YONGAN HOLDINGS

ANNUAL REPORT 2017

浙江永安融通控股股份有限公司

ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

Stock Code: 8211

*For identification purpose only

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This document, for which the directors of 浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings Co., Ltd.) (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.*

** English name is for identification only*

EXECUTIVE DIRECTORS

Mr. Jiang Ning *(Chairman of the Board)*
Ms. He Weifeng *(Deputy Chairman)*
Ms. He Lianfeng *(Chief Executive Officer)*
Mr. Hu Hua Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Song Ke
Mr. Wang Hui
Mr. Wang Zhong

SUPERVISORS

Ms. Wang Ai Yu *(Chairman of Supervisory Committee)*
Mr. Chen Wei

INDEPENDENT SUPERVISORS

Mr. Pan Xing Biao

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. Chen Yen Yung – *CPA (Aust.), CPA*

AUDIT COMMITTEE

Mr. Wang Hui *(Chairman of Audit Committee)*
Mr. Song Ke
Mr. Wang Zhong

REMUNERATION COMMITTEE

Mr. Song Ke *(Chairman of Remuneration Committee)*
Mr. Wang Hui
Mr. Wang Zhong
Mr. He Weifeng

NOMINATION COMMITTEE

Mr. Mr. Wang Zhong
(Chairman of Nomination Committee)
Mr. Wang Hui
Mr. Song Ke
Ms. He Lianfeng

LEGAL ADDRESS

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Mr. Hu Hua Jun

AUTHORISED REPRESENTATIVES

Ms. Chen Yen Yung
Mr. Hu Hua Jun

PRINCIPAL BANKER

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DOMESTIC AUDITOR

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STOCK CODE

8211

For the year ended 31 December 2017,

- revenue of the Group decreased slightly from approximately RMB165.79 million in year 2016 to approximately RMB159.44 million in year 2017, representing a decrease of approximately 3.83% when compared to the year ended 31 December 2016;

- loss for the year was approximately RMB2.21 million; and

- the Directors do not recommend the payment of a final dividend for the year ended 31 December 2017.

On behalf of the board of directors (the "Board" or the "Directors") of 浙江永安融通控股股份有限公司 (Zhejiang Yongan Rongtong Holdings Co., Ltd*) (the "Company"), I am pleased to present to our shareholders the annual report of the Company and its subsidiary (the "Group") for the year ended 31 December 2017.

FINANCIAL PERFORMANCE

For the year ended 31 December 2017, the Group recorded a revenue of approximately RMB159.44 million, represents a slight decrease of approximately 3.83% when compared with the same period in 2016. The decline of revenue mainly due to manufacture and sales of woven fabrics dropped slightly by approximately 3.36% and revenue from subcontracting fee income dropped sharply by approximately 15.96%. To concentrate in manufacturing of woven fabrics, the production capacities were placed in the manufacture and sales of woven fabrics. Therefore, the sales revenue from subcontracting fee income dropped sharply. The average percentage of gross profit margin for the year ended 31 December 2017 was stable when compared with the same period in 2016.

The selling and distributed costs for the year ended 31 December 2017 increased by approximately 3.38% when compared with the corresponding period in 2016 mainly due to increase in transportation and salary which was in line with the increase of export sale of woven fabrics. Administrative expenses increased by approximately 5.5% mainly due to the effect of consolidation of administrative expenses from a subsidiary acquired in April 2017, details of the acquisition was disclosed in the announcement of the Company dated 11 April 2017 and note 33 to the consolidated financial statements.

Other income decreased by approximately RMB2.53 million mainly due to reversal of impairment loss recognised in respect of property, plant and equipment of approximately RMB3.49 million for the year ended 31 December 2016.

Finance cost of approximately RMB3.78 million for the year ended 31 December 2017 represents imputed interest in interest-free loan due to immediate holding company.

The respective loss per share for the year ended 31 December 2017 and 2016 were approximately RMB0.21 cents and RMB0.68 cents respectively.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017.

OUR STRATEGIES GOING FORWARD

Looking back to 2017, due to the continued recovery of the overseas economy, consumer demand picked up, textile and garment exports continued to rise, and China's textile and garment exports was US$2,670 billion in total in 2017; domestic garment retail sales kept picking up. According to the National Bureau of Statistics of China, the total retail sales of shoes and hats, knitted and textiles amounted to approximately RMB14,557 billion in 2017, up by 7.8% over the same period of last year. However, due to rising of raw material prices and labour costs, overseas consumption environment and political changes exceeded expectations, domestic consumption recovery was less than expected, and textile manufacturers still faced severe challenges. After assessing the situation in 2017, apart from continuing to explore the markets in Europe, America, and Asia, increasing the domestic market share and cutting costs, the Group has to vigorously develop its asset management business in order to diversify the business risk.

(A) Continue to explore the European, American and Asian markets and increase the domestic market share

The Group will continue to invest in the Europe, America and Asia markets where demand for high value-added products is high and willing to pay higher prices. In the meantime, the Group has further developed its domestic market in order to expand its domestic market share.

(B) Streamlining operations, saving cost

To enhance cost control and achieve cost savings, the Group will continue to streamline its operations and optimise its personnel and assets.

(C) Vigorously develop asset management business

Recently, China amended its regulations on the operation and management of the industry of private fund management businesses. It has stipulated in many aspects such as source of funds, product design, capital investment and risk control which in turn ensure the asset management plan returns to the essence of its business. Investors then can have a more thorough understanding of the private equity industry. In addition, it also enhance investor's confidence and on the other hand ensure the profit target of private equity firms. Tighter regulation will push the private equity industry to a positive reshuffle. As a result, outstanding private equity institutions will benefit greatly from the increasingly sophisticated mechanism.

The Group acquired 貴州安恒永晟投資管理有限公司 (Guizhou Anheng Yongsheng Investment Management Co., Ltd.*) ("Guizhou Anheng") in April 2017. Details of the transaction were disclosed in the announcement of the Company dated 11 April 2017 and note 33 to the consolidated financial statements. Guizhou Anheng is principally engaged in the management of private equity and the Board expects that the business will effectively diversify the business risk of the Group and at the same time, will generate returns to the shareholders.

PROSPECTS

The Directors expect the global economy will gradually pick up and the Group will continue to develop its existing policies in local and overseas markets. The Group continues to focus on its major businesses (i) manufacture and sale of woven fabrics; and (ii) provision of subcontracting services. The Directors are also actively exploring investment opportunities to enhance the Group's long-term growth. In the meantime, Guizhou Anheng will be served as a platform of the Group for developing of asset management business and the Group will make full use of various new policies from the relevant government authorities in order to seize the opportunities and gradually expand Guizhou Anheng's business including the equity funds, securities investment funds and industrial funds. Under the leadership of the management team, the Board believes that the Group is able to meet the upcoming challenges in 2018 and therefore generate returns for its shareholders.

APPRECIATION

On behalf of the Board, I wish to extend our appreciation to our customers, vendors, banks and shareholders for their enthusiasm and support, and to every employee for their hard work and dedication to the Group throughout the year.

Jiang Ning
Chairman

Zhejiang, the PRC, 12 March 2018

BUSINESS AND OPERATION REVIEW

During the year ended 31 December 2017, export sales to Europe decreased by approximately 9.56%, while on the other hand, export sales to South America increased by approximately 24.78%. The local market of sales of woven fabrics dropped by approximately 5.07% as most of the local customers are undergoing structure reorganisation and industry consolidation due to high labour cost and difficulty of employment of sufficient labours. Therefore, the industry has been changed from concentration in mass production to quality and efficient production.

The Directors expect the global economy will gradually pick up and the Group will continue to develop its existing policies in local and overseas markets.

On 11 April 2017, the Group acquired 100% of the registered capital in Guizhou Anheng from Guizhou Yongan (the "Acquisition"), details of the transaction was disclosed in the announcement dated 11 April 2017 and note 33 to the consolidated financial statements. Guizhou Anheng is principally engaged in private equity assets management which is a new business to the Group. The Acquisition is expected to (i) diversify the business risk of the Group, (ii) contribute revenue to the Group and the shareholders of the Group and (iii) bring good returns on capital investment for the Group. During the year ended 31 December 2017, approximately RMB35,000 of assets management fee income was generated by Guizhou Anheng.

On 1 September 2017, the Company entered into the limited partnership agreement dated 1 September 2017 with various parties for establishment of 深圳南山金融科技雙創股權投資基金合夥企業(有限合夥) (Shenzhen Nanshan Fintech Entrepreneurship and Innovation Equity Investment Fund Partnership Enterprise (Limited Liability Partnership)*) ("Shenzhen Nanshan Fintech"), details of the transactions were disclosed in the announcements dated 1 September 2017 and 9 November 2017, and circular dated 27 September 2017. Shenzhen Nanshan Fintech is expected to invest in financial technology sector, including block chain, big data, artificial intelligence, and cloud computing. The Directors are of the view that investment in the Shenzhen Nanshan Fintech serves as an excellent platform for the Group to expand its business portfolio into the sectors of investment business for start-up enterprise. The Directors further expected that it will further diversify the investment risk and enhance the rate of return of the Group's investment through access to a wider variety of investment channels.

Production Facilities

During the year ended 31 December 2017, the Group spent approximately RMB909,000 in additions of furniture, fixtures and equipment and approximately RMB369,000 in in plant and machinery.

Product research and development

During the year ended 31 December 2017, the Group continued to innovate and develop new product so as to meet the customers' need and enhance sales orders from customers.

Sales and marketing

During the year ended 31 December 2017, the Group actively participated in various trade fairs held in PRC and overseas so as to gain exposure in the fabrics market and to popularise the Group's new products.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year ended 31 December 2017, the Group financed its operations mainly by internally generated cash and financial support from the immediate holding company, Guizhou Yongan.

As at 31 December 2017, the Group's current assets and net current assets were approximately RMB202.27 million (31 December 2016: approximately RMB280.46 million) and approximately RMB150.25 million (31 December 2016: approximately RMB225.78 million) respectively. The liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was approximately 3.89 (31 December 2016: approximately 5.13).

CAPITAL COMMITMENTS

As at 31 December 2017 and 2016, the Group did not have any commitments.

SIGNIFICANT INVESTMENTS

1) **Acquisition of a subsidiary on 11 April 2017 ("Acquisition")**

   On 11 April 2017, the Company entered into the Equity Transfer Agreement with Guizhou Yongan, to acquire all the equity interest in the Guizhou Anheng. The consideration for the sales and purchase of the equity interest is RMB10,000,000. Details of the transactions were disclosed in the announcement of the Company dated 11 April 2017 and note 33 to the consolidated financial statements. Guizhou Anheng is principally engaged in the management of private equity assets.

2) **Investment in a private equity limited partnership fund on 1 September 2017 (the "Fund" or "Transaction")**

   On 1 September 2017, the Company entered into the Limited Partnership Agreement with various parties for establishment of 深圳南山金融科技雙創股權投資基金合伙企業(有限公司) (Shenzhen Nanshan Fintech Entrepreneurship and Innovation Equity Investment Fund Partnership Enterprise (Limited Liability Partnership)*) ("Shenzhen Nanshan Fintech"), by way of a subscription for a limited partnership interest in Shenzhen Nanshan Fintech. During the year ended 31 December 2017, the Group injected RMB73,911,000, represents 24.637% limited partnership interest in Shenzhen Nanshan Fintech. The Fund is expected to invest in financial technology sector, including block chain, big data, artificial intelligence, and cloud computing. At least 60% of the total amount of investment of the Fund shall be invested in enterprises in financial technology. The Fund was accounted for as available-for-sale investment under non-current asset of the Group's consolidated financial statements.

The Directors are of the view that the Acquisition and the Transaction serve as an excellent platform for the Group to expand its business portfolio into the sectors of investment business for start-up enterprise.

MATERIAL DISPOSALS

The Group did not have any material disposals during the years ended 31 December 2017 and 2016.

SEGMENT INFORMATION

Segment information of the Group is set out in note 9 to the consolidated financial statements.

CONTINGENT LIABILITIES

As at 31 December 2017 and 2016, the Group did not have any material contingent liabilities.

CHARGES ON GROUP ASSETS

As at 31 December 2017 and 2016, the Group did not have any charges on company assets.

EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2017, the Group had 374 employees (31 December 2016: 438), comprising 10 (31 December 2016: 2) in research and development, 9 (31 December 2016: 16) in sales and marketing, 302 (31 December 2016: 364) in production, 37 (31 December 2016: 42) in quality control, 5 (31 December 2016: 6) in management, and 11 (31 December 2016: 8) in finance and administration. Remuneration is determined by reference to market terms and the performance, qualification and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme and medical scheme.

FOREIGN EXCHANGE EXPOSURE

The Group operates in the PRC with most of the transactions denominated and settled in Renminbi (“RMB”). However, foreign currencies, mainly United States Dollars, Euro and Hong Kong Dollars, are required to settle the Group’s expenses and additions on plant and equipment. RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government, the Group has used forward contracts, foreign currency borrowings and other means to hedge its foreign currency exposure. The Group considers it has no material foreign exchange risk.

EXECUTIVE DIRECTORS

Mr. Jiang Ning (蔣寧先生), aged 47, is currently the Chairman and executive Director of the Company and is responsible for the strategic planning and corporate investment of the Group. Mr. Jiang is also a vice general manager of Guizhou Yongan, which has been the immediate holding company of the Company since 14 November 2016. Since October 2015, Mr. Jiang has taken up various posts concurrently in four subsidiaries of Guizhou Yongan, including the posts of director and legal representative of Guiyang Yongan Internet Financial Investments Services Limited* (貴陽永安互聯網金融投資服務有限公司), Shenzhen Yongan Chengxiang Investment Management Co., Ltd* (深圳永安呈祥投資管理有限責任公司) and Guiyang Qingqing Internet Technology Co., Ltd* (貴陽青青互聯網科技有限公司), and also a director of Hong Kong Liren Holding Limited (香港利仁控股有限公司). He is also a general manager of Shenzhen Blockchain Financial Services Limited* (深圳區塊鏈金融服務有限公司), Mr. Jiang has over 19 years of experience in banking industry. Mr. Jiang has worked for various banks, including Agriculture Bank of China from July 1993 to September 1997 and China Everbright Bank from October 1997 to February 2003, mainly engaged in credit management and international settlement business work. Upon the completion of his master degree in the United Kingdom in 2005, Mr. Jiang joined Shenzhen Development Bank and acted as an assistant general manager in Internal Audit Department (稽核部) of the head office from September 2005 to March 2007. From April 2007 to November 2014, Mr. Jiang has served as a general manager of various departments in Ping An Bank, including the Small and Medium Enterprise Department (中小企業部), the Trade Finance Department (貿易融資部) and the International Business Department (國際業務部) of the head office and the Corporate Department (公司部) of the Western District. In November 2014, Mr. Jiang joined Webank and acted as a general manager of the Small-micro-scale Enterprise Business Department (小微企業事業部) until September 2015, mainly engaged in the promotion of a small micro- platform financial model (小微平台金融模式) planning and implementation. From January 2017 to now, Mr. Jiang is an independent non-executive director of Jilin Jiutai Rural Commercial Bank Limited* (吉林九台農村商業銀行股份有限公司) (stock code 6122), a company listed on the main board of the Stock Exchange of Hong Kong. Mr. Jiang graduated from Huazhong University of Science and Technology, Hankou Branch* (華中理工大學漢口分校 now known as Jianghan University* (江漢大學)) in 1993 with a bachelor degree in Engineering. He also obtained a master degree in Business Administration in the University of Birmingham in 2005. Mr. Jiang has been appointed as an executive Director of the Company at the extraordinary general meeting ("EGM") held on 28 February 2017 and elected as a Chairman of the Board on the same day.

Mr. He Weifeng (何偉楓先生), aged 38, is currently a deputy Chairman and an executive Director of the Company and is responsible for the strategic and overall management of the Group. Mr. He is the son-in-law of Mr. Zhou Yongli ("Mr. Zhou"). Mr. Zhou is the controlling shareholder of Zhejiang Yongli, Mr. He joined Zhejiang Yongli in June 2005. Mr. He had held the positions of vice general manager and general manager in Wuxi Huaqiang Properties Development Co., Ltd.* (無錫華強房地產開發有限公司), a subsidiary of Zhejiang Yongli. Mr. He formed Yongli Properties Group* (永利地產集團) which is a company with Grade 1 qualification in the PRC, where he acted as the chief executive officer. While working in Yongli Properties Group* (永利地產集團), he led a number of large-scale commercial real estate projects, in which he accumulated extensive experience in the acquisition and development of real-estate, as well as engineering, cost control, and corporate structure management. Mr. He's leadership and managerial experience was demonstrated by his vast contribution to the development of Yongli Properties Group* (永利地產集團) from a single industry company to an integrated industries company, which involved sole development, equity cooperation and debenture cooperation in the development of real estate, commercial buildings and hotel operation. Currently, Mr He acts as vice-chairman of Zhejiang Yongli where he focuses on the group's strategic planning. Mr He concurrently acts as vice general manager of Guiyang Yongan Internet Finance Investment Management Co., Ltd* (貴陽永安互聯網金融投資管理有限公司), where he is responsible for the development in real estate and finance. Mr. He has taken part in several major funds, merger and acquisition projects, which showcase his rich experience in corporate management, investment and development, as well as his insights in the cross-border projects of real-estate and finance. Mr. He graduated from the University of Leicester in July 2005 with a bachelor degree in commerce and economics. He also obtained a master degree in EMBA from Cheung Kong Graduate School of Business in September 2011. Mr. He has been appointed as an executive Director of the Company at the EGM held on 28 February 2017 and elected as a deputy Chairman of the Board on the same day.

Ms. He Lianfeng (何連鳳女士), aged 45, is currently an executive Director, Chief Executive Officer and also a general manager of the Company. She is responsible for the sales and production of the Company. Before joining the Company, she acted as the workshop director of Zhejiang Yongli Warp Knitting Co. Ltd. from January 1990 to July 2007, the general manager assistant of Zhejiang Yongli Warp Knitting Co. Ltd. from August 2007 to February 2013. She is familiar with the trends of textile market in the PRC and has gained more than 23 years of valuable experience in production management in textile enterprises. In March 2013, she joined the Company as the deputy general manager. She has been re-appointed as an executive director of the Company on 18 May 2016 and elected as a deputy Chairman of the Board on the same day. She resigned as a deputy Chairman of the Board on 28 February 2017.

Mr. Hu Hua Jun (胡華軍先生), aged 33, is currently an executive Director of the Company. He is responsible for all secretarial work of the chairman and the routine management of administrative department. Prior to joining the Company, Mr. Hu worked in the finance department and the general manager's office of Zhejiang Yongli from July 2008 to May 2010 and from May 2010 to December 2010, respectively. He received a bachelor degree in Accounting at Economics and Management Faculty in 湖南南華大學 (University of South China, Hunan*). He joined the Company in December 2010 and was appointed as an executive Director in May 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Song Ke (宋科先生), aged 35, is currently an independent non-executive Director of the Company. He has served as an assistant to the dean of The School of Finance of Renmin University of China since January 2008, as an assistant professor in the Faculty of Currency Finance of The School of Finance of Renmin University of China* (中國人民大學財政金融學院貨幣金融系) since September 2015, and as the council director and deputy director of the International Monetary Institute of Renmin University of China* (中國人民大學國際貨幣研究所) since January 2014. Mr. Song served as league secretary general of The School of Finance of Renmin University of China* (中國人民大學財政金融學院) from July 2004 to September 2009 and post-doctorate of School of Statistics of Renmin University of China* (中國人民大學統計學院) from July 2012 to July 2015, and he was assigned as deputy commissioner of the Banking Commission of the Guizhou People's Government Finance Office* (貴州省政府金融辦銀行處) from November 2012 to December 2013. He graduated from The School of Finance of Renmin University of China (Beijing, China)* in July 2004, majoring in finance and obtained a bachelor's degree in economics. He continued his master and doctoral studies at The School of Finance of Renmin University of China (Beijing, China)* from September 2006 to July 2012, and obtained a doctoral degree in economics. Mr. Song has been appointed as the external supervisor of Bank of Zhengzhou Co., Ltd. (stock code: 6196) since 19 May 2017. He has been appointed as an independent non-executive Director of the Company at the EGM held on 12 December 2017.

Mr. Wang Zhong (王中先生), aged 49, is currently an independent non-executive Director of the Company. He graduated from the Law School of Renmin University of China* (中國人民大學法學院) with a bachelor's degree in law and graduated from the Business School of China University of Political Science and Law* (中國政法大學商學院) with a master's degree in business administration (MBA). He practiced in Beijing Zhong Lun Law Firm* (北京中倫律師事務所) from September 1993 to June 1994. From July 1994 to June 1998, he practiced in and as a partner of Beijing Li Wen & Partners Law Firm* (北京李文律師事務所). He has been practiced in and as a partner of Beijing Wu Huan Law Firm* (北京市五環律師事務所) since July 1998. He is the licensed lawyer in the PRC and has the PRC securities legal business qualification, the PRC senior management of listed companies (independent director) qualification and the PRC practicing qualification in the fund industry. He has been appointed as an independent non-executive Director of the Company at the EGM held on 12 December 2017.

Mr. Wang Hui (王暉先生), aged 45, is currently an independent non-executive Director of the Company. He graduated from the auditing profession of Jianghan University* (江漢大學) in 1992. He also obtained a bachelor's degree in monetary banking and a master's degree in business administration (MBA) in 1998 and 2007, respectively from Zhongnan University of Economics and Law* (中南財經政法大學). He worked with Daxin CPA Company Limited* (大信會計師事務有限公司) as a senior audit manager from July 1993 to May 2005. From May 2006 to February 2009, he served as the financial director of Wuhan Hi-tech Venture Development Company Limited* (武漢高技術創業發展股份有限公司). From May 2009 to September 2011, he acted as the chief financial officer of Guangzhou Hi-Target Navigation Tech Co., Ltd.* (廣州中海達衛星導航技術股份有限公司), a PRC company listed on the ChiNext of the Shenzhen Stock Exchange (stock code: 300177). From September 2011 to February 2016, he was a vice president and a chief financial officer of Shenzhen Gongjin Electronics Co., Ltd.* (深圳市共進電子股份有限公司), a PRC company listed on the main board of the Shanghai Stock Exchange (stock code: 603118), and also as a deputy general manager of Shenzhen Gongjin Investment Management Co., Ltd.* (深圳市共進投資管理有限公司), a subsidiary of Shenzhen Gongjin Electronics Co., Ltd.*. From September 2016 to July 2017, he served as the vice president of finance and secretary of the board of Wuhan Qimi Network Technology Co., Ltd.* (武漢奇米網絡科技有限公司). Since July 2017, he has been the chief financial officer of Orsun Group Co., Ltd.* (奧山集團有限公司). He is a PRC certified public accountant and has the PRC securities and futures auditing business qualification. He has been appointed as an independent non-executive Director of the Company at the EGM held on 12 December 2017.

INDEPENDENT SUPERVISORS

Mr. Pan Xing Biao (潘興彪先生), aged 52, is an independent Supervisor of the Company. He is a certified public accountant and certified tax accountant. Mr. Pan graduated in Financial Accounting major from 浙江台州供銷學校 (Zhejiang Taizhou Supply and Marketing School*) in July 1985. He worked as the chief accountant of 紹興縣畜產品有限公司 (Shaoxing Livestock Product Co., Ltd. *) from August 1985 to April 1990, 紹興縣土特產有限公司 (Shaoxing Native Products Co., Ltd.*) from May 1990 September 1991, 紹興縣供銷貿易有限公司 (Shaoxing Supply and Marketing Trade Co., Ltd.*) from October 1991 to December 1994 and 紹興縣化纖供應有限公司 (Shaoxing Chemical Fiber Supply Co., Ltd.*) from January 1995 to June 1997. He worked as a department head at 紹興縣第一稅務師事務所 (Shaoxing First Tax Accountant Office*) from July 1997 to December 1999 and has been a director of 紹興益地稅務師事務所 (Shaoxing Yidi Tax Accountant Office*) since January 2000. He was reappointed as an independent Supervisor at the EGM held in May 2015.

SUPERVISORS

Ms. Wang Ai Yu (王愛玉女士), aged 55, is a Supervisor of the Company. She is currently a manager of the finance department of Zhejiang Yongli. She graduated from Chong Qing University. Ms. Wang was a teacher of 楊汛橋中心小學 (Yangxunqiao Zhongxing Primary School*) in Shaoxing County from February 1979 to January 1980 and working in the accounting department of 紹興市蜜餞廠 (Shaoxing County Mijian Factory*) from February 1980 to February 1987. She has acted as a finance manager of Zhejiang Yongli since February 1987. Ms. Wang has an extensive experience in finance and is well versed of the national taxation law, the accounting rules and the relevant finance, taxation, audit rules and policies. She is good at analysis and has accumulated substantial experience in data analysis, capital operation from different finance projects. She has established a set of comprehensive rules and regulations for internal control for Zhejiang Yongli in order to reduce the investment risk of the enterprises. She also has standardised the audit method for the corporate finance of and enhanced the quality of financial information, thereby enhancing the supervision in finance and accounting. She was re-appointed as a Supervisor of the Company by the AGM held on 16 May 2016 and a chairman of the Supervisory Committee.

Mr. Chen Wei (陳偉先生), aged 37, is a Supervisor of the Company. He is currently the manager of the production department of the Company since March 2015. He was a workshop supervisor in 浙江偉創紡織有限公司 (Zhejiang Wei Chuang Textiles Company Limited*) from 1998 to January 2006 and a production manager in 萬邦紡織有限公司 (Wan Bang Textiles Company Limited*) from 2006 to 2007. He was re-appointed as a Supervisor in May 2015.

The Directors present their annual report and the audited consolidated financial statements of the Company and its subsidiary (the "Group") for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

The Group is principally engaged in (i) the manufacture and sale of woven fabrics, (ii) provision of subcontracting services and (iii) private equity assets management service.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 38 of this annual report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2017.

PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2017, the Group spent approximately RMB909,000 in additions of furniture, fixtures and equipment and approximately RMB369,000 in plant and machinery.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

BUSINESS REVIEW

Details of the financial performance and business review are discussed under Chairman's Statement on page 4 and Management Discussion and Analysis on pages 6 to 8 respectively.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the consolidated financial statements.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the year ended 31 December 2017 and up to the date of this report were:

Executive Directors:

Mr. Jiang Ning	*(Chairman)* (appointed on 28 February 2017)
Mr. He Weifeng	*(Deputy Chairman)* (appointed on 28 February 2017)
Mr. Wang Xinyi	*(Chairman)* (resigned on 28 February 2017)
Ms. He Lianfeng	*(Chief Executive Officer)* (resigned as Deputy Chairman on 28 February 2017)
Mr. Hu Hua Jun	

Non-Executive Directors:

Mr. Chen Dong Chun	(resigned on 19 September 2017)
Mr. Tang Guo Ping	(resigned on 12 December 2017)

Independent Non-Executive Directors:

Mr. Song Ke	(appointed on 12 December 2017)
Mr. Wang Hui	(appointed on 12 December 2017)
Mr. Wang Zhong	(appointed on 12 December 2017)
Mr. Xu Wei Dong	(resigned on 12 December 2017)
Ms. Zhang Li	(resigned on 12 December 2017)
Mr. Wang Weisong	(resigned on 12 December 2017)

Supervisors:

Ms. Wang Ai Yu	*(chairman of supervisory committee)*
Ms. Tong Jian Juan	(resigned on 12 December 2017)
Mr. Chen Wei	

Independent Supervisors:

Mr. Hu Jin Huan	(resigned on 12 December 2017)
Mr. Pan Xing Biao	

Each of the Directors and supervisors (including the independent non-executive Directors and independent supervisors) has entered into a service agreement with the Company for three years from the date of appointment. Each of the directors and supervisors was appointed as a director and supervisor of the Company respectively subject to termination in certain circumstances as stipulated in the relevant services contracts.

In accordance with the provisions of the Company's articles of association, the Directors and supervisors acting for the shareholders are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment. None of the Directors who are proposed for re-election at the forthcoming annual general meeting to be held on 15 May 2018 has a service contract with the Company, which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for termination of executive Directors and independent non-executive Directors' contracts by either party is not less than three months.

Mr. Wang Xinyi ("Mr. Wang") resigned as an executive Director, the Chairman of the Company, the legal representative of the Company and a member of the remuneration committee of the Company for personal development with effect from 28 February 2017, the date of EGM. Mr. Wang had confirmed that he did not have any disagreement with the Board and that there were no matters relating to his resignation which need to be brought to the attention of the Shareholders.

Mr. Chen Dong Chun ("Mr. Chen") and Mr. Tang Guo Ping ("Mr. Tang") resigned as non-executive Directors for personal development with effect from 19 September 2017 and 12 December 2017 respectively. Mr. Chen and Mr. Tang had confirmed that they did not have any disagreement with the Board and that there were no matters relating to their resignation which need to be brought to the attention of the Shareholders.

Mr. Xu Wei Dong ("Mr. Xu"), Ms. Zhang Li ("Ms. Zhang") and Mr. Wang Weisong ("Mr. Wang") resigned as independent non-executive Directors and the members of Board Committees respectively because they intended to focus on their other work commitments and engagements, with effect from 12 December 2017. Mr. Xu, Ms. Zhang and Mr. Wang had confirmed that they did not have any disagreement with the Board and that there were no matters relating to their resignation which need to be brought to the attention of the Shareholders.

Ms. Tong Jian Juan ("Ms. Tong") and Mr. Hu Jin Huan ("Mr. Hu") resigned as employee representative Supervisor and independent Supervisor respectively because they intended to focus on their other work commitments and engagements, with effect from 12 December 2017. Ms. Tong and Mr. Hu had confirmed that they did not have any disagreement with the Board and that there were no matters relating to their resignation which need to be brought to the attention of the Shareholders.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2017, Ms. He Lianfeng, an executive Director and her spouse totally have approximately 0.039% of interest in Zhejiang Yongli, the ultimate holding company of the Company. Mr. He Weifeng is also the deputy chairman of Zhejiang Yongli. Mr. Jiang Ning is vice general manager of Guizhou Yongan, the Company's immediate holding company, and a director of four other subsidiaries of Guizhou Yongan. Ms. Wang Ai Yu, a Supervisor, is a manager of the finance department of Zhejiang Yongli. Zhejiang Yongli and Guizhou Yongan are associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")) by virtue of being a holding company of the Company.

Save as disclosed above, as at 31 December 2017, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE H SHARES OR DEBENTURES

At no time during the year ended 31 December 2017 was the Company a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate and neither the Directors nor the Supervisors, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 31 to the consolidated financial statements, no other contracts of significance to which the Company was a party and in which a director or a supervisor 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 ended 31 December 2017.

CONNECTED TRANSACTIONS

Save as disclosed in note 31 to the consolidated financial statements, there were no other transactions which need to be disclosed as "Connected Transactions" or "Continuing Connected Transactions" under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholder's approval requirements under Chapter 20 of the GEM Listing Rules.

The independent non-executive Directors have reviewed the connected transactions set out in note 31 to the consolidated financial statements and in their opinion, these transactions entered into by the Group were:

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

(ii) on normal commercial terms or on terms no less favourable than terms available to/from independent third parties; and

(iii) carried out in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has also confirmed that the continuing connected transactions:

(a) had received approval from the Board;

(b) had been entered into in accordance with the relevant agreement governing such transactions; and

(c) had not exceeded the relevant cap for the financial year ended 31 December 2017 as approved by the shareholders of the Company at the EGM held on 31 July 2015.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, so far as it is known to the Directors or chief executive or Supervisors of the Company, the interests and short positions of person in the shares or underlying shares of the Company, other than the interest of the Directors or Supervisors, which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or who is interested directly or indirectly in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company were as follows:

Long positions in the shares of the Company

Domestic shares of the Company ("Domestic Shares")

Name of shareholders	Capacity	Number of Domestic Shares held	Approximate percentage of interests in Domestic Shares	Approximate percentage of interests in total registered capital
Guizhou Yongan	Beneficial owner	588,000,000	100.00%	55.29%
Zhejiang Yongli	Interest in controlled corporation *(Note)*	588,000,000	100.00%	55.29%
Mr. Zhou Yongli	Interest in controlled corporation *(Note)*	588,000,000	100.00%	55.29%
Ms. Xia Wanmei	Interest of spouse *(Note)*	588,000,000	100.00%	55.29%

Notes:

Mr. Zhou Yongli and his spouse Ms. Xia Wanmei, own approximately 94.25% and approximately 3.49% in Zhejiang Yongli respectively. Zhejiang Yongli owns 65% in Guizhou Yongan. Mr. Zhou Yongli and Ms. Xia Wanmei are therefore deemed to be interested in the 588,000,000 domestic shares of the Company held by Guizhou Yongan, representing 55.29% of the total issued share capital of the Company.

H shares of RMB0.1 each of the Company ("H Shares")

Name of shareholder	Capacity	Number of H Shares held	Approximate percentage of interests in H Shares as at 31 December 2017	Approximate percentage of interests in total registered capital as at 31 December 2017
Wing Hing Holdings (HK) Investment Limited	Beneficial owner	208,540,000	43.86%	19.61%

Save as disclosed above, as at 31 December 2017, so far as was known to the Directors, chief executives and Supervisors of the Company, no other person (other than the Directors, chief executives or Supervisors of the Company) has an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of Part XV of the SFO.

COMPETING INTERESTS

As at 31 December 2017, none of the Directors, Supervisors or the controlling shareholders (as defined in the GEM Listing Rules) of the Company and their respective close associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

MAJOR SUPPLIERS AND CUSTOMERS

During the year ended 31 December 2017, the five largest suppliers and customers of the Group accounted for approximately 37.61% and 29% of the Group's purchases and revenue respectively. The largest supplier and customer accounted for approximately 10.46% and 12.75% of the purchases and revenue of the Group respectively.

At no time during the year did a Director, a Supervisor, an associate or a shareholder of the Company, which to the knowledge of the Directors, own more than 5% of the Company's issued share capital, have any interest in the share capital of any of the five largest suppliers or customers of the Group.

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

The Company and its subsidiary did not purchase, sell or redeem any of the Company's listed securities for the year ended 31 December 2017.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Pursuant to Appendix 20 Environmental, Social and Governance Reporting Guide (the "ESG Guide") of the GEM Listing Rules, the Group is required to prepare an ESG Report, which explains the management approaches, strategies, policies, measures taken and results of its activities on environmental and social areas and aspects, and evaluate their impact on the sustainable development of the environment and society.

Since the Company has been established in 2002, it has been working towards developing itself as an international leader in woven fabrics design, manufacture and sale. The Group's objectives are to bring new technology and products to fashion industries, returns to its investors, shareholders and employees, and positive contributions to the environment and society. The Group has adopted and implemented the strategies, policies, rules and regulations in relation to the environmental and social areas and aspects of the ESG Guide with responsibility and a high Code of Standards, which can be summarised in the first ESG report dated and published on 28 June 2017. A separate ESG report for further disclosure of Aspect A1 emissions matters as required under the ESG Guide will be published on the Stock Exchange's website and the Company's website no later than three months after the publication of this annual report.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in May 2002 and the primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong, who were appointed as a member of Audit Committee on 12 December 2017 in order to replace the resignation of Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong respectively. Mr. Wang Hui is the chairman of the Audit Committee.

The first consolidated quarterly results for the three months ended 31 March 2017, the consolidated interim results for the six months ended 30 June 2017, the third consolidated quarterly results for the nine months ended 30 September 2017 and the annual consolidated results of the Group for the year ended 31 December 2017 have been reviewed by the Audit Committee.

EMOLUMENT POLICY

The Company has established a remuneration committee (the "Remuneration Committee") in January 2005 and the primary duties of the Remuneration Committee are to formulate and make recommendation to the Board on the Group's policy and structure for all the remuneration of the Directors and senior management and on the establishment of formal and transparent procedures for developing policy on such remuneration. During the year ended 31 December 2017, the Remuneration Committee comprises three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong, who were appointed as a member of Remuneration Committee on 12 December 2017 in order to replace the resignation of Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong respectively, and the executive Director Mr. He Weifeng, Mr. He Weifeng was appointed as a member of the Remuneration Committee on 28 February 2017 in order to replace the resignation of Mr. Wang Xinyi. Mr. Song Ke is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the Code on 31 March 2012. The primary duties of the Nomination Committee are to make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors. During the year ended 31 December 2017, the Nomination Committee comprised three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong, who were appointed as a member of Nomination Committee on 12 December 2017 in order to replace the resignation of Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong respectively, and the executive Director, Ms. He Lianfeng. Mr. Wang Zhong is the chairman of the Nomination Committee.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that it is publicly available to the Company and with the knowledge of the Directors as at the date of this annual report, the Company has maintained a prescribed public float under the GEM Listing Rules.

AUDITOR

The consolidated financial statements for the year ended 31 December 2017 were audited by SHINEWING (HK) CPA Limited ("SHINEWING").

A resolution will be submitted to the forthcoming annual general meeting to be held on 15 May 2018 to re-appoint SHINEWING as international auditor and 浙江中興會計師事務所有限公司 (Zhejiang Zhongxing CPA Company Limited*) ("Zhejiang Zhongxing") as domestic auditor of the Group.

On behalf of the Board of
Zhejiang Yongan Rongtong Holdings Co., Ltd.*

Jiang Ling
Chairman

Zhejiang, the PRC, 12 March 2018

To: All Shareholders

We are the supervisory committee ("Supervisory Committee") of Zhejiang Yongan Rongtong Holdings Co., Ltd.*, in accordance with the company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "Articles of Association") during the year ended 31 December 2017, exercised conscientiously its authority, safeguarded the interest of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

The Supervisory Committee followed strictly the relevant regulations and carried out its duties honestly, including strengthening internal management and control of the Group, enforcing strict execution of various approval procedures, hiring professional consultation bodies, if necessary, standardising different aspect of management, conducting strict and effective monitoring of various significant decision making process and concrete decisions as to whether or not they comply with state laws and regulations and the Company's articles of association, whether or not shareholder's interests are protected etc., preventing abuse of authority by our senior management.

After review, we consider that the consolidated financial statements of the Group for the year ended 31 December 2017, audited by the auditor, SHINEWING, truly and sufficiently reflects the operating results and asset positions of the Group. The Committee also reviewed the Report of the Board of Directors and the Corporate Governance Report and considers that the reports meet the requirements of the relevant regulations and Articles of Association.

We consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honesty and trustworthiness, working diligently and acting sincerely in the best interest of the Group. None of the Directors, general manager and the officers have abused their powers, caused damage to the interests of the Group and infringed upon the interests of the Group and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

By order of the Supervisory Committee of
Zhejiang Yongan Rongtong Holdings Co., Ltd. *

Wang Ai Yu
Chairman of the Supervisory Committee

Zhejiang, the PRC, 12 March 2018

During the year ended 31 December 2017, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code Provision") as set out in the Appendix 15 of GEM Listing Rules.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transaction by Directors and Supervisors on terms no less exacting than the required standard of securities transactions by directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors and Supervisors, all Directors and Supervisors of the Company confirmed that they had complied with the required standard and the code of conduct regarding securities transactions by Directors and Supervisors adopted by the Company.

SENIOR MANAGEMENT'S AND STAFF'S SECURITIES TRANSACTIONS

Senior management and those staff who are more likely to be in possession of inside information in relation to the securities of Company have adopted the Dealing Rules. These senior management and staff have been individually notified and provided with a copy of the Dealing Rules.

BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group affairs.

The Board currently comprises four executive Directors and three independent non-executive Directors. Their brief biographical details are set out in the "Directors and Senior Management" on pages 9 to 11 of the annual report. Moreover, one of the independent non-executive Director, Mr. Wang Hui has appropriate professional qualifications, accounting and related financial management expertise so that he has sufficient calibre and views to carry weight.

Saved as disclosed in this report, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board. Please refer to the Directors' Report on page 14 for the terms of appointment of each Director.

The board confines itself to making board policy decisions, such as the Group's overall strategies and policies, annual budgets and business plans, while delegating responsibility for more detailed consideration to the various Board Committees and management. Management is responsible for overseeing the Group's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions. The management must obtain prior approval from the Board before making decision or entering into any commitment on behalf of the Group.

CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rules 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

BOARD MEETINGS

During the year ended 31 December 2017, regular meeting was held to approve the consolidated financial results for the year of 2017. The Board will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each Board meeting. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association. The Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all Board meeting. She also keeps the minutes, which are opened for inspection at any reasonable notice by any Director.

There were thirteen (13) Board meetings held during the financial year ended 31 December 2017. Individual attendance of each Board member at these meetings is as follows:

Name of Directors		**Attendance/number of meetings**
Executive Directors		
Mr. Jiang Ning	(appointed on 28 February 2017)	12/13
Mr. He Weifeng	(appointed on 28 February 2017)	12/13
Mr. He Lianfeng		13/13
Mr. Hu Hua Jun		13/13
Mr. Wang Xinyi	(resigned on 28 February 2017)	1/13
Non-executive Director		
Mr. Chen Dong Chun	(resigned on 19 September 2017)	7/13
Mr. Tang Guo Ping	(resigned on 12 December 2017)	13/13
Independent Non-executive Directors		
Mr. Song Ke	(appointed on 12 December 2017)	0/13
Mr. Wang Hui	(appointed on 12 December 2017)	0/13
Mr. Wang Zhong	(appointed on 12 December 2017)	0/13
Mr. Xu Wei Dong	(resigned on 12 December 2017)	13/13
Ms. Zhang Li	(resigned on 12 December 2017)	13/13
Mr. Wang Weisong	(resigned on 12 December 2017)	12/13

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2017, all Directors have participated in continuous professional development by attending training course on the topics related to corporate governance and regulations.

The individual training record of each Director received for the year ended 31 December 2017 is summarised below:

Name of Directors		Attended training course on topics related to corporate governance and regulations
		Yes/No
Executive Directors		
Mr. Jiang Ning	(appointed on 28 February 2017)	Yes
Mr. He Weifeng	(appointed on 28 February 2017)	Yes
Mr. He Lianfeng		Yes
Mr. Hu Hua Jun		Yes
Mr. Wang Xinyi	(resigned on 28 February 2017)	N/A
Non-executive Director		
Mr. Chen Dong Chun	(resigned on 19 September 2017)	N/A
Mr. Tang Guo Ping	(resigned on 12 December 2017)	N/A
Independent Non-executive Directors		
Mr. Song Ke	(appointed on 12 December 2017)	Yes
Mr. Wang Hui	(appointed on 12 December 2017)	Yes
Mr. Wang Zhong	(appointed on 12 December 2017)	Yes
Mr. Xu Wei Dong	(resigned on 12 December 2017)	N/A
Ms. Zhang Li	(resigned on 12 December 2017)	N/A
Mr. Wang Weisong	(resigned on 12 December 2017)	N/A

All Directors also understand the importance of continuous professional development and are committed to participating any suitable training or reading relevant materials in order to develop and refresh their knowledge and skills.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Institute of Certified Public Accountants and the mandatory provisions set out in the Code.

The primary duties of the audit committee of the Company (the "Audit Committee") are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong who were appointed as independent non-executive Directors and members of Audit Committee in order to replace the resignation of Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong respectively on 12 December 2017. Mr. Wang Hui is the chairman of the Audit Committee.

The Audit Committee has reviewed the consolidated results for the three months ended 31 March 2017, six months ended 30 June 2017, and nine months ended 30 September 2017 of the Group. It also has reviewed the audited consolidated financial statements for the year ended 31 December 2017 with management and the Group's external auditors and recommended its adoption to the Board.

There were four meetings held by the Audit Committee during the year ended 31 December 2017 for reviewing the consolidated annual results of the Group for the year ended 31 December 2016 and the three consolidated quarterly results in 2017. Individual attendance of each independent non-executive Director at these meetings is as follows:

Name of Directors		**Attendance/number of meetings**
Independent Non-executive Directors		
Mr. Song Ke	(appointed on 12 December 2017)	0/4
Mr. Wang Hui	(appointed on 12 December 2017)	0/4
Mr. Wang Zhong	(appointed on 12 December 2017)	0/4
Mr. Xu Wei Dong	(resigned on 12 December 2017)	4/4
Ms. Zhang Li	(resigned on 12 December 2017)	4/4
Mr. Wang Weisong	(resigned on 12 December 2017)	4/4

The authorities of the Audit Committee include (1) investigation of any activity within its terms of reference; (2) seeking any information from any employee when required; and (3) obtaining outside legal or other independent professional advice if it considers necessary.

The main duties of the Audit Committee are as follows:

— to consider appointment of the external auditors, the audit fee, and any question of resignation or dismissal;

— to discuss with the external auditors the nature and scope of the audit;

— to review and monitor the external auditors, independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

— to develop and implement policy on the engagement of external auditors to supply non-audit services;

— to review the Group's quarterly, interim and annual consolidated financial statements before submission to the Board;

— to discuss problem and reservations arising from the final audits and any matters that the external auditors may wish to discuss;

— to review the Group's statement on internal control system prior to endorsement by the Board;

— to consider the major findings of any internal investigation and the management's response; and

— to consider other topics as defined by the Board

AUDITOR'S REMUNERATION

The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect to the Group.

The remuneration in respect of services provided by the international auditor and domestic auditors for the years ended 31 December 2017 and 2016 are analysed as follows:

	For the year ended 31 December	
	2017	2016
	RMB'000	RMB'000
Audit service	**708**	655
Performed agreed-upon procedures regarding information on preliminary annual result announcement of the Group	**20**	20
Performed agreed-upon procedures regarding financial information on continuing connected transactions between the Group and Zhejiang Yongli Thermal Electricity	**20**	20
Performed agreed-upon procedures regarding information on sufficiency of working capital and statement of indebtness of the Group for entering into a major transaction	**170**	—
	918	695

The audit services fee for the years ended 31 December 2017 and 2016 represent services provided by SHINEWING and Zhejiang Zhongxing. The other services fee for the year ended 31 December 2017 and 2016 represent the services provided by SHINEWING.

REMUNERATION COMMITTEE

According to the Code, the Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the Code in January 2005. The primary duties of the Remuneration Committee of the Company are to formulate and make recommendation to the Board on the Group's policy and structure for all the remuneration of the Directors and Senior Management and on the establishment of a formal and transparent procedures for developing policy on such remuneration. According to the written terms of reference of the Remuneration Committee, the duties of the Remuneration Committee shall be:

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

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive directors. The Remuneration Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Group;

(e) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

(f) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(g) to advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under Rule 17.90 of the Listing Rules.

The Remuneration Committee shall be appointed by the Board and shall consist of not less than three members and a majority of whom should be independent non-executive Directors. During the year ended 31 December 2017, the Remuneration Committee comprises three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong, who were appointed as independent non-executive Directors and member of Remuneration Committee in order to replace the resignation of Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong respectively on 12 December 2017 and the executive Director, Mr. He Weifeng who was appointed as executive Director and a member of Remuneration Committee so as to replace the resignation of Mr. Wang Xinyi on 28 February 2017 . Mr. Song Ke is the chairman of the Remuneration Committee.

During the year ended 31 December 2017, the Remuneration Committee held three meetings for reviewing the remuneration of the re-elected, re-designated Directors and Supervisors and newly appointed Directors and relevant matters; the procedural rules of the Remuneration Committee and made recommendation to the board. Individual attendance of each member of Remuneration Committee at the meeting is as follows:

Name of Directors		Attendance/number of meetings
Executive Director		
Mr. He Weifeng	(appointed on 28 February 2017)	2/3
Mr. Wang Xinyi	(resigned on 28 February 2017)	1/3
Independent Non-executive Directors		
Mr. Song Ke	(appointed on 12 December 2017)	0/3
Mr. Wang Hui	(appointed on 12 December 2017)	0/3
Mr. Wang Zhong	(appointed on 12 December 2017)	0/3
Mr. Xu Wei Dong	(resigned on 12 December 2017)	3/3
Ms. Zhang Li	(resigned on 12 December 2017)	3/3
Mr. Wang Weisong	(resigned on 12 December 2017)	3/3

Based on the advice provided from Remuneration Committee, the emoluments of the Directors are recommended by the Board of Directors, having regard to their duties and responsibilities and approved by the shareholders of the Company.

NOMINATION COMMITTEE

According to the Code, the Company has established a nomination committee (the "Nomination Committee") with written terms of reference based upon the guidelines recommended by the mandatory provisions set out in the Code on 30 March 2012. The primary duties of the Nomination Committee are to make recommendation to the Board on the appointment or re-appointment of Directors and succession planning for Directors. According to the written terms of reference, the duties of the Nomination Committee shall be:

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

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

(c) to assess the independence of the independent non-executive directors of the Company; and

(d) to make recommendations to the Board on the appointment or re-appointment or re-designation of Directors and succession planning for Directors, in particular the Chairman and the Chief Executive Officer.

The Nomination Committee shall be appointed by the Board and shall consist of not less than three members and a majority of whom should be independent non-executive Directors. During the year ended 31 December 2017, the Nomination Committee comprises three independent non-executive Directors, Mr. Song Ke, Mr. Wang Hui and Mr. Wang Zhong, who were appointed as independent non-executive Directors and member of Nomination Committee in order to replace the resignation of Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong on 12 December 2017 and the executive Director, Ms. He Lianfeng, Mr. Wang Zhong was elected as the chairman of the Nomination Committee.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having due regard to the Group's own business model and specific needs from time to time.

During the year under review, the Nomination Committee held three meetings for discussion of the existing structure of the board of directors of the Company and the procedures of appointment of Directors and Supervisors; and assessment of re-appointment of Directors and Supervisors in order to make recommendation to the board of Directors. Individual attendance of each member of Nomination Committee at the meeting is as follows:

Name of Directors		**Attendance/number of meetings**
Executive Director		
Ms. He Lianfeng		3/3
Independent Non-executive Directors		
Mr. Song Ke	(appointed on 12 December 2017)	0/3
Mr. Wang Hui	(appointed on 12 December 2017)	0/3
Mr. Wang Zhong	(appointed on 12 December 2017)	0/3
Mr. Xu Wei Dong	(resigned on 12 December 2017)	3/3
Ms. Zhang Li	(resigned on 12 December 2017)	3/3
Mr. Wang Weisong	(resigned on 12 December 2017)	3/3

DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Company and its subsidiary and in presenting the quarterly and annual consolidated financial statements, and announcements to shareholders, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The Directors' responsibilities in preparing consolidated financial statements and the auditor's responsibilities for the audit of the consolidated financial statements are set out in the Independent Auditor's Report on page 33 of this annual report.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Details of the remuneration of the Directors and senior management are contained in note 14 to the consolidated financial statements.

COMPANY SECRETARY

Ms. Chen Yen Yung ("Ms. Chen") was appointed as the company secretary of the Company in June 2002. She is responsible to the Board for ensuring the board procedures are followed and that the Board is briefed on legislative, regulatory and corporate governance developments.

During the year ended 31 December 2017, Ms. Chen has undertaken not less than 15 hours of relevant professional training.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises its responsibility to evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's objectives, and ensure the Group establishes and maintains a sound and effective risk management and internal control system. The Board acknowledged that an effective risk management and internal control systems are systems that are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board should oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management should provide a confirmation to the Board on the effectiveness of these systems.

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorised disposition and to manage operational risks. The Group share the internal audit function with its ultimate holding company, Zhejiang Yongli. Hence, the risk management and internal control system is evaluated independently by the Internal Audit Department of Zhejiang Yongli on an on-going basis. At the year end, the Company normally will appoint an independent professional party to carry out annual review of risk management and internal control systems covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls if the Board consider that it is necessary. Last year, a professional party was engaged to review the risk management and internal control system of the Group. As no major issue but areas for improvement had been identified and reported to the Board and the Audit Committee last year, the Board considered to rely on the on-going review of the internal control system and risk management of the Group by Internal Audit Department for the year of 2017. The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems are reasonably implemented.

SHAREHOLDER'S RIGHTS

Shareholder's rights are set out in a number of sources, such as the Articles of Association, and the GEM Listing Rules. With reference to the above sources, the Company sets out below details of shareholder's rights in the following aspects:

1. The way in which shareholders of the Company ("Shareholders") can convene an extraordinary general meeting or class meeting

Pursuant to Article 79 of the Articles of Association, Shareholders who request the convening of an extraordinary general meeting or a class meeting shall do so in accordance with the following procedures:

(a) two (2) or more shareholders with combined title to more than 10% (including 10%) of shares with voting rights at the meeting to be convened may sign one or several written requests in the same format and with the same contents to the board of directors to convene an extraordinary general meeting or class meeting of shareholders and which shall also specify the meeting's agenda. After receiving the aforesaid written request, the board of directors shall promptly convene an extraordinary general meeting or class meeting of shareholders. The aforesaid number of shares held by shareholders shall be calculated as at the date of the written request;

(b) if the Board fails to issue notification convening a meeting within thirty (30) days after receiving the aforesaid written request, the Shareholders who raised the request may convene the meeting within four (4) months after the Board received that request. The procedures for convening such a meeting shall be, as much as possible, the same as the procedures for convening a general meeting by the Board.

The written request must be signed by the Shareholders and sent to the Head office and principal place of business in Hong Kong of the Company as disclosed in the "Corporate Information" section to the annual report (the "Hong Kong Office"), for the attention of the Company Secretary of the Company. The request will then be verified with the Company's H Share share registrar and transfer office in Hong Kong and upon its confirmation that the request is proper and in order, the Company Secretary will forward the request to the Board.

2. The procedures for sending enquiries to the Board

Shareholders and other stakeholders may send their enquiries and concerns in writing to the Board by addressing them to the Company Secretary at the Hong Kong Office and the Company Secretary shall then forward the same to the appropriate executives of the Company or members in the Board for further handling.

3. The procedures for making proposals at shareholder's meetings

To put forward proposals at an annual general meeting or an extraordinary general meeting, the shareholders shall submit a written notice of those proposals with the detailed contact information to the Company Secretary at the Hong Kong Office. The request will be verified with the H Share share registrar and transfer office and upon its confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting. Moreover, the notice period concerning the notice to be given to all the shareholders for consideration of the proposals submitted by the shareholders concerned varies as follows pursuant to the Article 58 of the Articles of Association of the Company:

"When convening a general meeting of shareholders, written notification shall be made to the Shareholders registered in the Shareholders Register forty-five (45) days (including the date of meeting but excluding the date of notice issuance) before the convening of the meeting of those matters to be discussed at the meeting and the date and location of the meeting. Shareholders intend to attend the general meeting shall send their written acknowledge to the Company twenty (20) days before the convening of the meeting."

INVESTOR RELATIONS AND COMMUNICATIONS WITH SHAREHOLDERS

The Company and its subsidiary has disclosed all necessary information to the Shareholders and investors in compliance with the GEM Listing Rules and uses a number of formal communications channels to account to Shareholders and investors for the Company. These include (i) the Company replying to the enquiries from Shareholders timely; (i) updated and key information of the Group available on website of the Company; (iii) the Company's website offering communication channel between the Company and its Shareholders and investors; and (iv) the Company's H Share share registrar in Hong Kong serves the shareholders regarding all H Shares share registration matters.

CONSTITUTIONAL DOCUMENTS

There was no change in the Articles of Association of the Company during the year ended 31 December 2017. however, an extraordinary ordinary meeting was held on 28 February 2017 to approve the amendment of the Articles of Association to reflect, among other things: (i) change in the business license with uniform social credit code pursuant to the "Three in One" Registration System Reform implemented by the State Administration Industry and Commerce; (ii) the Proposed change of Company Name; (iii) the Proposed change of Business Scope; and (iv) the latest shareholding structure of the Company. Details of the proposed amendments to the Articles of Association are set out in Appendix to the circular dated 13 January 2017 as published on the GEM website and the Company's website on 13 January 2017.

LOOKING FORWARD

The Board believes that good corporate governance can safeguard the effective allocation of resources and safeguard shareholder's interest. The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take the necessary actions to ensure compliance with the required practices and standards including the Code Provisions.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.
(Established as a joint stock limited company in the People's Republic of China)

OPINION

We have audited the consolidated financial statements of Zhejiang Yongan Rontong Holdings Co., Ltd. (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") set out on pages 38 to 95, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the 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 these requirements and 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.

VALUATION AND IMPAIRMENT ASSESSMENT OF INVENTORIES

Refer to note 21 to the consolidated financial statements and the accounting policies on page 85.

The key audit matter	How the matter was addressed in our audit
At 31 December 2017, the Group maintained inventories of approximately RMB27.8 million, net of allowance for inventories of approximately RMB1.5 million. We have identified the valuation of inventories as a key audit matter due to the use of significant degree of judgments and estimates in identifying obsolete and slow moving inventories and in determining the net realisable value ("NRV") which are based on conditions and the marketability of the inventories. NRV represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The Group carried out the inventory review at the end of the reporting period and made the necessary allowance on obsolete and slow moving items so as to write off or write down inventories to their NRVs.	Our audit procedures were designed to evaluate the management's assessment of the conditions and the marketability of the obsolete and slow moving inventories and identify any valuation risk of inventories. We have assessed the reasonableness of the basis of determining the NRV and evaluate the condition and marketability of the inventories adopted by the management. We have performed testing on the aging analysis of the inventories, on a sample basis, to the source documents. We have tested the subsequent sales on a sample basis, to source documents. We have also assessed the sufficiency of allowance on obsolete and slow moving inventories made by management where the estimated NRV is lower than the cost with reference to the latest selling price, on a sampling basis.

RECOVERABILITY AND IMPAIRMENT ASSESSMENT OF TRADE RECEIVABLES

Refer to note 22 to the consolidated financial statements and the accounting policies on page 85.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2017, trade receivables of the Group amounted to approximately RMB36.1 million, net of accumulated impairment loss of approximately RMB20.3 million. We have identified impairment assessment of trade receivables as a key audit matter because the amount of allowance for impairment loss required significant management judgment.	Our audit procedures were designed to challenge the assumptions and critical judgments of the Group's impairment assessment or judgments on the recoverability on the outstanding balances. We have assessed the indicators of possible impairment with the management and, where such indicators were identified, assessed the management's impairment testing. We have challenged the assumptions and critical judgments used by the management by assessing the reliability of the management's past estimates and taking into account the ageing at year end and cash received after year end, as well as the recent creditworthiness of each debtor.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS 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 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

We communicate with the 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 the 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.

From the matters communicated with the 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Kwan Chi Fung.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Kwan Chi Fung
Practising Certificate Number: P06614

Hong Kong
12 March 2018

	Notes	2017 RMB'000	2016 RMB'000
Revenue	8	**159,442**	165,785
Cost of sales		**(144,019)**	(147,688)
Gross profit		**15,423**	18,097
Other income and gains	8	**2.363**	4,896
Selling and distribution costs		**(2,538)**	(2,455)
Administrative expenses		**(12,718)**	(12,049)
Finance costs	10	**(3,776)**	(13,980)
Loss before taxation		**(1,246)**	(5,491)
Income tax expense	11	**(963)**	(1,722)
Loss for the year	12	**(2,209)**	(7,213)
Other comprehensive income for the year			
Items that will not be reclassified subsequently to profit or loss:			
Fair value loss in available-for-sale investment		**(1,171)**	—
Deferred tax relating to fair value loss on available-for-sale investment		**292**	—
Gain on revaluation of properties		**4,259**	2,865
Income tax relating to revaluation of properties		**(1,065)**	(716)
Other comprehensive income for the year, net of tax		**2,315**	2,149
Total comprehensive income (expenses) for the year		**106**	(5,064)
		RMB	RMB
Loss per share			
Basic and diluted	13	**(0.21) cent**	(0.68) cents

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	17	**102,940**	104,387
Prepaid lease payments	18	**6,268**	6,456
Goodwill	19	**1,230**	—
Available-for-sale investments	20	**73,807**	—
		184,245	110,843
Current assets			
Inventories	21	**27,843**	38,826
Trade and other receivables	22	**37,713**	37,898
Prepaid lease payments	18	**188**	188
Amount due from ultimate holding company	23	**71**	—
Bank balances and cash	24	**136,451**	203,551
		202,266	280,463
Current liabilities			
Trade and other payables	25	**41,152**	44,535
Tax payables		**8**	1,747
Amounts due to fellow subsidiaries	26	**4,432**	4,627
Amount due to immediate holding company	29	**6,426**	3,776
		52,018	54,685
Net current assets		**150,248**	225,778
Total assets less current liabilities		**334,493**	336,621
Non-current liabilities			
Deferred tax liabilities	28	**11,085**	10,669
Amount due to immediate holding company	29	**26,537**	16,948
		37,622	27,617
Net assets		**296,871**	309,004

	Notes	2017 RMB'000	2016 RMB'000
Capital and reserves			
Share capital	30	**106,350**	106,350
Share premium and reserves		**190,521**	202,654
		296,871	309,004

The consolidated financial statements on pages 38 to 95 were approved and authorised for issue by the board of directors on 12 March 2018 and are signed on its behalf by:

Mr. Jiang Ning
Director

Mr. Hu Hua Jun
Director

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (note (a))	Asset revaluation reserve RMB'000 (note (b))	Statutory surplus reserve RMB'000 (note (c))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	106,350	69,637	124,950	32,401	12,496	(250,719)	95,115
Loss for the year	—	—	—	—	—	(7,213)	(7,213)
Gain on revaluation of properties, net of tax	—	—	—	2,149	—	—	2,149
Total comprehensive income (expense) for the year	—	—	—	2,149	—	(7,213)	(5,064)
Deemed contribution from the immediate holding company of the Company *(note 29)*	—	—	218,953	—	—	—	218,953
At 31 December 2016 and 1 January 2017	**106,350**	**69,637**	**343,903**	**34,550**	**12,496**	**(257,932)**	**309,004**
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(2,209)**	**(2,209)**
Fair value loss in available-for-sale investment, net of tax	**—**	**—**	**—**	**(879)**	**—**	**—**	**(879)**
Gain on revaluation of properties, net of tax	**—**	**—**	**—**	**3,194**	**—**	**—**	**3,194**
Other comprehensive income for the year	**—**	**—**	**—**	**2,315**	**—**	**—**	**2,315**
Total comprehensive income (expense) for the year	**—**	**—**	**—**	**2,315**	**—**	**(2,209)**	**106**
Adjustment of deemed capital contribution arising from changes in cash flow estimates on amount due to immediate holding company (note 29)	**—**	**—**	**(12,239)**	**—**	**—**	**—**	**(12,239)**
At 31 December 2017	**106,350**	**69,637**	**331,664**	**36,865**	**12,496**	**(260,141)**	**296,871**

Notes:

(a) Other reserve represents the dividends waived by the holders of domestic shares, net of tax effect and the deemed contribution arising from the discounting of the non-current interest-free loan from ultimate holding company and immediate holding company (note 29) of the Company. If an entity revises its estimates of payments, the entity shall adjust the carrying amount of the financial liability to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate.

(b) As stipulated by regulations in the People's Republic of China (the "PRC"), the Company is required to appropriate 10% of its after-tax profit (after offsetting prior year losses) to a general reserve fund until the balance of the fund reaches 50% of its registered capital and thereafter any further appropriation is optional. The general reserve fund can be utilised to offset prior year losses, or for conversion into registered capital on the condition that the general reserve fund shall be maintained at a minimum of 25% of the registered capital after such utilisation.

(c) Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the generally accepted accounting principles in the PRC and the amount determined under Hong Kong Financial Reporting Standards. At 31 December 2017 and 2016, no reserves were available for distribution as the Group incurred accumulated losses.

	Note	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES			
Loss before taxation		**(1,246)**	(5,491)
Adjustments for:			
Interest income		**(731)**	(892)
Government subsidies		**(838)**	(20)
Gain on disposal of financial asset designated at fair value through profit or loss		**(466)**	–
Finance costs		**3,776**	13,980
Amortisation of prepaid lease payments		**188**	188
Depreciation of property, plant and equipment		**6,984**	7,156
Impairment loss recognised in respect of inventories		**1,534**	321
Impairment loss reversed in respect of inventories		**(102)**	(31)
Impairment loss reversed in respect of trade receivables		**—**	(40)
Reversal of allowance for property, plant and equipment		**—**	(3,489)
Gain on disposal of property, plant and equipment		**—**	(217)
Operating cash flows before movements in working capital		**9,099**	11,465
Decrease (increase) in inventories		**9,551**	(12,280)
Decrease in trade and other receivables		**185**	12,036
Decrease in financial assets designated at fair value through profit or loss		**8,966**	—
Decrease in trade and other payables		**(3,405)**	(5,838)
(Decrease) increase in amount due to fellow subsidiaries		**(195)**	2,169
Cash generated from operating activities		**24,201**	7,552
Income taxes paid		**(3,059)**	—
NET CASH FROM OPERATING ACTIVITIES		**21,142**	7,552
INVESTING ACTIVITIES			
Interest received		**731**	892
Advance to ultimate holding company		**(71)_**	—
Purchases of available-for-sale investments		**(74,978)**	—
Net cash outflow for acquisition of a subsidiary	33	**(9,708)**	—
Purchase of property, plant and equipment		**(1,278)**	(390)
Proceeds from disposal of property, plant and equipment		**—**	217
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(85,304)**	719
FINANCING ACTIVITIES			
Repayment to immediate holding company		**(3,776)**	—
Government subsidy received		**838**	20
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(2,938)**	20
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(67,100)**	8,291
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**203,551**	195,260
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**136,451**	203,551

1. GENERAL

The Company is a joint stock limited company established in the PRC and the H shares of the Company are listed on the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are (i) the manufacture and sale of woven fabrics; (ii) the provision of subcontracting services; and (iii) the management of private equity assets. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

In the opinion of the directors, the immediate parent of the Company is 貴州永安金融控股股份有限公司 (Guizhou Yongan Finance Holdings Company Ltd.*) ("Guizhou Yongan"), an enterprise established in the PRC, and the ultimate parent and ultimate controlling party of the Company is 浙江永利實業集團有限公司 (Zhejiang Yongli Industry Group Co., Ltd.*) ("Zhejiang Yongli"), which is established in the PRC.

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

* *English name is for identification only*

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

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and Interpretations ("Int(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 - 2016 Cycle: Amendments to HKFRS 12
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKFRS 12	Recognition of Deferred Tax Assets for Unrealised Losses

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

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

New and revised HKFRSs issued but not yet effective

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

HKFRS 9 (2014)	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 28	Long-term Interest in Associates or Joint Ventures[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective date not yet been determined.

The directors of the Company anticipate that, except as described below, the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an "expected credit loss" model for impairment assessments.

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

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 (2014) Financial Instruments (Continued)

Key requirements of HKFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of HKFRS 9 (2014) to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values 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) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as 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 of financial liabilities attributable to changes in the financial liabilities' 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 as fair value through profit or loss was presented in profit or loss.

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

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

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 (2014) Financial Instruments (Continued)

- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company has performed a preliminary analysis of the Group's financial instruments as at 31 December 2017 based on the fact and circumstances existing at that date. The directors of the Company have assessed the impact of adoption of HKFRS 9 (2014) on the Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures, as follows:

(a) Classification and measurement

The Group's available-for-sale investments will be measured at fair value through profit or loss.

(b) Impairment

The directors of the Company expect to apply the simplified approach and record lifetime expected credit losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The application of the expected credit loss model may result in earlier recognition of credit losses for trade and other receivables and increase the amount of impairment allowance recognised for these items.

The directors of the Company will perform a more detailed analysis which considers all reasonable and supportable information for the estimation of the effect of adoption of HKFRS 9 (2014). Based on the preliminary assessment, the directors of the Company expect that the adoption of HKFRS 9 (2014) will not have other material impact on amounts reported in the Group's consolidated financial statements.

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

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 15 Revenue from Contracts with Customers

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. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

(i) Identify the contract with the customer;
(ii) Identify the performance obligations in the contract;
(iii) Determine the transaction price;
(iv) Allocate the transaction price to the performance obligations; and
(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows 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.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The major sources of revenue of the Group are sales of goods and provision of services. Under HKFRS 15, revenue is recognised for each of the performance obligations when control over a good or service is transferred to a customer. The directors of the Company have preliminarily assessed each type of the performance obligations and consider that the performance obligations are similar to the current identification of separate revenue components under HKAS 18 *Revenue*. Furthermore, HKFRS 15 requires the transaction price to be allocated to each performance obligation on a relative stand-alone selling price basis, which may affect the timing and amounts of revenue recognition and results in more disclosures in the consolidated financial statements. However, the directors of the Company expect that the adoption of HKFRS 15 will not have a material impact on the timing and amounts of revenue recognition based on the existing business model of the Group as at 31 December 2017.

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

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

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 16 Leases (Continued)

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 *Leases* and the related Interpretations when it becomes effective.

HKFRS 16 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of HKFRS 16.

A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Company are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under HKFRS 16. The directors of the Company expect that the adoption of HKFRS 16 will not have material impact on the Group's results but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties, that are measured at revalued amounts or fair values.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and an entity controlled by the Company (i.e. its subsidiary). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Control is achieved when the Company:

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company.

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

(b) Business combinations

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

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

- Deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with HKAS 12 *Income Taxes*;

- Assets or liabilities related to the acquiree's employee benefit arrangements are recognised and measured in accordance with HKAS 19 *Employee Benefits*;

- Liabilities or equity instruments related to share-based payment transactions of the acquire or the replacement of the acquiree's share-based payment transactions with the share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combinations (Continued)

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

(c) Goodwill

Goodwill arising on an acquisition of a business is carried at cost at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For the goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata on the basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

(d) Property, plant and equipment

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

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

Revaluations are made annually at each end of reporting period. Any increase in carrying amount of an asset as a result of a revaluation is recognised in other comprehensive income and accumulated in equity under the heading of asset revaluation reserve while any decrease resulted is recognised in profit or loss. However, an increase is recognised in profit or loss when that it reverses a revaluation decrease of the same asset previously recognised in profit or loss while a decrease is recognised in other comprehensive income when it reduces the related amount accumulated in asset revaluation reserve.

The asset revaluation reserve in respect of an item of property, plant and equipment stated at revalued amount is transferred directly to accumulated losses when it is realised on retirement or disposal.

Depreciation is recognised so as to allocate the cost or fair values of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

(e) Inventories

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

(f) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other income and gains line item in the consolidated statement of profit or loss and other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables and held-to-maturity investment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale investments (Continued)

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

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

Impairment loss on financial assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial assets (Continued)

Impairment loss on financial assets (Continued)

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

When an available-for-sale investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in asset revaluation reserve.

Financial liabilities and equity instruments

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

The Group's financial liabilities are classified as other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities

Financial liabilities, including trade and other payables and amounts due to fellow subsidiaries and immediate holding company, are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Equity instruments

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

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expires, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

(h) Impairment losses on tangible assets

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Revenue recognition

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

i) Sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

ii) Subcontracting fee income

Income from subcontracting work is recognised when services are provided.

iii) Interest income

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

iv) Management fee income

Income from management fee is recognised when services are rendered.

(j) Borrowing costs

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Taxation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Taxation (Continued)

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

(l) Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

(m) Retirement benefit costs

Payments to state-managed retirement benefit schemes are recognised as expenses when employees have rendered services entitling them to the contributions.

(n) Short term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

(o) Research and development expenditure

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Leasing

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

Leasehold land and building

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

(q) Government grants

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

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

(r) Investment in a subsidiary

Investment in a subsidiary is stated on the statement of financial position of the Company at cost less accumulated impairment loss.

(s) Fair value measurement

When measuring fair value, except for the net realisable value of inventories and value in use of properties, plant and equipment for the purpose of impairment assessment, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Fair value measurement (Continued)

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgments in applying the accounting policies

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

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

Critical judgments in applying the accounting policies (Continued)

Legal title of buildings

Despite the Group had paid the full purchase consideration for the buildings as detailed in note 17, formal titles of certain of the Group's rights to the use of the buildings were not obtained from the relevant government authorities. Based on the legal advice from the Group's lawyer, the directors of the Company determine to recognise these buildings on the ground that they expect no major difficulties in obtaining the legal titles in the future and the Group is in substance controlling these buildings. In the opinion of the directors of the Company, the absence of formal legal title to these buildings does not impair the value of the relevant assets of the Group.

Key sources of estimation uncertainty

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

Revaluation, depreciation and useful lives of property, plant and equipment

The Group depreciates its property, plant and equipment on a straight-line basis over their estimated useful lives as set out in note 17, commencing from the date the items of property, plant and equipment are put into their intended use. The estimated useful lives and the dates the items of property, plant and equipment are put into use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the property, plant and equipment. The Group assesses the residual value and useful lives of the property, plant and equipment on a regular basis and if the expectation differs from the original estimate, such difference will impact the depreciation charge in the year in which such estimate has been changed.

As described in note 17, buildings in the PRC were revalued as at 31 December 2017 and 2016 based on replacement cost method respectively determined by independent professional valuer respectively. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation for replacement cost method for buildings in the PRC, the independent professional valuer considers information from the aggregate amount of the new replacement cost of the buildings and deductions may be made to allow for the age, condition, economic or functional obsolescence and environmental factor existing at the end of the reporting period. As at 31 December 2017, the carrying amounts of buildings in the PRC are approximately RMB99,321,000 (2016: RMB101,034,000).

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has 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 the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of goodwill is RMB1,230,000 (2016: Nil), No impairment losses were recognised for both years. Details of the assumption used are disclosed in noted 19.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(Continued)

Key sources of estimation uncertainty (Continued)

Impairment loss recognised in respect of trade and bill receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses. At 31 December 2017, the carrying amount of trade and bill receivables were approximately RMB36,060,000 (2016: RMB36,530,000), net of accumulated impairment loss of approximately RMB20,341,000 (2016: RMB20,341,000).

Impairment loss recognised in respect of other receivables

The policy for provision of impairment loss of other receivables is determined by the management based on the evaluation of collectability and aging analysis of accounts and management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each receivables.

At 31 December 2017, the carrying amount of other receivables was approximately RMB1,653,000 (2016: RMB1,368,000). No provision for impairment loss was made during the years ended 31 December 2017 and 2016.

Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less any cost to complete and to sell the goods. The cost of inventories is written down to the net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The amount written off to the consolidated statement of profit or loss and other comprehensive income is the difference between the carrying value and net realisable value of inventories. In determining whether the cost of inventories can be recovered, significant judgment is required. In making this judgment, the Group evaluates, amongst other factors, the duration and extent and the means by which the amount will be recovered. These estimates are based on the current market condition and past experience in sales of similar products. It could change significantly as a result of changes in customer preferences and competitor actions in response to changes in market condition. At 31 December 2017, the carrying amount of inventories is approximately RMB27,843,000 (2016: RMB38,826,000) (net of accumulated allowance for inventories of approximately RMB1,431,000 (2016: RMB402,000)).

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

Key sources of estimation uncertainty (Continued)

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's estimation is required to assess the probability of future taxable profit. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. Details of deferred taxation are set out in note 28.

Carrying amount of amount due to immediate holding company

As at 31 December 2017, the carrying amount of the interest-free amount due to immediate holding company was approximately RMB33,963,000 (2016: RMB20,724,000). According to the assignment of debt agreement signed between Zhejiang Yongli and Guizhou Yongan, mentioned in note 29, the amount is unsecured and repayable of an amount which does not exceed 50% of the operating cash flow of the year on an annual basis until the full repayment of the debt.

The carrying amount of the amount due to immediate holding company may be adjusted to reflect the revised estimated cash flows when the Group revises its estimates of the effective interest rate, with reference to the prevailing market rates of interest for similar instruments with similar credit ratings, and reviews its estimates of the timing and repayment to the immediate holding company based on current year cashflow, and consequently affect deemed capital contribution at initial recognition and the amount of imputed interest to be recognised in profit or loss, if any, over the expected life of the amounts due to immediate holding company.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes amounts due to fellow subsidiaries and immediate holding company as disclosed in notes 26 and 29 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the issue of new shares or the redemption of existing debt.

* *English name is for identification only.*

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**173,252**	240,659
Available-for-sale investments	**73,807**	—
Financial liabilities		
Financial liabilities at amortised cost	**72,039**	63,449

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amount due from ultimate holding company, bank balances and cash, trade and other payables and amounts due to fellow subsidiaries and immediate holding company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Currency risk

The Group has no monetary liabilities denominated in foreign currency. The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	2017 RMB'000	2016 RMB'000
Trade and bills receivable denominated in United States dollars ("US$")	**3,918**	3,681
Bank balance denominated in US$	**7,273**	—
Bank balance denominated in Hong Kong dollars ("HK$")	**—**	76
	11,191	3,757

The Group currently does not have a foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the currency of trade and bills receivables and bank balances (US$).

The following table details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in exchange rate of US$ against the functional currency of the Company, i.e. RMB. 5% (2016: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of the reporting period for a 5% (2016: 5%) change in foreign currency rates.

A positive number below indicates a decrease in post-tax loss where RMB weakens 5% (2016: 5%) against US$. For a 5% (2016: 5%) strengthening of RMB against US$, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	2017 **RMB'000**	2016 RMB'000
Decrease in post-tax loss	**420**	138

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to its variable-rate short-term deposits. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on the short-term deposits are short-term in nature and the amounts due to immediate holding company are interest-free, the exposure of the interest rate risk is minimal and no sensitivity analysis to interest rate risk is presented.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the failure to discharge an obligation by the counterparties is arising from the carrying amount of trade and other receivables as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade and other receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit ratings agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk except below.

As at 31 December 2017, the Group's concentration of credit risk by geographical locations is mainly in the PRC (2016: PRC), which accounted for 87% (2016: 94%) of the total trade and bills receivables.

The Group has concentration of credit risk as 12% (2016: 12%) and 35% (2016: 35%) of the trade receivables was due from the Company's largest trade debtor and the five largest trade debtors respectively.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of non-current loans from the immediate holding company.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	At 31 December 2017				
	On demand or within 1 year RMB'000	>1-5 years RMB'000	>5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	34,331	—	—	34,331	34,331
Amounts due to fellow subsidiaries	4,432	—	—	4,432	4,432
Amount due to immediate holding company	6,426	25,704	203,771	235,901	20,724
	45,189	25,704	203,771	274,664	59,487

	At 31 December 2016				
	On demand or within 1 year RMB'000	>1-5 years RMB'000	>5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities					
Trade and other payables	38,098	—	—	38,098	38,098
Amounts due to fellow subsidiaries	4,627	—	—	4,627	4,627
Amount due to immediate holding company	3,776	15,104	220,797	239,677	20,724
	46,501	15,104	220,797	282,402	63,449

7. FAIR VALUE

The directors of the Company consider that the carrying amounts of the current financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values due to their short-term maturities.

The directors of the Company consider that the carrying amount of amount due to immediate holding company was approximate to its fair values as the discounting effect was taken into consideration.

The carrying amounts of financial instruments that are measured at fair value at the end of the reporting period for recurring measurement, based on the degree to which the fair value is observable in accordance to the Group's according policy are as follows:

	2017 **Level 2** **RMB'000**	2016 Level 2 RMB'000
Available-for-sale investment		
Unlisted equity securities	**73,807**	—

There were no transfers between levels of fair value hierarchy in the current and prior years. The valuation technique and input used in the fair value measurement are set out below:

Financial Instrument	**Fair value hierarchy**	**Fair value as at 31 December 2017** **RMB'000**	**Fair value as at 31 December 2016** RMB'000	**Valuation technique and key input**
Available-for-sale investment	Level 2	**73,807**	—	By reference to the fair value of the underlying assets held by the investment fund through the ownership of this investee.

8. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the amounts received and receivable for goods sold and services rendered by the Group to external customers, net of discounts and sales related taxes. An analysis of the Group's revenue and other income and gains for the year are as follows:

	2017 **RMB'000**	2016 RMB'000
Revenue		
Sales of woven fabrics	**154,032**	159,389
Subcontracting fee income	**5,375**	6,396
Privated equity asset management fee	**35**	—
	159,442	165,785
Other income and gains		
Gain on disposal of property, plant and equipment	**—**	217
Government subsidies (note)	**838**	20
Interest income	**731**	892
Gain on disposal of financial assets designated at fair value throught profit or loss	**466**	—
Foreign exchange gains	**126**	37
Reversal of impairment loss recognised in respect of property, plant and equipment	**—**	3,489
Reversal of impairment loss recognised in respect of trade receivables	**—**	40
Others	**202**	201
	2,363	4,896

Note: Government subsidies of RMB838,000 (2016: RMB20,000) was awarded to the Group during the year ended 31 December 2017 for encouraging the usage of the higher productivity machinery (2016: for encouraging the participation in exhibitions). There is no unfulfilled condition or contingencies relating to these subsidies.

9. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods sold or services delivered or provided.

The segment of private equity asset management is a new business segment of the Group through acquisition of 100% of the registered capital of Guizhou Anheng, a company incorporated in the PRC.

9. SEGMENT INFORMATION (Continued)

Specifically, the Group's reportable and operating segments are as follows:

Woven fabrics	—	Manufacture and sale of woven fabrics
Subcontracting services	—	Provision of subcontracting services
Private equity asset management	—	Private equity asset management service

(a) Segment revenues and results

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

	For the year ended 31 December							
	Woven fabrics		Subcontracting services		Private equity asset management		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue	**154,032**	159,389	**5,375**	6,396	**35**	—	**159,442**	165,785
Segment profit	**11,479**	16,460	**640**	1,495	**(391)**	—	**11,728**	17,955
Unallocated corporate income							**2,074**	1,367
Unallocated corporate expenses							**(12,235)**	(10,833)
Finance costs							**(3,776)**	(13,980)
Loss before taxation							**(2,209)**	(5,491)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of gain on disposal of property, plant and equipment, interest income, government subsidies, other income, directors' remuneration, central administration costs and finance costs. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment.

9. SEGMENT INFORMATION (Continued)

(b) Segment assets and liabilities

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

	At 31 December							
	Woven fabrics		Subcontracting services		Private equity asset management		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment assets	**168,213**	181,455	**4,898**	5,722	**76,208**	—	**249,319**	187,177
Unallocated corporate assets								
— Amount due from ultimate holding company							**71**	—
— Other receivables							**670**	578
— Bank balances and cash							**136,451**	203,551
Total assets							**386,511**	391,306
Segment liabilities	**(30,870)**	(35,292)	**(1,105)**	(1,417)	**—**	—	**(31,975)**	(36,709)
Unallocated corporate liabilities								
— Other payables							**(9,185)**	(7,826)
— Amounts due to fellow subsidiaries							**(4,432)**	(4,627)
— Deferred tax liabilities and tax payables							**(11,085)**	(12,416)
— Amount due to immediate holding company							**(32,963)**	(20,724)
Total liabilities							**(89,640)**	(82,302)

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

- all assets are allocated to operating segments other than goodwill, available-for-sale investments, amount due from ultimate holding company, other receivables and bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to operating segments other than other payables, amounts due to fellow subsidiaries, deferred tax liabilities, tax payables and amount due to immediate holding company. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

9. SEGMENT INFORMATION (Continued)

(c) Other segment information

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

	For the year ended 31 December							
	Woven fabrics		Subcontracting services		Unallocated		Total	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
— Impairment loss recognised in respect of inventories	**1,534**	321	**—**	—	**—**	—	**1,534**	321
— Reversal of allowance for property, plant and equipment	**—**	(3,354)	**—**	(135)	**—**	—	**—**	(3,489)
— Reversal of allowance for inventories	**(102)**	(31)	**—**	—	**—**	—	**(102)**	(31)
— Reversal of impairment loss recognised in respect of trade receivables	**—**	(40)	**—**	—	**—**	—	**—**	(40)
— Addition to property, plant and equipment	**1,235**	375	**43**	15	**—**	—	**1,278**	390
— Amortisation of prepaid lease payments	**182**	181	**6**	7	**—**	—	**188**	188
— Depreciation of property, plant and equipment	**6,749**	6,880	**235**	276	**—**	—	**6,984**	7,156
— Research and development costs	**186**	284	**6**	11	**—**	—	**192**	295

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or segment assets:

— Interest income	**—**	—	**—**	—	**768**	892	**768**	892
— Gain on disposal of financial assets designated at fair value through profit or loss					**466**	—	**466**	—
— Finance costs	**—**	—	**—**	—	**(3,776)**	(13,980)	**(3,776)**	(13,980)
— Income tax expense	**—**	—	**—**	—	**1,554**	(1,722)	**1,554**	(1,722)

9. SEGMENT INFORMATION (Continued)

(d) Geographical information

Information about the Group's revenue from continuing operation from external customers is presented based on the location of the operation. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
The PRC (country of domicile)	**133,162**	140,240	**184,245**	110,843
Europe	**11,051**	12,219	**—**	—
South America	**10,031**	8,039	**—**	—
Middle East	**818**	349	**—**	—
Other overseas	**4,380**	4,938	**—**	—
	159,442	165,785	**184,245**	110,843

(e) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2017	2016
	RMB'000	RMB'000
Customer A (derived from sale of woven fabrics)	**18,586**	21,355

10. FINANCE COSTS

	2017	2016
	RMB'000	RMB'000
Imputed interest on interest-free loan due to immediate holding company (note 29)	**3,776**	13,980

11. INCOME TAX EXPENSE

	2017 RMB'000	2016 RMB'000
Current taxation (note 28)		
— PRC Enterprise Income Tax	**1,320**	1,747
Deferred taxation (note 28)		
— Current year	**(357)**	(25)
	963	1,722

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group is 25% for both years.

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

	2017 RMB'000	2016 RMB'000
Loss before taxation	**(1,246)**	(5,491)
Tax at the domestic rate at 25% (2016: 25%)	**(312)**	(1,372)
Tax effect of non-taxable income	**(54)**	(872)
Tax effect of non-deductible expenses	**1,329**	3,966
Income tax expense	**963**	1,722

Details of the deferred taxation are set out in note 28.

12. LOSS FOR THE YEAR

	2017 RMB'000	2016 RMB'000
Loss for the year has been arrived at after charging (crediting):		
Staff cost (including supervisors', directors' and chief executive's emoluments):		
Salaries, wages and other benefits in kind	**25,893**	26,682
Retirement benefit scheme contributions	**662**	501
Total staff costs	**26,555**	27,183
Allowance for inventories (included in cost of inventories recognised as an expense)	**1,534**	321
Amortisation of prepaid lease payments	**188**	188
Auditor's remuneration	**688**	635
Cost of inventories recognised as an expense	**142,587**	147,398
Depreciation of property, plant and equipment	**6,984**	7,156
Research and development costs recognised as an expense	**192**	295
Impairment loss reversed in respect of trade receivable	**—**	(40)
Reversal of allowance for inventories (included in cost of inventories recognised as an expense)	**(102)**	(31)

13. LOSS PER SHARE

Basic loss per share for the year is calculated on the loss for the year of approximately RMB2,209,000 (2016: RMB7,213,000) and the weighted average of 1,063,500,000 (2016: 1,063,500,000) ordinary shares in issue during the year ended 31 December 2017.

For the years ended 31 December 2017 and 2016, the diluted loss per share is the same as the basic loss per share.

No diluted loss per share have been presented for the years ended 31 December 2017 and 2016 as there were no diluting events existed during both years.

14. SUPER VISORS', DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the five (2016: five) supervisors, nine (2016: eight) directors and chief executives for the year ended 31 December 2017 were as follows:

For the year ended 31 December 2017

	Executive Directors				Non-executive Directors		Independent non-executive directors			Supervisors					
	Mr. Jiang Ning (Chairman) (note c)	Ms. He Lianfeng (Chief Executive Officer)	Mr. Hu Hua Jun	Mr. He Weifeng (Vice Chairmen) (note c)	Mr. Chen Dong Chun (note d)	Mr. Tang Guo Ping (note a)	Mr. Xu Wei Dong (note e)	Ms. Zhang Li (note e)	Mr. Wang Weisong (note e)	Ms. Wang Ai Yu (note a)	Mr. Hu Jin Huan (note f)	Ms. Tong Jian Juan (note f)	Mr. Chen Wei	Mr. Pan Xing Biao	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Emoluments paid or payable in respect of a person's services as a director or supervisor, whether of the Company undertaking															
Fees	600	72	60	400	60	60	60	60	60	36	12	—	—	12	1,492
Other emoluments															
Salaries	—	122	68	—	—	—	—	—	—	—	—	—	—	—	190
Discretionary bonus	—	—	—	—	—	—						56	66	—	122
Salaries and other benefits subtotal	—	122	68	—	—	—	—	—	—	—	—	56	66	—	312
Contributions to retirement benefits schemes	—	10	4	—	—	—	—	—	—	—	—	4	4	—	22
	600	204	132	400	60	60	60	60	60	36	12	60	70	12	1,826

14. SUPERVISORS', DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

For the year ended 31 December 2016

	Executive Directors			Non-executive Directors		Independent non-executive directors			Supervisors					
	Mr. Wang Xinyi (Chairman) (note b)	Ms. He Lianfeng (Chief Executive Officer)	Mr. Hu Hua Jun	Mr. Chen Dong Chun	Mr. Tang Guo Ping (note a)	Mr. Xu Wei Dong	Ms. Zhang Li	Mr. Wang Weisong	Ms. Wang Ai Yu (note a)	Mr. Hu Jin Huan	Ms. Tong Jian Juan	Mr. Chen Wei	Mr. Pan Xing Biao	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Emoluments paid or payable in respect of a person's services as a director or a supervisor, whether of the Company undertaking														
Fees	96	72	60	60	60	60	60	60	36	12	12	12	12	612
Other emoluments														
Salaries	—	122	68	—	—	—	—	—	—	—	56	66	—	312
Discretionary bonus	—	378	110	—	—	—	—	—	—	—	58	178	—	724
Salaries and other benefits subtotal	—	500	178	—	—	—	—	—	—	—	114	244	—	1,036
Contributions to retirement benefits schemes	—	10	4	—	—	—	—	—	—	—	4	4	—	22
	96	582	242	60	60	60	60	60	36	12	130	260	12	1,670

Note a: The annual fee of Mr. Tang Guo Ping and Ms. Wang Ai Yu for the year ended 31 December 2017 and 2016 were RMB60,000 and RMB36,000 respectively which were paid by Zhejiang Yongli according to the terms of services contracts. Mr. Tang Guo Ping resigned as non-executive Director on 12 December 2017.

Note b: Mr. Wang Xinyi resigned as executive director and the chairman on 28 February 2017,

Note c: Mr. Jiang Ning is appointed as executive director and the chairman on 28 February 2017 and Mr. He Weifeng is appointed as executive director and the deputy chairman on 28 February 2017

Note d: Mr. Chen Dong Chun resigned as non-executive Director on 19 September 2017.

Note e: Mr. Xu Wei Dong, Ms. Zhang Li and Mr. Wang Weisong resigned as independent non-executive Director respectively on 12 December 2017.

Note f: Mr. Hu Jin Huan and Ms. Tong Jian Juan resigned as Supervisor respectively on 12 December 2017.

14. SUPERVISORS', DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

The discretionary bonus is determined by the remuneration committee having regard to the individual's performance and the Group's performance and profitability and the prevailing market conditions.

No emoluments paid or payable in respect of director's other services in connection with the management of the affairs of the Group for the years ended 31 December 2017 and 2016.

No supervisor, director and chief executive waived or agreed to waive any emoluments for the years ended 31 December 2017 and 2016.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2016: three) of them were directors of the Company and supervisor of the Company whose emoluments are included in note 14 above. The emoluments of the remaining two (2016: two) individuals are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and other benefits in kind	**161**	292
Retirement benefits schemes contributions	**21**	—
	182	292

Their emoluments were within the following bands:

	No. of individuals	
	2017	2016
Nil to HK$1,000,000 (equivalent to Nil to RMB834,000) (2016: equivalent to Nil to RMB896,000)	**2**	2

No emoluments were paid or payable by the Group to the five highest paid individuals or other supervisors and directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2017 and 2016.

16. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings at revalued amounts	Motor vehicles	Plant and machinery	Furniture, fixtures and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST/VALUATION						
At 1 January 2016	97,404	335	160,685	1,872	6,464	266,760
Transfer from construction in progress	6,542	—	—	—	(6,542)	—
Additions	—	—	—	312	78	390
Adjustment on revaluation, net	(2,912)	—	—	—	—	(2,912)
Disposal	—	—	(7,921)	—	—	(7,921)
At 31 December 2016	101,034	335	152,764	2,184	—	256,317
Additions	—	—	369	909	—	1,278
Adjustment on revaluation, net	(1,713)	—	—	—	—	(1,713)
At 31 December 2017	99,321	335	153,133	3,093	—	255,882
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2016	—	149	156,754	1,569	3,489	161,961
Provided for the year	5,777	65	1,156	158	—	7,156
Reversal of impairment loss	—	—	—	—	(3,489)	(3,489)
Eliminated on revaluation	(5,777)	—	—	—	—	(5,777)
Disposal	—	—	(7,921)	—	—	(7,921)
At 31 December 2016	—	214	149,989	1,727	—	151,930
Provided for the year	5,972	66	781	165	—	6,984
Eliminated on revaluation	(5,972)	—	—	—	—	(5,972)
At 31 December 2017	—	280	150,770	1,892	—	152,942
CARRYING VALUES						
At 31 December 2017	99,321	55	2,363	1,201	—	102,940
At 31 December 2016	101,034	121	2,775	457	—	104,387

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives less their residual values as follows:

Buildings	Over the shorter of the term of the lease or 20 years
Motor vehicles	5 years
Plant and machinery	10 years
Furniture, fixtures and equipment	5 years

The leasehold buildings of the Group were revalued on 31 December 2017 and 2016 by Avista Valuation Advisory Limited ("Avista"), independent qualified professional valuer not connected with the Group. Avista has appropriate qualifications and has recent experiences in the valuation of similar properties in the relevant locations. The valuations have been arrived at using replacement cost approach.

The buildings are held in the PRC under medium-term lease.

If the leasehold buildings had not been revalued, they would have been included in the consolidated financial statements at historical cost less accumulated depreciation of approximately RMB50,005,000 (2016: RMB55,977,000).

Fair value measurement of the Group's buildings

The fair value of the buildings was determined using the replacement cost approach. Fair value which determined by using replacement cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence. There has been no change to the valuation technique for both years.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's buildings and information about the fair value hierarchy as at 31 December 2017 and 2016 are as follows:

Property, plant and equipment	Fair value	Fair value Hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of key inputs and significant unobservable inputs to fair value
Buildings in the PRC	31 December 2017: RMB99,321,000 31 December 2016: RMB101,034,000	Level 3	Replacement cost	Rate of obsolescence to adjust the replacement cost, which ranged from 5% to 85% (2016: 0% to 85%) based on the utilisation, specialty in nature and age of the buildings	The higher the rate of obsolescence, the lower the fair value

There were no transfers into or out of Level 3 during the year.

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

The reconciliation of Level 3 fair value measurements of leasehold buildings on recurring basis is as follow:

	2017 RMB'000	2016 RMB'000
At 1 January	**101,034**	97,404
Transfer from construction in progress	**—**	6,542
Increase in fair value recognised in other comprehensive income	**4,259**	2,865
Depreciation expense	**(5,972)**	(5,777)
At 31 December	**99,321**	101,034

During the year ended 31 December 2017, the increase in fair value recognised in other comprehensive income of approximately RMB4,259,000 (2016: RMB2,865,000) is included in asset revaluation reserve and is attributable to the change in unrealised gains or losses relating to leasehold buildings measured at fair value held at the end of the reporting period.

As at 31 December 2017, the Group has not obtained the building ownership certificate for buildings with carrying values of approximately RMB17,986,000 (2016: RMB18,443,000) from the relevant PRC government authorities. Based on the legal advice from the Group's lawyer, the absence of formal title to these properties does not impair their values of the Group as the Group has paid the full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

18. PREPAID LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Analysed for reporting purposes as:		
Non-current assets	**6,268**	6,456
Current assets	**188**	188
	6,456	6,644

The Group's prepaid lease payments on land use rights are held under medium lease-term in the PRC.

19. GOODWILL

	RMB'000
COST AND CARRYING AMOUNT	
At 1 January 2016 and 31 December 2016	—
Arising on acquisition of a subsidiary (note 33)	1,230
At 31 December 2017	1,230

Impairment testing on goodwill with indefinite useful lives

For the purposes of impairment testing, the carrying amount of the goodwill in its entirety has been allocated to a cash generating unit, represented by a newly acquired subsidiary, Guizhou Anheng, which is engaged in private equity assets management.

During the year ended 31 December 2017, the management of the Group determined that there is no impairment of its cash-generating unit containing goodwill.

The Group conducted an impairment review on the goodwill attributable to Guizhou Anheng at the end of the reporting period by reference to the estimated recoverable amount, which is determined based on a value-in-use calculation. The key assumptions include the discount rate and growth rates. The Group estimates discount rates using weighted average cost of capital that reflect current market assessments of the time value of money and the risk specific to the management of private equity investments. A range of annual growth rate of 3% per annum and terminal growth rate of 3% per annum have been applied. The pre-tax rate used to discount the forecast cash flows was 21.8%.

Management believed that any reasonably possible change in any of these assumptions would not cause the goodwill to exceed its recoverable amount.

20. AVAILABLE-FOR-SALE INVESTMENT

During the year ended 31 December 2017, the Group injected RMB74,505,000 in 深圳南山金融科技雙創股權投資基金合伙企業(有限公司) (Shenzhen Nanshan Fintech Entrepreneurship and Innovation Equity Investment Fund Partenership Enterprise (Limited Liability Parnership)*) ("Shenzhen Nanshan Fintech"), by way of a subscription for a limited partnership interest in Shenzhen Nanshan Fintech.

	RMB'000
Unlisted investments in the PRC	73,807

* *English name for identification only*

21. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**3,282**	5,095
Work in progress	**5,249**	6,598
Finished goods	**19,312**	27,133
	27,843	38,826

During the year ended 31 December 2017, provision for slow-moving inventories of approximately RMB1,534,000 (2016: RMB321,000) has been recognised and included in the cost of sales. An allowance for slow-moving inventories of approximately RMB102,000 (2016: RMB31,000) provided in prior years were reversed in the current year since the relevant inventories were sold in the ordinary course of business during the year ended 31 December 2017.

22. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bills receivables	**56,401**	56,871
Less: Allowance for impairment of trade receivables	**(20,341)**	(20,341)
	36,060	36,530
Other receivables		
Prepayments to suppliers	**227**	217
Other prepayments	**756**	573
Other receivables	**670**	578
	1,653	1,368
Total trade and other receivables	**37,713**	37,898

The Group allows an average credit period of 60 days to 180 days (2016: 60 days to 180 days) to its trade customers. The Group does not hold any collateral or other credit enhancements over its trade and other receivables.

22. TRADE AND OTHER RECEIVABLES (Continued)

(a) An aged analysis of trade and bills receivable, net of allowance for impairment of trade receivables and presented based on invoice date which approximates the respective revenue recognition dates, at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
0 – 60 days	**29,685**	29,953
61 – 90 days	**2,346**	3,761
91 – 120 days	**1,155**	1,472
121 – 365 days	**2,427**	1,238
Over 365 days	**447**	106
	36,060	36,530

At 31 December 2017, the Group has no outstanding bill receivables. At 31 December 2016, all of the bills receivables were aged within 90 days.

(b) At 31 December 2017 and 2016, the analysis of trade and bills receivables based on the due dates that were past due but not impaired are as follows:

		Neither past	Past due but not impaired			
	Total	due nor impaired	Less than 60 days	61-90 days	91-365 days	Over 365 days
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017	**36,060**	**32,572**	**638**	**—**	**2,403**	**447**
At 31 December 2016	36,530	35,186	277	—	961	106

Included in the Group's trade and bills receivable balance are debtors with aggregate carrying amount of approximately RMB3,488,000 (2016: RMB1,344,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss.

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

Trade and bills receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

22. TRADE AND OTHER RECEIVABLES (Continued)

(c) The movements in allowance for impairment of trade and bills receivables are as follows:

	2017 **RMB'000**	2016 RMB'000
At the beginning of the year	**20,341**	20,381
Reversal of impairment loss	**—**	(40)
At the end of the year	**20,341**	20,341

Included in the allowance for impairment of trade and bills receivables are individually impaired trade receivables with an aggregate balance of approximately RMB20,341,000 (2016: RMB20,341,000) which are due to long outstanding.

Included in the trade and bills receivables are the following amounts denominated in a currency other than the functional currency of the Company:

	2017 **RMB'000**	2016 RMB'000
US$	**3,918**	3,681

23. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount is unsecured, interest-free and repayable on demand.

24. BANK BALANCES AND CASH

For the years ended 31 December 2017 and 2016, bank balances represented short-term deposits with a maturity of three months or less. The interest rate ranged from 0.35% to 1.35% per annum (2016: 0.35% to 1.35% per annum).

Included in the bank balances and cash are the following amounts denominated in currencies other than the functional currency of the respective group entity:

	2017 **RMB'000**	2016 RMB'000
US$	**7,273**	—
HK$	**—**	74

25. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade payables *(notes i & ii)*	**26,283**	30,272
Receipt in advance	**4,927**	3,180
Other tax payables	**1,581**	3,257
Accrued expenses and other payables	**8,361**	7,826
	41,152	44,535

Notes:

(i) The Group normally receives credit periods from suppliers ranging from 30 days to 90 days (2016: 30 days to 90 days). The Group has in place financial risk management policies to ensure that all payables are settled within the credit timeframe.

(ii) An aged analysis of the trade payables at the end of the reporting period based on invoice date is as follows:

	2017 RMB'000	2016 RMB'000
0 – 60 days	**15,401**	18,956
61 – 90 days	**2,759**	2,838
91 – 365 days	**2,586**	3,759
Over 365 days	**5,537**	4,719
	26,283	30,272

26. AMOUNTS DUE TO FELLOW SUBSIDIARIES

The amounts due to fellow subsidiaries are unsecured, non-interest bearing and repayable on demand.

	2017 RMB'000	2016 RMB'000
浙江永利熱電有限公司 (Zhejiang Yongli Thermal Electricity Company Limited*) ("Zhejiang Yongli Thermal Electricity")	**4,432**	4,573
浙江紹興永利印染有限公司 (Zhejiang Shaoxing Yongli Printing & Dyeing Co., Limited*) ("Zhejiang Shaoxing Yongli Printing & Dyeing")	**—**	54
	4,432	4,627

During the years ended 31 December 2017 and 2016, Zhejiang Yongli Thermal Electricity and Zhejiang Shaoxing Yongli Printing & Dyeing were subsidiaries of Zhejiang Yongli, the ultimate holding company of the Company.

* *English name is for identification only*

27. RETIREMENT BENEFITS PLANS

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement benefit schemes for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement benefit scheme is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement benefit scheme, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the year ended 31 December 2017, the total amount contributed by the Group to this scheme and charged to the consolidated statement of profit or loss and other comprehensive income was approximately RMB662,000 (2016: RMB501,000).

28. DEFERRED TAXATION

Major deferred tax (liabilities) assets recognised and movement therein during the current and prior reporting periods are set out as follows:

	Revaluation of properties	Impairment loss recognised in respect of trade receivables	Allowance of inventories	Fair value change of available-for-sale investment	Tax losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	(15,141)	5,096	29	—	38	(9,978)
(Charged) credited to profit or loss	—	(9)	72	—	(38)	25
Charged to other comprehensive income	(716)	—	—	—	—	(716)
At 31 December 2016	(15,857)	5,087	101	—	—	(10,669)
Credited to profit or loss	—	—	357	—	—	357
Charged to other comprehensive income	(1,065)	—	—	292	—	(773)
At 31 December 2017	**(16,922)**	**5,087**	**458**	**292**	**—**	**(11,085)**

At the end of the reporting period, the Group did not have unused tax losses available for offset against future profits. Hence, no deferred tax asset has been recognised in respect of it.

29. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

	2017	2016
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current liability	**6,426**	3,776
Non-current liability	**26,537**	16,948

On 23 December 2016, Zhejiang Yongli entered into an agreement of assignment of debt with Guizhou Yongan ("Assignment of Debt Agreement"), pursuant to which, the debt of approximately RMB239,677,000 owed by the Company to Zhejiang Yongli was assigned to Guizhou Yongan and Guizhou Yongan committed to continue the obligations and commitments under the original debt agreement that was entered into between the Company and Zhejiang Yongli on 13 September 2011.

29. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY (Continued)

Referring to the principal advances of approximately RMB239,677,000 in relation to the Assignment of Debt Agreement entered into on 23 December 2016, it had been initially reduced to its present value of approximately RMB20,724,000 based on the management's estimates of future cash payments with a corresponding adjustment of approximately RMB218,953,000, which was deemed contribution from the immediate holding company during the year ended 31 December 2016. The effective interest rate adopted for measurement at fair value at initial recognition of the advances from immediate holding company for the year was determined with reference to the prevailing market rates of interest for similar instruments with similar credit ratings and with reference to the timing and repayment based on the cash flow of the Company in the year ended 31 December 2016.

Imputed interest on these advances had been computed at an original effective interest rate of 18.22%. The amount is unsecured, interest-free and repayable of an amount which does not exceed 50% of operating cash flow of the year on an annual basis until the full repayment of the debt.

During the year, the Group partially repaid the principal of the interest-free non-controlling interests' loans of RMB3,776,000. The principal amount outstanding as at 31 December 2017 was RMB235,901,000 (2016: RMB239,677,000).

As at 31 December 2017, the directors of the Company expected to repay RMB6,426,000 (2016: RMB 3,776,000) of the carrying amount of the amount due to immediate holding company in the next twelve months based on the cash flow forecasts and the estimation on operating cash flows.

The movements during the current reporting period are set out as follows:

	RMB'000
At 1 January 2016	—
Assigned from ultimate holding company	239,677
Deemed contribution arising from the discounting of the non-current interest-free loan	(218,953)
At 31 December 2016	20,724
Adjustment of deemed capital contribution arising from changes in cash flow estimates on amounts due to immediate holding company	12,239
Imputed interest charged during the year	3,776
Repayment during the year	(3,776)
At 31 December 2017	**32,963**

30. SHARE CAPITAL

Details of the share capital of the Company of RMB0.10 each are as follows:

	Number of shares '000	RMB'000
Domestic shares at 1 January 2016, 31 December 2016 and 31 December 2017	588,000	58,800
H shares at 1 January 2016, 31 December 2016 and 31 December 2017	475,500	47,550
Total share capital of RMB0.10 each at 1 January 2016, 31 December 2016 and 31 December 2017	1,063,500	106,350

The domestic shares and H shares carry the same rights to dividends, receive notice of attender vote at any general meeting of the Company or to participate in any distribution on winding up.

31. RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in these consolidated financial statements, the Group had the following related party transactions and continuing connected party transactions during the years.

(a) The balances with ultimate holding company, fellow subsidiaries and immediate holding companies are set out in notes 23, 26 and 29 respectively and acquisition of a subsidiary from immediate holding company, Guizhou Yongan is set out in note 33.

(b) During the year ended 31 December 2017, the Group had paid approximately RMB7,248,000 (2016: RMB7,749,000) to Zhejiang Yongli Thermal Electricity, a fellow subsidiary of the Group, for electricity and steam provided to the Group for the usage in the production.

The aforesaid transactions were conducted in accordance with the term of contract dated 11 May 2015 and were in the ordinary course of business of the Group

(c) During the year ended 31 December 2017, the Group had paid approximately RMB36,000 (2016: RMB17,000) to Zhejiang Shaoxing Yongli Printing & Dyeing, a fellow subsidiary of the Group, for providing dyeing services to the Group for usage in production for the usage in the production.

(d) Compensation of key management personnel

The directors of the Company and the supervisors and chief executive of the Company are regarded as key management of the Group. Compensation paid or payable to them is disclosed in note 14.

The remuneration of directors and other members of key management are determined by the remuneration committee having regard to the performance of individuals and market trends.

The aforesaid transactions of item (c) to (d) were in the ordinary course of business of the Group.

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

			Non-cash change	
	1 January 2017	**Financing cash flows**	**finance cost incurred**	**31 December 2017**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Amount due to immediate holding company (note 29)	20,724	(3,776)	3,776	**20,724**

33. ACQUISITION OF A SUBSIDIARY

On 11 April 2017, the Group acquired 100% of the registered capital of Guizhou Anheng, a company incorporated in the PRC, for a consideration of RMB10,000,000 by cash. This acquisition was made from Guizhou Yongan, immediate holding parent of the Company, and constitute as a connected transaction under the relevant Rules Governing the Listing of Securities on the GEM of the Stock Exchange. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB1,230,000. Guizhou Anheng is engaged in the management of private equity assets.

Acquisition-related costs amounting to RMB170,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Financial assets at fair value through profit or loss	8,500
Cash and bank balances	292
Other payables	(22)
	8,770

33. ACQUISITION OF A SUBSIDIARY (Continued)

The directors of the Company believe that the carrying amount of the assets and liabilities reeognised at the date of acquisition approximate to their respective fair values due to their short-term maturities.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	10,000
Less: net assets acquired	(8,770)
Goodwill arising on acquisition	1,230

Goodwill arose in the acquisition of Guizhou Anheng because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of revenue growth, future market development and the assembled workforce of Guizhou Anheng. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The goodwill arising on the acquisition is expected to be non-deductible for tax purposes.

Net cash outflow on acquisition of Guizhou Anheng:

	RMB'000
Cash consideration paid	10,000
Less: cash and cash equivalent balances acquired	(292)
	9,708

Included in the loss for the year is approximately RMB391,000 attributable to the additional business generated by Guizhou Anheng. Revenue of management services fee income generated by Guizhou Anheng was approximately of RMB35,000 for the year ended 31 December 2017.

Had the acquisition been completed on 1 January 2017, total loss for the year would have been approximately RMB2,645,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment		**102,940**	104,387
Prepaid lease payments		**6,268**	6,456
Investment in a subsidiary	34(a)	**10,000**	—
Available-for-sale investments		**73,629**	—
		192,837	110,843
Current assets			
Inventories		**27,843**	38,826
Trade and other receivables		**37,382**	37,898
Prepaid lease payments		**188**	188
Amount due from ultimate holding company		**71**	—
Bank balances and cash		**128,777**	203,551
		194,261	280,463
Current liabilities			
Trade and other payables		**40,938**	44,535
Tax payables		**1**	1,747
Amounts due to fellow subsidiaries		**4,432**	4,627
Amount due to immediate holding company		**6,426**	3,776
		51,797	54,685
Net current assets		**142,464**	225,778
Total assets less current liabilities		**335,301**	336,621
Non-current liabilities			
Deferred tax liabilities		**11,085**	10,669
Amount due to immediate holding company		**26,537**	16,948
		37,622	27,617
Net assets		**297,679**	309,004
Capital and reserves			
Share capital	30	**106,350**	106,350
Share premium and reserves	34(b)	**191,329**	202,654
		297,679	309,004

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(Continued)

Note:

(a) Particular of Principal Subsidiary of the Company

Name of subsidiary	Place of incorporation	Paid up registered capital	Proportion of ownership interest held by the Company		Principal activities
		RMB'000	**2017**	2016	
Guizhou Anheng	PRC	10,000	**100%**	—	Private equity asset management

(b) The movement of reserves is shown as follows:

	Share Capital	Share Premium	Other reserve	Asset revaluation reserve	Statutory surplus Reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	106,350	69,637	124,950	32,401	12,496	(250,719)	95,115
Loss for the year	—	—	—	—	—	(7,213)	(7,213)
Gain on revaluation of properties, net of tax	—	—	—	2,149	—	—	2,149
Total comprehensive income (expense) for the year	—	—	—	2,149	—	(7,213)	(5,064)
Deemed contribution from the immediate holding company of the Company (note 29)	—	—	218,953	—	—	—	218,953
At 31 December 2016 and 1 January 2017	106,350	69,637	343,903	34,550	12,496	(257,932)	309,004
Loss for the year	—	—	—	—	—	(1,401)	(1,401)
Fair value loss in available-for-sale investment, net of tax	—	—	—	(879)	—	—	(879)
Gain on revaluation of properties, net of tax	—	—	—	3,194	—	—	3,194
Other comprehensive income for the year	—	—	—	2,315	—	—	2,315
Total comprehensive income (expense) for the year	—	—	—	2,315	—	(1,401)	914
Adjustment of deemed capital contribution arising from the changes in cash flow estimates on amount due to immediate holding company (note 29)	—	—	(12,239)	—	—	—	(12,239)
At 31 December 2017	**106,350**	**69,637**	**331,664**	**36,865**	**12,496**	**(261,193)**	**297,679**

RESULTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**159,442**	165,785	191,968	188,562	206,405
(LOSS) PROFIT BEFORE TAXATION	**(1,246)**	(5,491)	(11,900)	(6,342)	42,883
TAXATION	**(963)**	(1,722)	(5,279)	(972)	818
(LOSS) PROFIT FOR THE YEAR	**(2,209)**	(7,213)	(17,179)	(7,314)	43,701

ASSETS AND LIABILITIES

	At 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**386,511**	391,306	383,621	352,428	343,104
TOTAL LIABILITIES	**(89,640)**	(82,302)	(288,506)	(248,820)	(234,675)
SURPLUS SHAREHOLDERS' FUNDS	**296,871**	309,004	95,115	103,608	108,429

note: The summary of the results and the assets and liabilities of the Group for the years ended 31 December 2013, 2014, 2015, 2016 and 2017 are extracted from the audited consolidated financial statements.