrowings				
Borrowings	**1.38-5.39**	**211,366**	1.23-14.95	787,421
Total borrowings		**2,809,674**		3,694,522
Fixed rate borrowings as a percentage of total borrowings	**92.48%**		78.69%	

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) *Interest rate risk (Continued)*

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 25 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB797,000 (2015: RMB1,468,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax for the year (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to cash flow interest rate risk at the end of the reporting period.

(d) *Currency risk*

Renminbi is not freely convertible into foreign currencies in the PRC. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China ("PBOC") or other institutions authorised to conduct foreign exchange business. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

During the year, sales and purchases made by the Group's PRC subsidiaries were mainly denominated in Renminbi, which is their functional currency. These PRC subsidiaries did not have any significant financial assets or liabilities that are denominated in a currency other than their functional currency at 31 December 2016.

The functional currency of the Company and the Group's non-PRC subsidiaries is Hong Kong dollar. Management does not expect that there will be any significant currency risk associated with financial assets or liabilities denominated in currencies other than the functional currency of the entity to which they relate at 31 December 2016 (2015: nil).

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(Expressed in Renminbi unless otherwise indicated)

42. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Fair value

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

- Level 3 valuations: Fair value measured using significant unobservable inputs.

At 31 December 2015, the fair value of embedded financial derivatives related to the convertible bonds of the Group and the Company categorised into Level 2 of fair value hierarchy amounts to approximately RMB68,061,000, which is determined using binomial tree option pricing model and Monte Carlo simulation. The directional asset management plans are also categorised into Level 2 of fair value hierarchy. The unobservable input used in the fair value measurement is expected to be insignificant.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2015 and 2016.

43. NON-ADJUSTING POST STATEMENT OF FINANCIAL POSITION EVENT

On 18 January 2017, the Company has entered into a framework agreement with CECEP Solar Energy Technology Co., Ltd, an A-shares listed company on the Shenzhen Stock Exchange (stock code: 000591) engaging in solar power business. Details are set out in the Company's announcement date 19 January 2017.