西安海天天實業股份有限公司

Xi'an Haitiantian Holdings Co., Ltd.*

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

(Stock Code: 8227)

ANNUAL REPORT 2018

* for identification purposes only

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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Corporate Information

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")
No.25 Shuoshi Road
Hi-tech Industrial Development Zone
Xi'an, Shaanxi Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Room B, 16th Floor, Yam Tze Commercial Building
23 Thomson Road, Wanchai
Hong Kong

GEM STOCK CODE
8227

WEBSITE
www.xaht.com

LEGAL ADVISERS AS TO HONG KONG LAW
LOEB & LOEB LLP
21/F., CCB Tower
3 Connaught Road Central
Hong Kong

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

COMPANY SECRETARY
Mr. Lun Ka Chun（倫家俊先生）

MEMBERS OF AUDIT COMMITTEE
Professor Shi Ping（師萍教授）(Chairman)
Professor Lei Zhenya（雷振亞教授）
Ms. Huang Jing（黃婧女士）

MEMBERS OF NOMINATION COMMITTEE
Mr. Tu Jijun（涂繼軍先生）(Chairman)
Mr. Zhang Jun（張鈞先生）
Mr. Zuo Hong（左宏先生）

MEMBERS OF REMUNERATION COMMITTEE
Mr. Tu Jijun（涂繼軍先生）(Chairman)
Professor Shi Ping（師萍教授）
Mr. Li Wenqi（李文琦先生）

AUTHORISED REPRESENTATIVES
Mr. Xiao Bing（肖兵先生）
Mr. Lun Ka Chun（倫家俊先生）

AUTHORISED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE
Mr. Lun Ka Chun（倫家俊先生）

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

PRINCIPAL BANKERS
China Construction Bank
No.42 Gao Xin Lu
Gaoxin District
Xi'an, Shaanxi Province, The PRC

Bank of Ningxia
No.3 Tang Yan Lu
Gaoxin District
Xi'an, Shaanxi Province, The PRC

No.136 Weiyang Lu
Weiyang District
Xi'an, Shaanxi Province, The PRC

China Everbright Bank
No.60 Nan Er Huan Xi Duan
Gaoxin District
Xi'an, Shaanxi Province, The PRC

Bank of Communication
No. 48 Ke Ji Lu
Gaoxin District
Xi'an, Shaanxi Province, The PRC

Chairman's Statement

Dear shareholders,

I am pleased to present the annual report of Xi'an Haitiantian Holdings Co., Ltd. together with its subsidiaries (the "Group") for the year ended 31 December 2018 on behalf of the board of Directors (the "Board").

In 2018, the Group was committed to develop new antennas products with new materials which are characterised by new broadband, multiple-beam, high gain and full-angle coverage which can be widely used in 5G network construction and emergency communication support. Besides, based on the 5G network commercial development plan, the Group actively participated in the trial networking work in various cities and conducted repeated tests and communications with mobile communication operators. On the one hand, the Group has actively promoted the performance of its related products and improved its product range. On the other hand, with the field network testing opportunities, the Group has established a customer base for our communications products to enter the market and establish sales networks. Moreover, the Group also actively cooperated with various mobile communication operators in China to carry out related network planning, network optimisation and network construction of 4G.

In 2018, in order to fully grasp the upcoming 5G development opportunities, based on our development strategy, the Group has established a wholly-owned subsidiary in the United States, mainly engaged in the research and development and sales of related mobile communication equipment, as well as investment and mergers and acquisitions of companies in the field of mobile communications. Thereafter, the Group will expand the market for our mobile communications related products and integrate the industrial chain through this subsidiary, so to enhance the Company's market competitiveness.

The Group continued to enrich its product categories in the poverty alleviation project carried out in Yi County, poor county in Baoding City, Hebei Province, and with the support of the policies and geographical advantages of the navy fixed-point poverty alleviation village, the Group not only actively expanded its sales channels and also carried out related marketing work. The poverty alleviation project has achieved profitability in 2018. Through the implementation of the project, the Group's poverty alleviation work has achieved results and brought new sales performance to the Group.

In respect of aerospace business, the Group still focused on technology research and development with famous European aircraft manufacturer of designing and manufacturing in 2018. Through the joint efforts of the Group and the technical partners, the Group's relevant product technologies have been continuously improved. Currently, this series of products have basically completed the research and development on industrial-grade unmanned aerial vehicle ("UAV") product series, and the next step will further improve product performance in response to market demand. As for marine engineering equipment, in 2018, the Group has been researching and developing a high-definition, high-pressure underwater detection system and a radar detection product that are applicable to fire rescue, deep water exploration and polar environment detection. In view of the development progress of the products, the Group will explore the market in deep water industry such as the reservoir and seaport progressively.

Meanwhile, in 2018, by virtue of the location of Haitian Antenna (Shanghai) International Trade Co., Ltd.*（海天天綫（上海）國際貿易有限公司）, a subsidiary of the Company, in Shanghai Free Trade Zone, we made full use of its regional advantages, preferential policies and funds to carry out relevant trading business, which improved the Company's performance. In the future, the Company will continue to leverage its advantageous policies and channels to continuously expand relevant trading business and enrich trade categories.

On behalf of the Board, I would like to express heartfelt gratitude to all of the valuable customers, business partners and staff who are closely-related to the Group, and express sincere thanks to our shareholders for their strong enduring support since the listing of the Group. To show our appreciation to all of you for your confidence and patronage, the Group will be dedicated to reaping prominent returns for our investors.

Xiao Bing
Chairman

Xi'an, the PRC
22 March 2019

Management Discussion and Analysis

REVENUE

Revenue recorded for the year ended 31 December 2018 was approximately RMB44.12 million, representing a significant decrease of over 26% from RMB59.93 million for the year of 2017. During the year, the Group mainly operated in 5 reportable and operating segments including sales of antenna products and related services, sales of underwater surveillance and related products, sales of unmanned aerial products, sales of construction related products, and sales of agricultural products.

Sales of antenna products and related services

During the year, 4G antenna business in China became saturated due to low market purchase price, small profit margin and slow payment cycle of civil base station antennas, and the market competition of 4G business between communication operators gradually shifted from the market user volume to the data throughput and applications. In additions, demand for new 4G antenna products by communication operators became relatively lower as the result of expectation of commercialisation of 5G network in the near future. In turn, communication operators mainly concentrated to network planning, network optimization and network construction in order to improve existing 4G network before the launch of 5G. Accordingly, the Group began to deploy resources for the development of 5G commercial network technologies and products during the year and mainly engaged in provision of supporting services for network planning, network optimisation and network construction rather than sales of antenna products. Development and optimisation of related 5G antenna products of the Group would be continued in order to vigorously carry out marketing activities.

Revenue from the operating segments of sales of antenna products and related services remained at approximately 2% for the year, which was mostly come from network inspection, maintenance and optimisation.

Sales of underwater surveillance and related products

Based on the summary and analysis of the feedback from markets and customers, the products review, updating and integration for underwater surveillance products were carried on throughout the year. Accordingly, the related technical performance and indicators of products were adjusted and updated, and at the same time, the sales department comprehensively sorted out the improved product performance indicators which could lay a good foundation for future market expansion.

Revenue from the operating segments of underwater surveillance and related products was less than 1% as most of resources was allocated to the improvement of existing products and development of new products during the year.

Sales of unmanned aerial products

After completion of the high-altitude test for design verification of the first theoretical prototype large-loaded UAV by the end of 2017, the related standard finalisation test was carried out during the year and the research and development of industrial-grade UAV product series was basically completed. Further improvement on product performance in response to market demand, specialised and customised requirements and various industrial needs was scheduled to begin before product introduction to the market subsequently. During the research and development process of UAV, different parts and components of UAV were developed as part of product series.

Revenue from the operating segments of sales of unmanned aerial products was attributable to approximately 2%, which was mainly come from sales of parts and components such as aircraft engines.

Sales of construction related products

Relying on certain preferential policies in Shanghai Free Trade Zone, building materials trading launched steadily since 2016. As there were specific requirements for building materials by different customers and building materials were sensitive to price fluctuation, all sales and purchases were conducted in back-to-back trading in order to minimise inventory risk and price fluctuation risk. The Group also adopted low gross profit margin policy to improve turnover rate of trading products during the year.

During the year, trading products mainly consisted of aluminium ingots which was accounted for approximately 85% of revenue of the Group. Approximately RMB37.57 million was recognised as revenue during the year, representing merely 66% of revenue generated in 2017, because relatively high price fluctuation was sustained during the year.

Sales of agricultural products

Trading of agricultural products was carried out since 2017 in order to respond positively to the State policy of poverty alleviation and fulfil social responsibility of the Group. As the business was established in the navy fixed-point poverty alleviation village, the Group enjoyed geographical advantages and related policies to develop and expand its sales channels during the year.

In addition to a good market response, the business achieved profitability during the year. Revenue generated from trading of agricultural products was approximately 11% during the year, comparing to 1% of revenue in 2017.

No revenue was recorded for overseas markets during the year.

GROSS PROFIT

Gross profit of approximately RMB0.81 million was recorded for the year with gross profit margin of approximately 1.84%, representing an increase of 1.59% as when comparing to gross profit margin of approximately 0.25% in 2017. It was mainly attributable to write-down of inventories by approximately RMB0.77 million in the year of 2017 but no such write-down for the year.

OTHER REVENUE

Approximately RMB0.75 million was recorded as other revenue in 2018, representing approximately 118% of other revenue in 2017, of which approximately RMB0.41 million was realised as gain on debts restructuring in respect of wavier of trade and other payables during the year, compared to approximately RMB0.16 million in 2017.

SEGMENT RESULTS

Distribution costs for the year were dropped from approximately RMB0.91 million in 2017 to approximately RMB0.42 million, representing a decrease of nearly 54%, as the Group concentrated on research and development activities without large scale exhibition and marketing events during the year.

No impairment loss on trade receivables was provided for the year but reversal of impairment loss on trade receivables of approximately RMB0.52 million was recorded for the receipts from impaired debts. The accumulated impairment loss on trade receivables was approximately 98% of total trade receivables at 31 December 2018 and the aging analysis of trade receivables which are past due but not impaired was within one year. Recoverability of those impaired trade receivables of approximately RMB50.80 million was serious considered during the year, and the process and action for debts recovery were scheduled to begin subsequently.

Although industrial-grade UAV product series was basically completed during the year, further improvement and development should be required before product introduction to the market. Accordingly, approximately RMB5.29 million was recognised as impairment loss on self-developed prototype under intangible assets during the year.

As new development plan should be required for UAV in response to market feedback, impairment loss of approximately RMB2.15 million was recognised on deposit paid for acquisition of equipment under original development plan. In additions, UAV would be replaced under new development plan, prepayments of approximately RMB3.58 million was written off during the year.

After allocation of government grants and gain on debts restructuring under other revenue, distribution costs, depreciation and amortisation expenses under administration expenses, and impairment loss on intangible assets, trade receivables, deposits, other receivables and prepayments recognised and reversed, segment losses were reported for operating segments of sales of antenna products and related services, sales of underwater surveillance and related products, and sales of unmanned aerial products. It was mainly because certain operating resources were used for products development and restructuring, and the sales volume was not sufficient to effectively utilise the existing business capacities.

OTHER COSTS AND EXPENSES

Administrative expenses were increased from approximately RMB21.70 million in 2017 to approximately RMB22.20 million for the year, representing an increase of approximately 2%, of which approximately RMB5.03 million was accounted for oversea market development including Hong Kong.

No finance costs were incurred as no interest-bearing borrowings were held during the year.

Net loss arising on change in fair value of financial assets at fair value through profit or loss of approximately RMB8.77 million was recorded in respect of listed equity securities held as the result of drop in market price at 31 December 2018. Accordingly, the fair value of financial assets at fair value through profit and loss at 31 December 2018 was approximately 18% lower than the original acquisition costs.

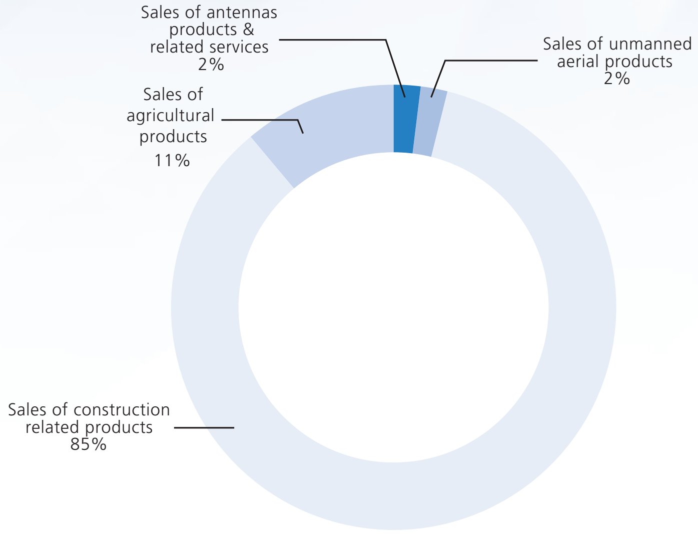
In order to enhance the research and development of new technologies for 5G antenna products, the Group invested in an associate which was awarded certain patents in the PRC regarding antennas during the year. As the associate was still at the development stage and did not have any revenue nor profit, a loss of approximately RMB0.48 million was recognised as a share of result of the associate.

LOSS FOR THE YEAR

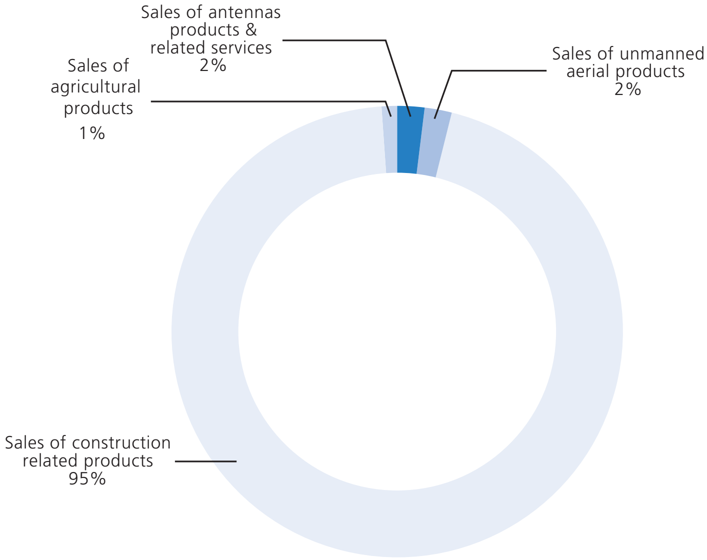
As the revenue was decreased by over 26% and the business capacities were not fully utilised, together with loss on fair value changes of financial assets and impairment loss on intangible assets, trade receivables, deposits, other receivables and prepayments, loss of approximately RMB40.97 million was reported for the year, which was approximately 145% more than loss of approximately RMB16.75 million reported in 2017.

Composite of Group's revenue by reportable and operating segments for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017, are provided as follows:

For the year ended 31 December 2018



For the year ended 31 December 2017



PROSPECTS

In 2019, the Group will actively grasp the favourable opportunity of 5G commercialisation based on the demands of the market development, to conduct research and manufacturing and marketing of relevant products focusing on the mobile communication industry. Also, the Group will actively respond to China's targeted poverty alleviation work, vigorously develop the Group's agricultural products and other related products businesses, and conduct aerospace and marine engineering equipment businesses in an orderly manner.

According to the 5G promotion work deployment proposed by the Ministry of Industry and Information Technology of the PRC and the 5G commercial plans of the three major operators, China will launch 5G network construction in 2019, and officially launch commercial services in 2020. Therefore, the Group's key work in 2019 is mainly to actively grasp the 5G market. Based on the antennas developed by the Company which are characterised by broadband, high gain, light weight and multi-user intervention, the Company will continue to develop a series of antennas products in different frequency bands and with new materials which are characterised by new broadband, multiple-beam, high gain and full-angle coverage and could be widely used in a variety of industries including 5G mobile communication, wireless local area network (W-LAN), unmanned vehicles, automotive electronics and internet of things (IoTs), and for many purposes, to comprehensively enrich and perfect mobile communication related product series, ensuring that the Company could seize the market in the 5G era in a fast and effective manner.

Meanwhile, the Group will continue to strengthen the 4G network optimisation and other work in 2019. Even though 5G commercialisation is coming, it will take several years to realise the full coverage of 5G network. Thus, most mobile communication users will continue to use the existing network. Together with the time lag from replacement of mobile communication users' 5G mobile phones, 4G network is still indispensable for many people for a long period of time. Therefore, in 2019, in addition to fully support the development of 5G communication related products, the Group will continue to actively carry out 4G network optimisation and other related businesses, with an aim to fully increase the revenue and profit of mobile communication related products.

In 2019, by virtue of the established cultivation base for agricultural products and China's preferential policies on poverty alleviation, the Group will continue to further strengthen the efforts to poverty supporting and alleviation, enrich and improve related products, expand product sales channels and enhance daily management, striving to improve the Group's operating performance. With regard to the Company's aerospace, marine engineering equipment related products, the Group will develop steadily in accordance with the market demand, and conduct relevant marketing and sales while safeguarding its development of daily products, to make contributions to the sales performance of the Group.

Concerning the funds required for the sustainable development of the Group, apart from bank borrowings and revitalisation of our existing assets, the Group also intends to resort to other financing channels, such as new share issue and bond issue, as and when appropriate. The Board and management of the Group will strive to turn the Group into a high-tech enterprise with diversified operations.

TOP FIVE SUPPLIERS AND CUSTOMERS

For the year ended 31 December 2018, sales to the top five customers and the largest customer accounted for approximately 95.8% (2017: 90.3%) and 47.4% (2017: 55.3%) respectively of the Group's revenue.

For the year ended 31 December 2018, purchases from the top five suppliers and the largest supplier accounted for approximately 77.1% (2017: 38.5%) and 33.0% (2017: 12.7%) respectively of the Group's total purchases.

During the year ended 31 December 2018, each of the top five customers and the top five suppliers is independent of and not connected with any of the Directors, chief executives or any shareholders of the Company which, to the best knowledge of the Directors, own more than 5% of the Shares of the Company, or any of their respective associates.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year, the Group was mainly financed by funds generated from operations and raised from issue of shares. As at 31 December 2018, no any interest-bearing borrowings were outstanding.

During the year, no any interest-bearing borrowings were raised. Majority of debts for operations were denominated in RMB during the year. Details of policy in respect of interest rate risk and foreign currency risk are disclosed in note 7 to the consolidated financial statements, the Directors consider that exposure to interest rate risk and foreign currency risk was minimal.

As at 31 December 2018, the gearing ratio was not applicable to the Group as there was no interest-bearing borrowings, which is calculated based on total interest-bearing borrowings over equity attributable to owners of the Company. Details of changes in equity of the Group are disclosed in page 60 of the annual report and the structure of share capital is disclosed in note 32 to the consolidated financial statements.

Cash and cash equivalents decreased approximately from RMB14.81 million to RMB6.89 million. As at 31 December 2018, no bank deposit was pledged to secure any operations and liabilities of the Group.

FOREIGN EXCHANGE EXPOSURE

Since majority of the transactions of the Group are denominated in RMB, the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year under review. The Group did not enter into any material foreign exchange contracts, interest or currency swaps or other financial activities. Details of policy in respect of foreign currency risk are disclosed in note 7 to the consolidated financial statements, the Directors consider that exposure to foreign exchange risk was minimal.

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, interest in an associate and financial assets at fair value through profit or loss disclosed in notes 39, 19 and 21 to the consolidated financial statements respectively, the Group did not hold any significant investment for the year ended 31 December 2018.

MATERIAL ACQUISITIONS AND DISPOSALS

Save as disclosed in the paragraph headed "Significant Investment Held" above, the Group did not have any other material acquisitions and disposals of subsidiaries, associates and affiliated companies during the year ended 31 December 2018.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 52 (2017: 54) full-time employees. Total staff costs for the year of 2018 amounted to approximately RMB9.98 million (2017: RMB8.66 million), including remuneration of the Directors and members of the supervisory committee (the "Supervisors"). The Group reviews employee remuneration from time to time and increases in remuneration are normally granted annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides employee benefits including medical insurance and retirement benefits scheme. Bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group. The Group has not granted any share options to the Directors and its employees.

CHARGES ON GROUP ASSETS

As at 31 December 2018, no assets of the Group were pledged for its operations and liabilities.

FUTURE PLANS FOR MATERIAL INVESTMENTS

As at 31 December 2018, the Group had capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment amounted to approximately RMB21.45 million, and acquisition of an associate amounted to approximately RMB4.50 million.

Save as disclosed herein the Group did not have other plans for material investment.

CONTINGENT LIABILITIES

As at 31 December 2018, except for those disclosed in note 40 to the consolidated financial statements, the Group did not have any material contingent liabilities.

UTILISATION OF NET PROCEEDS FROM EQUITY FUND RAISING ACTIVITIES

During the year ended 31 December 2018, utilisation of net proceeds from equity fund raising activities is as follows:

Issue of 92,000,000 H shares under general mandate completed in full on 15 December 2016

Particulars of issue (more particularly described in the announcement of the Company dated 19 August 2016)

Date of issue:	19 August 2016
Closing price per H share:	HK$0.285 as quoted on the date of issue
Subscription price per H share:	HK$0.25 (a discount of approximately 12.28% to the closing price per H Share)
Subscribers:	Auspicious Zone Investments Limited, Clear Renown Global Limited and Oceanic Bliss Holdings Limited

	Approximate utilised amount of net proceeds			Approximate proposed amount of net proceeds (million)
Proposed use of net proceeds	Previously utilised (million)	Utilised during the year (million)	Total utilised (million)	
Repayment of bank loans and interest expenses	HK$6.09	HK$0	HK$6.09	HK$6.10
Working capital of the Group	HK$7.10	HK$8.84	HK$15.94	HK$16.40
Approximate amount utilised/raised	**HK$13.19**	**HK$8.84**	**HK$22.03**	**HK$22.50**

The unused net proceeds were deposited at bank for proposed use in the first quarter of 2019.

Corporate Governance Report

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of the Company is always committed to maintaining high standards of corporate governance. In the opinion of the Board, the Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the financial year ended 31 December 2018.

THE BOARD OF DIRECTORS

Composition and function

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. Pursuant to the Code, the Board adopted a board diversity policy (the "Board Diversity Policy"). The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

Members of the Board comprise experts from diverse business and professional backgrounds who have served relevant PRC government organisations, listed companies, multinational or other organisations. All of the members of the Board have many years of experience in investment, business operation, financial management and corporate administration. The current composition of the Board is considered to be a reasonable balance between executive and non-executive Directors, and be able to provide adequate checks for safeguarding the interests of shareholders of the Company.

As at 31 December 2018, the Board comprised eleven Directors including Mr. Xiao Bing (chairman) and Mr. Chen Ji (vice-chairman) as executive Directors, Mr. Sun Wenguo (vice-chairman), Mr. Li Wenqi, Mr. Zuo Hong, Ms. Huang Jing and Mr. Yan Weimin as non-executive Directors and Mr. Zhang Jun, Professor Shi Ping, Mr. Tu Jijun and Professor Lei Zhenya as independent non-executive directors. Biographies of the Directors are set out in the paragraph headed "Directors, Supervisors and Senior Management" of this annual report.

The Board members have no financial, business, family or other material/relevant relationships with each other.

All non-executive Directors are engaged by a service contract for a fixed term for not more than 3 years. All Directors appointed to fill a casual vacancy are subject to re-election by shareholders of the Company at the first annual general meeting following their appointment and all Directors are subject to re-appointment or re-election at least once every three years. Composition of the Board, by category of Directors, including names of the Chairman, executive Directors, independent non-executive Directors and non-executive Directors, has been disclosed in all corporate communications.

The Board is responsible for overseeing the preparation of accounts of each financial period, which shall give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. It is also responsible for formulating the Group's long-term strategy and supervising the management to ensure thorough implementation of the Group's policies and effective performance of their duties. Also, the Board is responsible for performing the corporate governance duties set out in the Code which included developing and reviewing the Company's policies and practices on corporate governance and compliance with legal and regulatory requirements, reviewing and monitoring the training and continuous professional development of the Directors and senior management, and reviewing the Company's compliance with the code provision in the Code and disclosures in this report. During the financial year ended 31 December 2018, the Board has performed the corporate governance duties set out in the Code.

Delegation by the Board

The management, consisting of executive Directors along with other senior executives, is delegated with responsibilities for implementing the strategy and direction as adopted by the Board from time to time and conducting the day-to-day operations of the Group. Executive Directors and senior executives meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The separate roles of chairman and chief executive officer

For the financial year ended 31 December 2018, the Company did not have a chief executive officer. The day-to-day management of the Group's business was handled by the executive Directors of the Company collectively. The Board believes that the present arrangement is adequate to ensure an effective management and control of the Group's present business operations. The Board continually reviews the effectiveness of the Group's corporate governance structure to assess whether any changes, including the appointment of a chief executive officer, are necessary.

Board meetings and attendance

The Board meets at least quarterly and additional Board meetings are held as and when required. Between scheduled meetings, the Directors are provided with information on the activities and development in the businesses of the Group in a timely manner to keep them abreast of the Group's latest developments. During the financial year ended 31 December 2018, the Board held 15 meetings.

Details of Directors' attendance records in 2018:

	Number of board meeting attended/Total	Number of general meeting attended/Total
Executive Directors		
Mr. Xiao Bing	15/15	1/1
Mr. Chen Ji	15/15	1/1
Non-Executive Directors		
Mr. Sun Wenguo	15/15	0/1
Mr. Li Wenqi	15/15	1/1
Mr. Zuo Hong	15/15	1/1
Ms. Huang Jing	15/15	1/1
Mr. Yan Weimin	15/15	0/1
Independent Non-Executive Directors		
Mr. Zhang Jun	15/15	0/1
Professor Shi Ping	15/15	1/1
Mr. Tu Jijun	15/15	1/1
Professor Lei Zhenya (appointed on 19 October 2018)	3/3	0/0
Dr. Lam Lee G. (resigned on 23 July 2018)	10/10	0/1

Continuous professional development

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. A summary of training received by the Directors during the financial year ended 2018 according to the records provided by the Directors is as follows:

	Training on corporate governance, regulatory development and other relevant topics
Executive Directors	
Mr. Xiao Bing	✓
Mr. Chen Ji	✓
Non-Executive Directors	
Mr. Sun Wenguo	✓
Mr. Li Wenqi	✓
Mr. Zuo Hong	✓
Ms. Huang Jing	✓
Mr. Yan Weimin	✓
Independent Non-Executive Directors	
Mr. Zhang Jun	✓
Professor Shi Ping	✓
Mr. Tu Jijun	✓
Professor Lei Zhenya (appointed on 19 October 2018)	✓
Dr. Lam Lee G. (resigned on 23 July 2018)	✓

Code of conduct for securities transactions by Directors

The Company adopted a code of conduct regarding securities transactions by Directors on terms which are the same as the required standard of dealings as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has made specific enquiries of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions by the Directors.

Independence

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

REMUNERATION COMMITTEE

The Remuneration Committee was established in December 2005 and consists of three members, majority of which being independent non-executive Directors. Currently, the Chairman of the committee is Mr. Tu Jijun, an independent non-executive Director, and other members include Professor Shi Ping and Mr. Li Wenqi.

The Remuneration Committee is responsible, among others, to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee has the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management. Remuneration including benefits in kind, pension rights and compensation payments, basic salary and performance bonus of the executive Directors and senior management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. The committee ensures that no Director is involved in deciding his own remuneration.

The specific terms of reference of the Remuneration Committee is posted on the Company's website.

The Remuneration Committee held 1 meeting in 2018 and was attended by committee members. The individual attendance record of each member is as follows:

	Number of meeting attended/Total
Non-Executive Director	
Mr. Li Wenqi	1/1
Independent Non-Executive Directors	
Professor Shi Ping	1/1
Mr. Tu Jijun	1/1

During the financial year ended 2018, the Remuneration Committee has, amongst other things, reviewed the remuneration of executive Directors, assessed performance of executive Directors and approved the terms of executive Directors' service contracts.

NOMINATION COMMITTEE

The Nomination Committee was established in December 2005 and consists of three members, majority of which being independent non-executive Directors. Currently, the chairman of the committee is Mr. Tu Jijun, an independent non-executive Director, and other members include Mr. Zhang Jun and Mr. Zuo Hong.

The Nomination Committee is responsible for formulating nomination policy, reviewing the structure, size and composition of the Board on a regular basis, implementing the Board Diversity Policy, accessing independence of independent non-executive Directors and making recommendations to the Board on any proposed changes, selection and appointment of Board members. The specific terms of reference of the Nomination Committee is posted on the Company's website.

The Nomination Committee held 1 meeting in 2018 and was attended by committee members for the selection and recommendation of candidates for directorship having regard to the relevance of skills and experience appropriate to the Group's business. The individual attendance record of each member is as follows:

	Number of meeting attended/Total
Non-Executive Director	
Mr. Zuo Hong	1/1
Independent Non-Executive Directors	
Mr. Zhang Jun	1/1
Mr. Tu Jijun	1/1

During the financial year ended 2018, the Nomination Committee has, amongst other things, determined the policy for the nomination of directors and adopted the nomination procedures and the process and criteria under Board Diversity Policy to select and recommend candidates for directorship during the year.

AUDIT COMMITTEE

The Company established an Audit Committee with written terms of reference in compliance with Rules 5.28 of the GEM Listing Rules in April 2003. The Audit Committee is currently chaired by, an independent non-executive Director, Professor Shi Ping and the other members are Professor Lei Zhenya and Ms. Huang Jing, with the majority being independent non-executive Directors.

The Audit Committee is responsible for reviewing accounting policies and practices adopted by the Group. It also reviews and discusses matters related to financial reporting, internal control, audit and performs other duties as assigned by the Board, and reports its work, findings and recommendations to the Board after each meeting in respect of the above matters as well as to the operating risks faced by the Group. The Audit Committee has to recommend the appointment, reappointment and removal, approve the remuneration and terms of engagement, review and monitor the independence, objectivity, resignation and dismissal of the external auditor, and maintain sufficient communication and discuss the nature and scope of the audit with the external auditor.

The terms of reference of the Audit Committee is published on the Company's website.

The Audit Committee held 5 meetings in 2018 discussing the Group's annual results for 2017, quarterly results for 2018, and reviewing internal control matters. The individual attendance record of each member is as follows:

	Number of meeting attended/Total
Non-Executive Director	
Ms. Huang Jing	5/5
Independent Non-Executive Directors	
Professor Shi Ping	5/5
Professor Lei Zhenya (appointed on 19 October 2018)	1/1
Dr. Lam Lee G. (resigned on 23 July 2018)	3/3

During the financial year ended 2018, the Audit Committee has, amongst other things, reviewed the quarterly, half-yearly and annual results of the Company and reviewed internal control matters of the Company. The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2018.

The Company has complied with Rules 5.28 of the GEM Listing Rules in that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possesses appropriate professional qualifications or accounting related financial management expertise.

AUDITOR'S REMUNERATION

During 2018, the fees paid and payable to external auditor for audit services amounted to RMB620,000 without other services provided.

COMPANY SECRETARY

The Company has appointed Mr. Lun Ka Chun as its Company Secretary and is responsible for all the secretarial service. Mr. Lun has confirmed that for the year under review, he has taken no less than 15 hours of relevant professional training.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for the Group's systems of risk management and internal control and for reviewing their effectiveness. The Board will conduct regular review on risk management and internal control systems of the Group in order to manage rather than eliminate the risk of failure to achieve business objectives, and provide reasonable and not absolute assurance against material misstatement or loss. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by management. Besides, the Audit Committee and the Board also performed quarter review on the Group's performance, risk management and internal control systems including financial, operational and compliance controls in order to ensure effective measures being in place to protect material assets, identify business risks and resolve material internal control defects of the Group. In additions, appropriate procedures and internal controls for handling and dissemination of inside information are established. The Board continually reviews the effectiveness of present arrangement on risk management and internal control functions to access whether any changes are necessary.

SHAREHOLDERS' RIGHTS

Extraordinary general meeting may be convened by the Board on written requisition of shareholders holding 10% (including 10%) or more of the Company's issued and outstanding shares carrying voting rights pursuant to Article 64 of the articles of association of the Company. According to Article 66 of the articles of association of the Company, when the Company convenes an annual general meeting, shareholders holding 5% (including 5%) or more of the total voting shares of the Company, are entitled to propose new motions in writing to the Company and the Company shall place such motions on the agenda for such meeting if they are matters falling with the scope of duties of the general meeting. Shareholders may propose new motions at general meeting of the Company by sending the same to the Company at the registered office and principal place of business in the People's Republic of China of the Company and the principal place of business in Hong Kong of the Company.

For putting forward any enquiries to the Board, shareholders of the Company may send written enquiries to the Company. Shareholders of the Company may send their enquiries or requests in respect of their rights to the principal place of business in Hong Kong of the Company.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company follows a policy of disclosing relevant information to shareholders of the Company in a timely manner. Members of the Board meet and communicate with shareholders at the annual general meeting of the Company. The Chairman proposes separate resolutions for each issue to be considered and put each proposed resolution to the vote by way of a poll. Voting results are posted on the Company's website on day of the annual general meeting.

Our corporate websites which contain corporate information, interim and annual reports, announcements and circulars issued by the Company enables the Company's shareholders to have timely and updated information of the Company.

During the financial year ended 2018, there is no changes in the Company's articles of association.

Environmental, Social and Governance Report

ABOUT THE GROUP

Xi'an Haitiantian Holdings Co., Ltd. (the "Company", or together with its subsidiaries, the "Group") was established in October 1999, with its shares listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 5 November 2003.

Since its establishment, the Group has been concentrating on the development of mobile communication products and services while developing various types of marine engineering equipment, and has built up a complete operating system that integrates product development, production, sales, installation and services (the "Principal Businesses"). The Group fully understands the importance of independent R&D and innovation and has developed more than 400 types of antenna-related communication products on its own, which are widely used in mobile communication networks across the country. The Group also owns more than 20 patented technologies and has undertaken a number of key scientific research projects for various government agencies. The Group's innovative efforts and achievements in this area have been highly recognized by the State, which earned it the title as one of the first "Innovative Enterprises" certified in China.

REPORT SCOPE, MATERIALITY AND PERIOD

Reporting Principles and Scope

This Environmental, Social and Governance Report (the "Report") discloses the principles, strategies, objectives and overall performance of the Company's principal businesses in respect of environmental, social and governance reporting. The ESG Report has been published in accordance with the "Environmental, Social and Governance Reporting Guide" (the "ESG Guidelines") as set out in Appendix 20 to the GEM Listing Rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the "comply or explain" provisions contained therein.

Unless otherwise stated, the ESG Report covers the overall performances, risks, strategies, measures and commitments of the Group's business operations in Hong Kong and the PRC in four areas, namely, working environment quality, environmental protection, operation practices and Community Involvement during the reporting period of the year ended 31 March 2018 ("Reporting Period").

For the Group's corporate governance structure and other relevant information, please refer to the corporate governance report on pages 11 to 17 of this annual report.

Importance Assessment

The Group's management and employees were involved in the preparation of this report to assist the Group in reviewing its environmental, social, operational and governance issues and assessing the importance of such issues to the Group's business and stakeholders and to make relevant disclosures.

Overall Principals and Policies

The Group is committed to operating under the principle of sustainable development and in an ethical, honest and transparent manner. Its operations are in complete compliance with all the applicable laws, regulations and standards. We have been trying constantly to improve our environmental, social and governance performance through proper corporate governance, environmental protection, participation in community activities and social services, and are actively and continuously communicating with our internal and external stakeholders, e.g. customers, employees, communities, suppliers, business partners, investors and regulatory authorities, listening to their opinions on the development of society and environment, so as to understand their requirements on us and establish a long-term and sustainable relationship with them, thus achieving a common healthy development of the Company and the community.

Stakeholders' Feedback

We welcome opinions on the Group's approaches on the environmental, social, and governance aspects upon reading the ESG Report. Please share with us via:

Postal address:	Room B, 16th Floor, Yam Tze Commercial Building, 23 Thomson Road, Wanchai Hong Kong
Email:	info@xaht.com

REPORT ON THE ENVIRONMENT

We are concerned about the impact of our business operations on the natural environment. Therefore, we have been striving to bring the elements of environmental protection into our daily operations, strengthening our overall environmental management and raising our employees' environmental awareness. The Group has formulated a series of environmental protection codes, including the "Procedures for Environmental Elements Identification and Evaluation", "Environmental Operation Control Procedures", "Procedures for Environmental Monitoring and Measurement Control" and the "Extracts of the Major Environmental Laws and Regulations Involving Haitiantian Antenna", and ensures that its employees strictly comply with such codes. The Group's internal environmental protection policies and measures were formulated with reference to the relevant national guidelines and standards. We comply with the secondary standards of the Ambient Air Quality Standards (GB3095-2012) for air quality management in the general working environment. Meanwhile, we put the administrative regulations of the "Environmental Protection Law of the People's Republic of China" and the "Regulations on the Administration of Environmental Protection of Construction Projects" into practice and dispose of electronic appliances in accordance with the requirements of the "Measures for the Administration of Pollution Control of Electronic Information Products."

The Group hopes to encourage its employees to make good use of resources, advocate energy and resource conservation, reduce our impact on the environment and protect the environment through the effective implementation of the aforementioned environmental protection policies and codes.

During the reporting period, the Group did not have any non-compliance with environmental laws and regulations related to waste gas and greenhouse gas emissions, water and land discharge, and generate hazardous or nonhazardous pollutants that have a significant impact on the Group. The Group also confirmed that it was not subject to relevant governmental penalties due to any violation of aforesaid laws and regulations in the business course during the Reporting Period.

Emissions

Air pollution, exhaust gas and greenhouse gas emissions, dust

The Group complies with relevant regulations promulgated by the government and applicable to the Group, including the Environmental Protection Law of the People's Republic of China （中華人民共和國環境保護法）, the Air Pollution Control Ordinance （ 空氣污染管制條例）, Waste Disposal Ordinance（廢物處置條例）, the Environmental Protection Law of the People's Republic of China （中華人民共和國環境保護法）, Law of the People's Republic of China on Prevention and Control of Pollution From Environmental Noise（中華人民共和國環境噪聲污染防治法）, Law of the People's Republic of China on Appraising of Environment Impacts（中華人民共和國環境影響評價法）, Regulations of Environment Protection in Construction Projects（建設項目環境保護管理條例）, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes（中華人民共和國固體廢物污染環境防治法）, Decision of the State Council on Several Issues Concerning Environmental Protection（國務院關於環境保護若干問題的決定） and the Air Pollution Control Ordinance （空氣污染管制條例）. In addition, we have passed the quality control system ISO19001: 2016 standard certification, which proves that we meet the requirements of relevant laws.

We require our designers to use the materials that produce minimal or no pollution to the environment in the product design process, and prohibit the use of materials that are expressly prohibited by national laws and regulations. The designers of the products are also required to select materials that meet the requirements of the RoHS Directive on Hazardous Substances.

In addition to product design, we control carbon emissions through the environmental management in the production processes. The Group does not discharge industrial waste gas during its production process.

Hazardous and Non-hazardous Waste Treatment

In order to prevent serious damage to the environment caused by improper disposal of waste, the Group implemented strict guidelines in this regard. Used computers, electronic products and waste batteries, cartridges, and consumables generated in our daily operations which will cause environmental pollution will be recycled by competent companies with a "Certificate of Disposal of Waste Electrical and Electronic Products" according to the requirements of the Interim Provisions on the Discharge of Industrial Solid Waste in the Hightech Zone. If it is to be cleared by individuals, we will request the contractors to sign a Guarantee on Waste Disposal, which clearly states where the waste will go, so as to prevent environmental pollution.

For the untreated solid waste, we suggest:

i. extension of the service life of electronic products; repairing of the damaged electronic equipment; reselling to our employees at a low price of those low-level equipment and electronic products that cannot be upgraded;

ii. collection and classification of the electronic waste after work, and storage at designated locations;

iii. proper precautionary measures against rain, fire, leakage, ventilation be considered for depots of hazardous waste, with proper labelling for dangerous and wasted materials; adequate training for transport service providers for dangerous goods so that they understand the characteristics of hazardous waste and are able to protect themselves;

iv. inspection on the storage of waste by the Administration Department.

Sewage discharge

The Group does not produce waste water from the cleaning of its equipment. Our staff living in the dormitory may produce a small amount of domestic waste water in their daily life, but such domestic waste water will be properly processed by the septic tank.

Summary of emissions data:

Emission type	Unit	Amount
Greenhouse gas emissions		
– Scope 1 – Direct discharge		
(i) Fuel consumption	Tonnes of carbon dioxide equivalent	18.2
– Scope 2 – Indirect emissions		
(i) Power consumption		105.3
– Scope 3 – Other Indirect Emission		
(i) Paper consumption		1.9
(ii) Water consumption		0.8
Exhaust emissions		
– Nitrogen oxide		5,631.3
– Sulfur dioxide		111.4
– Particulate matter	Gram	414.6
Sewage discharge	Tons	345
Non-hazardous waste	Tons	35

Disclosures of the key performance indicators (KPI) of the Group in Aspect A1 of the ESG Guidelines are summarised as follows:

KPI A1.1 The types of emissions and emissions data (if applicable) are set forth in the above data highlights.

KPI A1.2 Emissions of greenhouse gases in total are set forth in the above paragraphs. Greenhouse gases (including sulphur dioxide and carbon monoxide) generated in the course of daily operations did not exceed the highest levels permitted by relevant laws.

KPI A1.3 No hazardous waste is generated in the course of daily operations.

KPI A1.4 The total amount of non-hazardous waste is set out in above data summary.

KPI A1.5 Measures to reduce emissions and results achieved can be referred to the above paragraphs.

KPI A1.6 Methods of treating waste and measures to reduce emissions are set forth in the paragraph above headed Hazardous and Non-hazardous Waste Treatment.

Use of Resources

Green Office

We cherish the limited resources on earth and strive to reduce waste. Therefore, we advocate green office operation and require our employees in all departments to strictly comply with the requirements of the "Regulations on Electricity Conservation Management" in daily work and the "Administrative Regulations for Office Supplies Requisition" in handling their requests for office supplies and paper consumption, aiming to continuously improve our energy efficiency management. Meanwhile, we strive to promote environmental awareness by identifying and assessing potential environmental risks and making efforts to reduce resource consumption, with the following specific measures:

i. Regulating our employees' use of office appliances under the principle of "switch it up only when you need to use it, put it idle when you don't, and shut it down after work";

ii. Using a timer to control our lighting system in summer and winter, respectively;

iii. Regulating our employees' water usage so as to reduce waste;

iv. Maximizing paperless office operation, with information transmission over the network; encouraging double-sided printing as well as waste paper recycling;

v. Performing regular inspection and maintenance on our equipment, improving the energy-consuming devices inside to ensure efficient operation.

We often review the effectiveness of these measures and make adjustments according to our operation to improve the efficiency of the use of resources.

Summary of Resources Consumption Data:

Type of resources consumption	Unit	Amount
Water	tonne	833
Electricity	kWh	133,333
Fuel (including petroleum and gasoline) – vehicles, ships and other means of transportation	Litre	7,576
Fuel (including petroleum and gasoline) – equipments and machines	Litre	132
Paper	tonne	0.4
Cartridge	tonne	0.05
Refrigerant	tonne	0.02
Wrapping materials (plastic)	tonne	0.08
Wrapping materials (corrugated papers)	tonne	0.2

Disclosures of the key performance indicators of the Group in Aspect A2 of the ESG Guidelines are summarised as follows:

Key performance indicator A2.1	Direct and/or indirect energy consumption by type and intensity has been set forth in the summary of data above.
Key performance indicator A2.2	Water consumption in total has been set forth in the summary of data above.
Key performance indicator A2.3	Description of energy use efficiency initiatives has been set forth in the paragraph above.
Key performance indicator A2.4	The Group does not have any issues in acquiring appropriate water sources that is fit for purpose, and believes that the water consumption is at a reasonable level. Water efficiency initiatives have been set forth in the paragraph above.
Key performance indicator A2.5	Types and data of packaging materials used for finished products have been set forth in the summary of data above.

The Environment and Natural Resources

The Group fully understands the importance of protecting biodiversity and the ecosystem. We have established, and have been following and maintaining an efficient environmental management system, which advocates environmental protection practices.

Meanwhile, the Group has purchased relevant environmental protection equipment to further strengthen environmental protection. We will also conduct relevant internal training on environmental protection from time to time and popularize knowledge on environmental protection.

Disclosures of the key performance indicators of the Group in Aspect A3 of the ESG Guidelines are summarised as follows:

Key performance indicators A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.

REPORT ON THE SOCIETY

Employment and Labour practice

Employment

Summary of Employment Data:

Total employees	Unit	Number
Total number of employees	Person	52
By gender		
– Male	Percentage	50.00
– Female		50.00
By employment type		
– Full-time, permanent		100.00
– Full-time, contract	Percentage	0.00
– Temporary/Part-time		0.00
By position		
– Executives	Percentage	25.00
– Others		75.00
By age		
– Below 30		13.46
– 30-39		44.23
– 40-49	Percentage	28.85
– 50-59		13.46
– 60 or above		0.00
Average service lives		
– Executives (male)		12.62
– Executives (female)	Years	7.4
– Others (male)		6.1
– Others (female)		5.6
New employee		
– Male	Person	3
– Female		0
Employee loss		
– Male	Person	3
– Female		0

Employment, remuneration and benefit policy
As at 31 December 2018, the Group had 52 employees. We are committed to providing our employees with a work environment that is free from discrimination against gender, age, nation, sexual orientation, family status, race or religion, and with a place where our employees feel accepted, cared and respected. The Group respects the laws in the areas where its people are employed, including the Hong Kong Employment Ordinance, the Labour Law, the Labour Contract Law and the Labour Basic Standard Law of the People's Republic of China, and formulates its own employment and labour practices in accordance with the industrial practices, which are detailed in the employee's handbook, aiming to regulate the employee's behaviour and responsibilities and ensure they are treated fairly.

We have a well-maintained compensation management system to ensure that all our employees can enjoy the remuneration, benefits and welfare bestowed upon them by law, including minimum salary, vacation, compensation for termination, social insurance and provident fund benefits. From time to time, we will review our remuneration standards and adjust our employees' remuneration in accordance with market conditions and industry benchmarks, the nature of their work and their experiences, assessment results and the financial results of the Group, so as to maintain our competitive edge in the market.

Equal opportunity and diversity policy
The Group determines employees' salary, benefits and promotion based upon their job nature, experience, work performance, financial results and market condition. The Group guarantees fair treatment of employees and prevent discrimination based on gender, race, religion, age, marital and family status, disability or any other grounds.

Dismissal policies
If an employees is dismissed due to unsatisfactory performance, violation or other reasonable reasons, the Group will follow the procedures to handle and make reasonable compensation to the dismissed employee according to the guidance under relevant employment law and the relevant provisions on termination of the employment set out in the employment contracts of every staff.

Communication with employees
We care about our employees and are always ready to communicate with them, for which we have set up diversified channels between the management and our employees to facilitate communication between them and enhance their efficiency in this aspect. When new employees are admitted, we will conduct training for them, briefing them on the Company's relevant regulations and corporate culture. We will hold a series of activities such as the collection of slogans on our corporate culture from time to time, so that our employees can participate in the nurturing of our corporate culture and develop a better idea of our corporate culture and values. And besides, we frequently organize dinners and evening parties to bring our people together like a family.

During the reporting period, the Group was not involved in any illegal activities in relation to its employment which had a significant impact on it.

Health and Safety

Safety first

We put our employees' health and safety in the first place as always. In addition to obtaining work-related injury insurance for all our employees, the Group formulated, in strict compliance with the relevant provisions of the "Safe Production Law of the People's Republic of China" and the "Labour Law of the People's Republic of China", a series of internal guidelines to standardize its daily operations, eliminate potential safety hazards and protect its employees' safety, including the "Safety Training System", "Regular Safety Meeting System", "Safety Inspection System" and "Hidden Hazards Screening System".

To prevent accidents, we closely monitor the safety indicators in the working environment, regularly check the machines and related operating procedures to ensure that all safety rules are obeyed. We have also put in place adequate fire extinguishers and first aid packages, and organized all kinds of occupational safety training sessions, including education on fire prevention and emergency response, equipment operation and fire drills. We will review the relevant safety rules from time to time. If any safety hazards are found, our employees and supervisors must report immediately to the management and take necessary remedial measures to prevent accidents.

Physical and mental health

We care about our employees and are ready to help them maintain a balance between life and work, so as to achieve pleasant mental health. The Group regularly organizes and encourages its employees to participate in various kinds of activities that can promote their awareness of health. We hold outdoor and social events such as dinners and sports within each department, hoping to enhance the cohesiveness of the department, ease the pressure from work and create an agreeable working atmosphere.

During the reporting period, the Group did not incur any major safety accidents and work-related injuries; nor did it have any incidents related to the safe working environment and protection of its employees from occupational hazards. During the reporting period, the Group had not identified any incidents which violate health and safety laws and regulations.

Development and Training

Trainings:

	Unit	Amount
Total number of employees trained	Person	45
Percentage of employees trained over total number of employees	Percentage	88.23
By gender		
– Male	Total training hours	168
– Female	Total training hours	192
By gender		
– Male	Average training hours	6.72
– Female	Average training hours	7.38
By class		
– Administrative management	Total training hours	104
– Other staff	Total training hours	256
By class		
– Administrative management	Average training hours	8
– Other staff	Average training hours	6.53

We support our staff in exploiting their potential and promoting long-term career development, for which we have launched a comprehensive career development programme for them. We provide them with diversified part-time training opportunities in accordance with the needs of their positions and specialities.

The Company holds training sessions for its employees from time to time, which are grouped into "internal trainings" and "external trainings". The former refers to the build-up of professional skills in each department based on their own business characteristics and needs, as well as those held by the HR department to promote our corporate culture and welcome new employees, while the latter refers to trainings held for the promotion of management and professional skills which require the engagement of external professional lecturers, as well as those held to assist our employees in obtaining professional certificates. We evaluate the effects of the training and our employees' performance to adjust the training programs. In addition, the Company will engage professionals to provide guidance on self-study to our directors and senior management of the listing rules, corporate governance and other aspects.

In order to promote a harmonious employer-employee relationship and maintain a stable workforce, we encourage internal promotion. We provide a fair platform for all our employees and decide on promotion through comprehensive evaluation. Meanwhile, we maintain open communication with our employees on their feelings about work, room for promotion, and career targets, aiming to improve their sense of belonging to the Company.

Labor Standard

The Group strictly complies with the Employment Ordinance and Regulations on Labour Security Supervision of the State Council of the People's Republic of China, the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Labour Basic Standard Law, and refers to international labour standards. Child labour and forced labour are prohibited. When hiring people, we require the applicants to present their IDs and academic certificates, etc. to ensure that we will not end up hiring child labour. We will also make sure there are no forced labour-related complaints by specifying the time and nature of work when signing the labour contracts with our employees. The Group will review and further improve its labour mechanism from time to time.

During the reporting period, the Group had neither child labour or forced labour, nor involved in any discrimination events in ethnics, religion, age or disability.

Operating Practices

Supply Chain Management

The Group is concerned about the impact of its daily operations and products on the environment and society. We believe that proper supply chain management is essential for business sustainability and quality control. To achieve a sound supply chain management, we should start with controlling the quality of raw materials, and integrating viable environmental and financial practices into the entire supply chain cycle. Based on this theory, we have formulated our "Supplier Management System" and "Purchase Management System", aiming to maintain strict control over the supply chain.

Procurement policy

As at 31 December 2018, the Group had a total of 24 suppliers, mainly from China (including Shanghai, Shandong, Shenzhen, Shaanxi, Beijing, Guangdong, Anhui and Hebei etc.), Canada and Germany. Our "Purchase Management System" details our supplier selection criteria and identifies and evaluates the relevant risks. Generally speaking, we select suppliers based on their technological achievements, product and service quality, costs and track records. We have also established a competitive and transparent tendering and procurement process in order to achieve fairness and credibility, and prevent the suppliers from getting the contracts through bribery. We also closely monitor and regularly assess our suppliers, so as to keep the relevant risks under control.

Enhancing communication

During the reporting period, the Group did not replace any of its major suppliers but maintained close communication with them. The Group will review the suppliers' performance periodically. We resort to such measures as meetings, telephone calls and questionnaires to ensure that they are able to fulfil their contractual responsibilities while complying with the Group's criteria and national laws and regulations.

In addition, we organize various events or activities on our network platform for our suppliers so that they can have a better idea of our products, corporate values and culture. We encourage them to continuously improve their performance, make joint efforts with us in research and study as well as continuous contribution to the sustainable development of economy, society and environment.

Product responsibility

Quality in priority

We are committed to satisfying our customers with high-quality and safe products while complying with all the relevant regulations. We will never put in our products any substances which are harmful to the environment or human body. Our production process is in line with the relevant standards of the ISO Quality Management System, and we assess the quality of our products and services based on the relevant national and industry standards. Leveraging the advanced technologies obtained at home and abroad, we exercise rigorous quality control at at every step of our production process till the end of shipment. Taking our submarine products as an example, after the stereotype is finished, we will send it to the 705 Research Institute for special tests, such as underwater sealing and pressure test, so as to ensure that our products meet the quality and safety standards.

During the reporting period, there was no significant complaints or compensation requests against us arising from the quality issue of the products of the Group.

Understanding customer's expectation

We believe that our customers' opinions are especially important to us in improving our service quality. We strive to be professional and maintain the highest level of professionalism. Shining the Company's image is of the same significance as being compassionate and respectful to our customers, giving them as much convenience and thought as possible.

We have a professional customer service team and a perfect customer service workflow, which enables us to deliver satisfactory pre-sales, on-sales and after-sales services in all aspects. In order to obtain customer's feedback, our CS team visits the customers regularly to conduct quarterly surveys on customer satisfaction. For the questions raised by our customers, in addition to providing professional answers, we hold regular internal meetings to analyse and study their requirements, so as to continuously improve our product quality and service levels.

We also have a complete complaint handling and recovery mechanism. We have specific and clear guidelines on the division of responsibilities and handling procedures. We have assigned special personnel to be responsible for all kinds of complaints. When a complaint is filed and received by the Customer Service Department, it will be recorded immediately, and then, after professional judgment and investigation, handled according to the complaint handling process established by the Administrative Department. If the customer asks for compensation, its claim shall be processed in accordance with the relevant provisions of the "Measures for Compensation Management".

Protection of privacy and intellectual property

In order to ensure the effective protection of our customers' privacy and business sensitive information, we have formulated stringent information confidentiality regulations, e.g. the "Regulations on Confidentiality of the Group's Internal Information".

We maintain satisfactory confidentiality of our data and information in accordance with the above-mentioned requirements of the information confidentiality system, for example, we restrict the access of our employees to confidential materials and information, and strictly forbid any discussion of confidential matters through inappropriate channels such as private communications. In addition, we adopt necessary confidential measures to transfer confidential materials, classify documents according to different levels of confidentiality, and restrict the rights of the responsible persons to access and download the information, so as to prevent leakage of the confidential materials and information due to ineffective management.

In the ordinary course of business, we may come into contact with intellectual properties such as patented technologies and designs of others, however, we will never steal or copy such patented technologies or property rights. Our designers are required to ensure that their works are original and there is no plagiarism when they submit their designs; if the Company has developed the proprietary technologies or unique designs independently, we will submit the relevant application for patents and recognition of unique design to the competent authorities, so as to ensure that the intangible assets of the customers will not suffer any losses, and the Company's legitimate rights and interests are well protected.

During the reporting period, there was no event which infringe the intellectual property rights of products, technologies or daily operation of the Group.

Promotion and labelling

In order to attract customers and promote sales, we will make appropriate marketing efforts to promote our products. Such marketing and publicity activities are in line with the "Advertisement Law of the People's Republic of China", the "Provisional Measures for the Administration of Internet Advertisement" and other applicable laws and regulations of the government concerning publicity and labelling, and intended to accurately reflect the quality and effectiveness of our products, so when it comes to our products, "what you see is what you get". We strive to make our customers understand the effect of our products based on simple textual description without misleading, misrepresentation or exaggeration of the features of our products, so as to ensure that our customers have enough information to make their choices.

During the reporting period, the Group complied with all the laws and regulations concerning, among others, health and safety, advertising, labelling and privacy of our products and services, which had a significant impact on us.

Anti-corruption

The Group adhered to its principles of operation in integrity and actively responded to the call of the Chinese Government on fighting corruption, for which it has formulated a series of anti-corruption guidelines in accordance with the laws and regulations of the People's Republic of China, such as the Criminal Law and the Anti-money Laundering Law of the People's Republic of China, and put them into active practice.

We have established a clean and righteous corporate culture from top to bottom and has been making remarkable efforts to promote it. In addition to requiring all our directors, senior executives and staff to comply with the laws and regulations when carrying out the real business and operations in capital market, we have given the board of directors greater responsibility, who, in addition to being responsible for the operation and management of the Company, are expected to raise reasonable doubts about any possible cases in which a conflict of interests or transfer of interests may occur, and for which the management must provide reasonable explanations. All of our employees must declare their interests in accordance with such regulations.

As to cooperation with other companies in aspects of procurement, external investment or investment introduction, the Group has sound rules and system, strictly manages and implements each business relating to procurement and investment in accordance with its rules and procedures, and strengthens the supervision and management of related businesses in the financial aspect so as to avoid the problem of collecting any form of interest. Heads of relevant departments of the Company will also contact and communicate with external partnerships such as suppliers from time to time to understand issues in business development and whether any interest is gained. The Group also conducts internal self-inspection from time to time to ensure that the client's funds are properly sourced and that no illegal acts such as money laundering are involved.

In terms of finance, our operations are completely transparent to the board of directors and supervisors, so as to prevent the occurrence of illegal acts. All the members of the management must straighten their daily operations and management with the authority granted to them by the board of directors and in accordance with our internal control system, so as to eliminate corruption of any kind.

To further enhance our corporate governance, we have set up an audit committee and engage external lawyers and auditors to provide professional advice on the Company's financial reports and other compliance issues. Apart from complying with the corporate governance requirements of the Stock Exchange for listed companies, we have been constantly reviewing the effectiveness of our internal controls and enhancing our corporate governance.

Whistle-blowing policy

We have a well-maintained anonymous reporting mechanism to encourage our employees to report unlawful and dishonest conducts within the Company through e-mail, telephone, etc., and promise to provide the informants with adequate protection. Upon receipt of a report, investigations and internal verification will be triggered with the case immediately reported to the management and board of directors, who will then notify the government's law enforcement agencies. Meanwhile, we will conduct a review on a case-by-case basis, and propose appropriate remedial measures If any loopholes are found.

With the continuous expansion of our business, we will further improve our anti-corruption mechanism, carry on the education on fighting corruption and strengthen our cooperation with external stakeholders such as the suppliers, partners and government agencies, aiming to continuously improve our internal control.

During the reporting period, we did not spot any violations related to corruption, bribery, extortion, fraud, and money laundering, which had a significant impact on the Group. The Group has not found any significant risks and issues. At the same time, the Group has further strengthened its financial and related internal management systems and implemented them strictly to further prevent the occurrence of disciplinary violations.

COMMUNITIES

Community Investment

The Group is attached to the community, enthusiastic about public services and fulfilling its social responsibilities with the aim of doing the best it can to reward the community.

During the reporting period, the Group targeted and carried out poverty alleviation activities and business, actively communicated with local villagers to improve relevant business and technologies in a timely manner. During the reporting period, we joined hands with the Naval Authorities and the Hebei Provincial Government to set up a chicken breeding farm in Dalan Village, Yi County, Baoding City, Hebei Province, as one of our precise poverty-alleviation efforts. We offer customized solutions according to local needs, aiming to eventually improve the average income of the villagers in this impoverished village through our accurate poverty alleviation efforts. In order to improve community employment and boost the economy in the region, the Group opts to favour local candidates when recruiting new staff, as one of its efforts to contribute to the development of local economy while benefiting from the lower labour costs in those areas.

The Group will continue to explore various feasible ways in the future, including organizing or participating in communities and public welfare activities organized by other organizations and government agencies, to promote the spirit of "returning to the society while taking from the society" by caring for and helping people in need and making our community a better place to live.

THE STOCK EXCHANGE OF HONG KONG LIMITED'S ESG REPORTING GUIDE CONTENT INDEX

Subject Areas	Contents	Section in this ESG Report
A. Environmental		
A1 Emissions		
General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environment Protection – Emission Management
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials	Environment Protection – Use of Resources
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Environment Protection – The Environment and Natural Resources

Subject Areas	Contents	Section in this ESG Report
B. Social		
Employment and Labour Practices		
B1 Employment		
General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Practices – Employment
B2 Health and Safety		
General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employment and Labour Practices – Health and Safety
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work and description of training activities.	Employment and Labour Practices – Development and Training
B4 Labour Standards		
General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employment and Labour Practices – Labour Standards
Operating practices		
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain	Operating Practices – Supply Chain Management
B6 Product Responsibility		
General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Operating Practices – Product responsibility
B7 Anti-corruption		
General Disclosure	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Operating Practices – Anti-corruption
Communities		
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Communities – Community Investment

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Xiao Bing（肖兵先生）, aged 53, is a son of Professor Xiao Liangyong, the founder of the Company. Mr. Xiao studied in radio technology under Adult Education College of Xidian University*（西安電子科技大學）from 1984 to 1987 and obtained Master of business administration from China Europe International Business School in 2006. He worked in Xi'an General Factory of Oil Instruments*（西安石油勘探儀器總廠）from 1987 to 1992, served as manager of Xi'an Haitian Communications Equipment Factory*（西安海天通訊設備廠）and was the general manager of Xi'an Haitian Communications Equipment Company Limited*（西安海天通訊設備有限公司）from 1999 to 2000. Mr. Xiao joined the Group as personal assistant to chairman of the Board since 1999, and was elected as executive Director of the Company and appointed as general manager of the Company since October 2000. Mr. Xiao was the chairman of the Board from August 2004 to November 2007 and from 31 December 2012 to 28 June 2016, was the vice chairman of the Board from 29 June 2016 to 31 December 2018, and was the chairman of the Board since 1 January 2019.

Mr. Chen Ji（陳繼先生）, aged 43, obtained Bachelor of Economics from Shanghai University of Finance and Economics*（上海財經大學）in 1997, Bachelor of Laws from East China University of Political Science and Law*（華東政法學院）in 2005, Master of Business Administration from Shanghai University of Finance and Economics in 2008 and Master of Laws from Fudan University*（復旦大學）in 2009. Mr. Chen has extensive experience in finance, internal control and management. Mr. Chen worked for Air China Limited Shanghai Branch Office*（中國國際航空股份有限公司上海基地）as office supervisor from July 1997 to August 2001. Mr. Chen served as senior manager and partner of finance department of Xinzhuo (China) Consulting Co., Ltd.*（信卓（中國）諮詢有限公司金融部）from December 2003 to January 2006. He joined Shanghai Hui Da Feng Law Firm*（上海市滙達豐律師事務所）as paralegal since February 2006 and became lawyer and partner, and was the founder partner of Shanghai Heng Lu Lawyers Alliance (Group) Firm*（上海恒律聯盟律師（集團）事務所）since October 2010. Mr. Chen was vice-chairman of Shanghai Zhongji Investment Holding Co., Ltd.*（上海中技投資控股股份有限公司）, a company listed on the Shanghai Stock Exchange, for the period from November 2012 to November 2014. Mr. Chen was appointed as director and elected as chairman and chief executive officer of Zhejiang Xinlian Co., Ltd.*（浙江信聯股份有限公司）on 2 March 2015 and 3 March 2015 respectively. Mr. Chen served as director of Cloud Live Technology Group Co., Ltd.*（中科雲網科技集團股份有限公司）, a company listed in the Shenzhen Stock Exchange, from November 2016 to March 2018 and as vice chairman from June 2017 to March 2018. Since June 2018, Mr. Chen served as the chief representative of the Greater China region of the Bilateral Research Institute in the United States. Mr. Chen was an independent non-executive Director from 10 August 2012 to 13 April 2015, was appointed as an executive Director with effective from 13 April 2015, was the chairman of the Board from 29 June 2016 to 31 December 2018, and was the vice chairman of the Board since 1 January 2019.

Non-Executive Directors

Mr. Sun Wenguo（孫文國先生）, aged 43, graduated from the Department of International Finance of Shaanxi College of Finance and Economics*（陝西財經學院）in 1998 with a bachelor degree. Mr. Sun previously worked in international section of Industrial and Commercial Bank of China, Dalian Branch*（中國工商銀行大連分行）and Xi'an Gaoxin Hospital Co., Ltd.*（西安高新醫院有限公司）. Currently, he holds the office of director and vice president of Xi'an International Medical Investment Co., Ltd.*（西安國際醫學投資股份有限公司）which is a promoter and a shareholder of the Company. Mr. Sun was appointed as a non-executive Director and was elected as the vice chairman of the Board since 13 October 2006.

Mr. Li Wenqi (李文琦先生), aged 53, graduated from Shaanxi College of Finance and Economics* (陝西財經學院, now known as Xi'an Jiaotong University* (西安交通大學)). He worked for Shaanxi Silk Import & Export Corporation* (陝西省絲綢進出口公司), which is one of the promoters of the Company, as the deputy chief of planning and finance department from October 1987 to April 1994, the manager of planning and finance department from April 1994 to October 1997, the assistant to general manager and the manager of planning and finance department from October 1997 to May 2001. He served as the chief accountant and the manager of planning and finance department of Shaanxi Kaisei Group Co., Ltd.* (陝西開成集團有限責任公司) since May 2001, and general manager of Shaanxi Kaisei Group Co., Ltd. since September 2015. Mr. Li joined the Company as a non-executive Director since October 2000.

Mr. Zuo Hong (左宏先生), aged 55, graduated from Xidian University* (西安電子科技大學) and obtained the qualification of Senior Engineer in 2005. He had been the instructor of Armed Police Force of Xi'an. He took the position of supervisor and chief technical director of engineering and technology department in Xi'an Huiliaing Electronic Technologies Co., Ltd.* (西安慧良電子科技有限公司) in 1995 and 1997 respectively. Since September 1999, he had been the chairman and general manager of Xi'an Tianditong Communication Development Co., Ltd.* (西安天地通通信發展有限公司). Mr. Zuo was appointed as the general manager of Xi'an Haitian Communication System Engineering Co., Ltd.* (西安海天通信系統工程有限公司), a subsidiary of the Company, in July 2006 and as assistant to the chief executive director of Xi'an Hi-tech Communication Software Co., Ltd.* (西安海泰科通訊軟件有限公司), a subsidiary of the Company, in December 2006. He served as the head of the sales and marketing department of the Company since 2007, was general manager of the Company from 31 December 2012 to 13 July 2016, and became vice general manager of the Company since 13 July 2016. Mr. Zuo was an executive Director for the period from 20 May 2007 to 8 April 2014, and was appointed as non-executive Director since 29 June 2016.

Ms. Huang Jing (黃婧女士), aged 34, obtained Bachelor of Laws from Zhejiang Sci-Tech University* (浙江理工大學) in 2006. Ms. Huang worked for Shanghai Florin Investment Management Co., Ltd.* (上海豐瑞投資集團有限公司) as senior manager of legal department from December 2006 to March 2008. Since March 2008, she joined Shanghai Hui Da Feng Law Firm* (上海市匯達豐律師事務所) as paralegal and trainee solicitor and became lawyer and partner. Ms. Huang was securities affairs representative of Shanghai Zhongji Investment Holding Co., Ltd.* (上海中技投資控股股份有限公司), a company listed on The Shanghai Stock Exchange, from May 2011 to January 2014. Ms. Huang was appointed as director of Zhejiang Xinlian Co., Ltd.* (浙江信聯股份有限公司) on 2 March 2015. Ms. Huang served as director of Cloud Live Technology Group Co., Ltd.* (中科雲網科技集團股份有限公司), a company listed in the Shenzhen Stock Exchange, from November 2016 to March 2018. Ms. Huang was an independent Supervisor from 28 June 2013 to 13 February 2015, was an independent non-executive Director from 13 February 2015 to 28 June 2016, and was appointed as non-executive Director with effective from 29 June 2016.

Mr. Yan Weimin (燕衛民先生), aged 51, graduated from Central South University* (中南大學) in 1989 majoring in automation and obtained Executive Master of Business Administration of United Business Institutes in Belgium in 2009. He has 20 years' experience in the trading of mineral products. During 1989 and 1997, Mr. Yan served in China Metallurgical Import & Export Company* (中國煉金進出口公司, currently known as Sinosteel Corporation* (中國中鋼集團公司)), mainly responsible for the trading of iron and manganese ore between the steel sector of China and companies in Australia. During 1997 and 2007, Mr. Yan served in Shanghai Aijian Holding Co., Ltd.* (上海愛建股份有限公司), in charge of the trading of mineral products and also involved in oil for food deal between United Nation and Iraq. Since 2007, Mr. Yan served as different posts, including the general manager of Shanghai Guohong Trading Co. Ltd.* (上海國弘貿易有限公司) and the chairman of Shanghai Yingyue Industrial Co. Ltd.* (上海鷹悅實業有限公司). In additions, he was appointed as a non-executive director of Honbridge Holdings Ltd.* (洪橋集團有限公司), a company listed on the Stock Exchange, from 2010 and was responsible for the communication with China's steel conglomerates, mining corporations, port and mining construction enterprises. Mr. Yan was an executive Director for the period from 8 April 2014 to 13 February 2015, and was appointed as non-executive Director since 29 June 2016.

Independent Non-Executive Directors

Mr. Zhang Jun (張鈞先生), aged 50, worked for Northwest Electrical Authority* (西北電業管理局) after graduation from Nanjing University of Science and Technology* (南京理工大學) in 1990. In 1993, he served as regional sales director and Beijing chief representative of United States Harris Communications Equipment (Shenzhen) Co., Ltd.* (美國哈里斯(深圳)通信設備股份有限公司). In 2000, Mr. Zhang joined Beijing Dijie Communication Equipment Co., Ltd.* (北京地傑通信設備有限公司) as marketing director, general manager of overseas operations and vice president. Since 2011, Mr. Zhang was managing director of Shenzhen Arrow Advanced Technology Co., Ltd.* (深圳愛勞高科技有限公司). Mr. Zhang joined the Company as an independent non-executive Director since 28 June 2013.

Professor Shi Ping (師萍教授), aged 69, holds a doctoral degree and Chinese Certified Public Accountant qualification. Professor Shi served as a professor and doctoral tutor of School of Economics and Management at Northwestern University* (西北大學) since November 1985. The main social positions of Professor Shi included assessor of National Natural Science Foundation of China* (國家自然科學基金), executive director of Accounting Society of Shaanxi Province* (陝西會計學會), vice president of Shaanxi Cost Accounting Researching Association* (陝西成本研究會), advisor of Xi'an Accounting Society* (西安市會計學會), member of Shaanxi Province Senior Accountant (Including Senior Accountant) Assessment Committee* (陝西省高級會計師(含正高級會計師)評委會), member of Shaanxi Province Senior Auditor Assessment Committee* (陝西省高級審計師評委會), member of Shaanxi Province Senior Economist Assessment Committee* (陝西省高級經濟師評委會). Professor Shi was an independent director of Xi'an International Medical Investment Co., Ltd.* (西安國際醫學投資股份有限公司). Professor Shi was an independent Supervisor from 11 October 2002 to 28 June 2013, and was appointed as an independent non-executive Director with effect from 13 April 2015.

Mr. Tu Jijun (涂繼軍先生), aged 52, graduated as Bachelor of Engineering from Xidian University* (西安電子科技大學) in July 1986. Since November 1986, Mr. Tu worked at information technology department of Shaanxi Branch of Bank of China Co., Ltd.* (中國銀行股份有限公司陝西省分行). Mr. Tu was appointed as an independent non-executive Director with effect from 21 August 2015.

Professor Lei Zhenya (雷振亞教授), aged 58, graduated from Xidian University* (西安電子科技大學, formerly known as Northwest Telecommunications Engineering College* (西北電訊工程學院)) in 1981, stayed to carry out work in the microwave teaching and research section after graduation and obtained master degree in the research of microwave circuit and engineering, target characteristics and stealth confrontation in 1999. Professor Lei obtained tiles of technician, assistant engineer, engineer, senior engineer and professor in 1981, 1983, 1989, 1997 and 2007 respectively and served as supervisor of the microwave laboratory, deputy supervisor of the microwave teaching and research section, and head of the microwave research institute since 1988. Professor Lei is currently head of the microwave research institute, School of Electronic Engineering, Xidian University and supervisor of the Microwave and Radio Wave Propagation Committee of The Electronics Institute of Shaanxi Province* (陝西省電子學會微波與電波傳播專業委員會). Professor Lei published 11 textbooks and monographs, announced more than 60 papers, undertaken more than 50 scientific research, obtained 4 provincial and ministerial awards, and 6 national defence patents and invention patents. Professor Lei was appointed as an independent non-executive Director with effective from 19 October 2018.

SUPERVISORS

Mr. Wang Xiaokun（王曉坤先生）, aged 49, graduated from Nanjing University*（南京大學）in 1991 with a bachelor degree majoring in water resources and environmental. Mr. Wang worked as engineer at Shaanxi Provincial Environmental Protection Research Institute*（陝西省環境保護研究所）from 1991 to 1994 and served as deputy general manager in Xi'an Tiancheng Medical Bio-Engineering Co., Ltd.*（西安天誠醫藥生物工程有限公司）from 1994 to 1998. Since 1998, Mr. Wang was appointed as chairman of Xi'an Dadi Phyto Tech Co., Ltd.*（西安大地植化技術有限公司）. Mr. Wang was appointed as an independent Supervisor with effective from 30 June 2015.

Mr. Zhang Yi（張毅先生）, aged 49, graduated from Accounting Department of Shaanxi Advanced Finance College*（陝西高等財政專科學校）with a Bachelor of Accounting in July 1992, and obtained accountant qualification (intermediate title) in November 1998. Mr. Zhang worked at finance department of Xi'an Tang Cheng Group Co., Ltd.*（西安唐城集團股份有限公司）from August 1992 to January 1996, engaged in supervising work at finance department of Xi'an Kaiyuan Shopping Mall*（西安開元商城購物中心）from January 1996 to January 2003, and worked at finance department and served as head of consolidation team of the Company from January 2003 to March 2010. Since March 2010, Mr. Zhang joined finance department of Xi'an Feilong Household Co., Ltd.*（西安飛龍家居有限公司）. Mr. Zhang was appointed as an independent Supervisor with effective from 21 August 2015.

Mr. Shang Lijian（商力堅先生）, aged 51, holds bachelor degree of School of Chemical Engineering of Beijing Union University*（北京聯合大學化學工程學院）. Mr. Shang worked for Institute of Botany of The Chinese Academy of Sciences*（中國科學院植物研究所）as research assistant from July 1989 to December 1995 and Guokaitai Industrial Development Co., Ltd.*（國開泰實業發展有限公司）as business management staff from January 1998 to May 2001. Mr. Shang joined Beijing Holdings Investment Management Co., Ltd.*（北京控股投資管理有限公司）and served as investment staff, business management deputy manager and office deputy director from June 2001 to June 2015, during which Mr. Shang was assigned to Beijing Beikong Water Manufacturing Co., Ltd.*（北京北控制水有限公司）as deputy general manager (2006-2007), Beijing Beikong Environmental Protection Engineering Technologies Co., Ltd.*（北京北控環保工程技術有限公司）as deputy general manager (2007-2013) and Guoao Investment Development Co., Ltd.*（國奧投資發展有限公司）as deputy general manager (2013 to 2014). Mr. Shang assumed deputy manager of investment and development department of Beijing Holdings (Group) Ltd.*（京泰實業（集團）有限公司）which holds more than one-third of voting rights of Beijing Holdings Investment Management Co., Ltd.*（北京京泰投資管理中心）, a promoter and shareholder of the Company, from July 2015, and became acting manager since March 2018. Mr. Shang was appointed as a shareholder representative Supervisor with effective from 29 June 2018.

Mr. Li Tianzuo（李天佐先生）, aged 46, graduated from Electronic Engineering Department of Southeast University*（東南大學）at Nanjing in Jiangsu province with a bachelor degree in July 1995. Mr. Li worked at research and development department of State-owned Xi'an Datang Telecom Company*（西安大唐電信公司）from 1995 to 2000 and engaged in early stage of research and design of program control exchange for the State. He served as product manager of Shanghai Jinglun Communication Co., Ltd.*（上海精倫通信有限公司）from May 2000 to October 2002 and engaged in design and development of new generation of soft-switching communication products. Since November 2002, Mr. Li joined the development department of the Company to organise research, development, design and production for full-band wireless communication products, communication base station and long-term evolution (LTE) equipment system and became the head of development department of the Company. Mr. Li was elected as a supervisor representing staff and workers of the supervisory committee of the Company since 29 June 2016.

Mr. Shen Hongxiu（沈洪秀先生）, aged 52, graduated from Accountancy Department of Shanghai University of Finance and Economics*（上海財經大學）in June 1989 and obtained Master of Professional Accountancy from Shanghai University of Finance and Economics in 2001. Mr. Shen served as financial controller from July 2010 to October 2013 and general manager from October 2013 to January 2014 for Shanghai Zhongji Investment Holding Co., Ltd.*（上海中技投資控股股份有限公司）. Mr. Shen was financial controller of the Company from May 2014 to February 2015 and served as general manager of Haitian Antenna (Shanghai) International Trade Co., Ltd.*（海天天綫（上海）國際貿易有限公司）, a wholly-owned subsidiary of the Company, since May 2014. Mr. Shen was elected as a Supervisor representing staff and workers since 29 June 2016.

SENIOR MANAGEMENT

Mr. Wang Yun（王贇先生）, aged 38, graduated from School of Economics and Management of Northwest University*（西北大學）majoring in investment and economics in 2002, and obtained a minor diploma from Northwest University* in e-commerce in the same year. In 2009, he obtained a master degree in engineering in project management from Northwestern Polytechnical University*（西北工業大學）. Since joining the Group in September 2002, he served in the securities department, finance department and administration department as project manager as well as deputy head and head of the administration department. Since 2011, he served as secretary to the Board.

Mr. Xu Hao（徐浩先生）, aged 47, graduated from Shaanxi Financial Technological College*（陝西財政專科學校）with a major in finance in July 1994 and obtained accountant qualification. Mr. Xu worked in the finance division of Xi'an State-owned Tractor Factory*（國營西安拖拉機製造廠）from 1994 to 2000, served as financial supervisor of Xi'an Tianhao Plastic Steel Product Limited Liability Company*（西安添好塑鋼製品有限責任公司）from January 2001 to September 2003, and served as project manager of Xi'an Pengguang Tax Agent & Bureau Co., Ltd.*（西安鵬光稅務師稅務所有限責任公司）from October 2003 to February 2005. Mr. Xu worked in the finance department of the Company since March 2005 and is now financial controller of the Company. Mr. Xu was a staff Supervisor from 18 April 2008 to 17 April 2014 and from 11 September 2015 to 28 June 2016.

Mr. Wu Aiqing（吳愛清先生）, aged 38, graduated as accounting profession from Zhongnan University of Economics and Law*（中南財經政法大學）. Mr. Wu served as staff member and head of finance department at First Tractor Company Limited*（第一拖拉機股份有限公司）and YTO Group Corporation*（中國一拖集團有限公司）from July 2004 to December 2007, served as the investment director of Shanghai Xinzhuo Investment Consulting Co., Ltd.*（上海信卓投資諮詢有限公司）from January 2008 to March 2009, served as vice president of investment department of a wholly-owned subsidiary of Zhuhai Huafa Group Limited*（珠海華發集團有限公司）from March 2009 to July 2011, and served as deputy general manager and chief financial officer at a Zhuhai Yide Petrochemical Co., Ltd.*（珠海市一德石化有限公司）from August 2011 to May 2014. Since June 2014, Mr. Wu joined Haitian Antenna (Shanghai) International Trade Co., Ltd.*（海天天線（上海）國際貿易有限公司）, a wholly-owned subsidiary of the Company, as head of finance department. He was appointed as a vice general manager of the Company since 29 June 2016 and became general manager of the Company from 9 September 2017.

COMPANY SECRETARY

Mr. Lun Ka Chun（倫家俊先生）, graduated from the Bachelor of Business Administration in the Chinese University of Hong Kong with membership of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Lun had worked in the practice of certified public accountants over 14 years in the field of auditing, taxation and company secretarial role.

Report of the Supervisory Committee

To all shareholders,

During the year ended 31 December 2018, the supervisory committee of the Company (the "Supervisory Committee") thoroughly performed its duties faithfully in accordance with the provisions of the Company Laws of the PRC, GEM Listing Rules and the articles of association (the "Articles") of the Company. Adhering to the principles of safeguarding interests of all shareholders and benefits of the staff of the Company, the Supervisors attended Board meetings, acquiring first-hand information of the Board's decision on marking important issues and effectively monitoring the Board and senior management of the Company in performing their duties, and providing reasonable recommendation and advice on the operations and development plans of the Company.

The Supervisory Committee considers that:

1. The Company's operation for the year 2018 complied with the relevant laws and regulations of the state and local governments of the PRC and the Articles;

2. The Directors and managers of the Company performed their duties in strict compliance of the relevant rules and regulations for the development of the Company. They carried out their work diligently without violating any laws and regulations or the Articles and had not conducted any activities which were against the interests of the Company;

3. The connected transactions of the Company, which have fully complied with the relevant provisions of the GEM Listing Rules, were fair and reasonable. We have not discovered any act that prejudiced the interests of the Company;

4. The Supervisory Committee's role in monitoring the management was strengthened by attending Board meetings, participating in the decision-making process of the management and reviewing regularly the Company's financial statements and accounts. The Supervisors believe that the financial management of the Company was performed in strict accordance with the relevant accounting principles, that the financial statements and accounts were prepared timely and properly and that no improper disclosures were identified; and

5. The Supervisory Committee has verified the financial information such as the financial and performance reports and was satisfied with the report of the Board, the audited financial statements to be submitted to the forthcoming annual general meeting by the Board of Directors. We are of the opinion that the audited financial statements for the year ended 31 December 2018 have reflected truly and fairly the conditions of the operating results and the assets of the Company and of the Group.

The Supervisory Committee would like to extend its appreciation to all shareholders of the Company, the Directors and members of staff for their strong support to the Supervisory Committee's work.

On behalf of the Supervisory Committee

Shen Hongxiu
Chairman

Xi'an, the PRC
22 March 2019

Directors' Report

The Directors have pleasure in presenting their report for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is principally engaged in research and development, manufacture and sale of base station antennas and related products, underwater and underground surveillance, imaging, mechanical equipment, and complicated environment warning and surveillance equipment, agricultural and forestry used unmanned aerial vehicles, provision of consultancy services and sales of agricultural products.

The principal activities of its subsidiaries are set out in note 39 to the consolidated financial statements.

BUSINESS REVIEW

Business review of the Group is set out in the paragraph headed "Management Discussion and Analysis" of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 57 of this annual report.

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2018.

DISTRIBUTABLE RESERVES

In accordance with the Articles, the reserve available for distribution is the lower of amount determined under accounting principles generally accepted in the PRC and the amount determined under the principles generally accepted in Hong Kong. Based on the financial statements of the Company prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC, the Company does not have any reserves available for distribution to its equity holders as at 31 December 2018.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 60 of this annual report and note 41 to the consolidated financial statements respectively.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 December 2018 is set out on page 132 of this annual report.

SHARE CAPITAL

Details of the movements in the Company's share capital during the year are set out in note 32 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS AND SHARE OPTION SCHEMES

During the year, the Company has not entered into any equity-linked agreement and has not undertaken any share option scheme.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB0.08 million on plant and equipment and approximately RMB1.09 million on construction to expand and upgrade its production capacity. Details of these and other movements during the year in the plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year and up to the date of this report were:

Executive Directors
Mr. Xiao Bing *(chairman)*
Mr. Chen Ji *(vice-chairman)*

Non-Executive Directors
Mr. Sun Wenguo *(vice-chairman)*
Mr. Li Wenqi
Mr. Zuo Hong
Ms. Huang Jing
Mr. Yan Weimin

Independent Non-Executive Directors
Mr. Zhang Jun
Professor Shi Ping
Mr. Tu Jijun
Professor Lei Zhenya (appointed on 19 October 2018)
Dr. Lam Lee G. (resigned on 23 July 2018)

Supervisors
Mr. Wang Xiaokun
Mr. Zhang Yi
Mr. Shang Lijian (appointed on 29 June 2018)
Mr. Yan Feng (resigned on 7 May 2018)
Mr. Li Tianzuo
Mr. Shen Hongxiu

Directors' and Supervisors' service contracts

Each of the Directors and the Supervisors has entered into a service contract with the Company for a term valid until 28 June 2019 subject to renewal upon approval by shareholders of the Company for one or more consecutive terms of three years. In accordance with the provisions of the Articles, the term of office of the Directors shall be three years commencing from the date of appointment or re-election and renewable upon re-appointment or re-election. In accordance with the provisions of the PRC Company Law, the term of office of the Supervisors shall also be three years and renewable upon re-appointment or re-election.

Other than as disclosed above, none of the Directors and Supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Independence of Independent Non-Executive Directors

The Board confirmed that the Company received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considered that the independent non-executive Directors to be independent.

Directors' and Supervisors' emoluments

Details of emoluments of Directors and Supervisors are set out in note 14 to the consolidated financial statements.

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

As at 31 December 2018, the interests and short positions of the Directors, Supervisors (as if the requirements applicable to the Directors under the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong) had applied to the Supervisors) and chief executives of the Company in the shares (the "Shares"), underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required 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 they were taken or deemed to have under such provisions of the SFO); or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in domestic shares of the Company ("Domestic Shares")

Name of person	Capacity	Number of Domestic Shares	Approximate % in total issued Domestic Shares	Approximate % in total issued Shares	Approximate % in enlarged issued Domestic Shares *(Note 5)*	Approximate % in enlarged issued Shares *(Note 5)*
Mr. Xiao Bing (肖兵先生)	Beneficial owner and interest in controlled corporation	393,363,637 *(Note 1)*	44.43%	25.69%	36.24%	22.72%
Mr. Chen Ji (陳繼先生)	Beneficial owner and interest in controlled corporation	273,344,804 *(Note 2)*	30.88%	17.85%	25.19%	15.79%

Long positions in H shares of the Company ("H Shares")

Name of person	Capacity	Number of H Shares	Approximate % in total issued H Shares	Approximate % in total issued Shares	Approximate % in enlarged issued Shares *(Note 5)*
Mr. Xiao Bing (肖兵先生)	Beneficial owner	10,000,000	1.55%	0.65%	0.58%
Mr. Chen Ji (陳繼先生)	Beneficial owner and interest in controlled corporation	46,071,000 *(Note 3)*	7.13%	3.01%	2.66%

Short positions in H Shares

Name of person	Capacity	Number of H Shares	Approximate % in total issued H Shares	Approximate % in total issued Shares	Approximate % in enlarged issued Shares *(Note 5)*
Mr. Chen Ji (陳繼先生)	Interest in controlled corporation	36,300,000 *(Note 4)*	5.62%	2.37%	2.10%

Notes:

1. 328,363,637 Domestic Shares are held by Xi'an Tian An Corporate Management and Consulting Co., Ltd.*(西安天安企業管理咨詢有限公司)("Tian An Corporate") (formerly known as Xi'an Tian An Investment Co., Ltd.*(西安天安投資有限公司)), which is beneficially owned as to 60% by Mr. Xiao Bing(肖兵先生)and 40% by his spouse Ms. Chen Jing(陳靜女士). By virtue of the SFO, Mr. Xiao Bing is deemed to be interested in the same 328,363,637 Domestic Shares. 65,000,000 Domestic Shares are to be issued and allotted under specific mandate (more particularly described in the circular of the Company dated 2 February 2018) to Mr. Xiao Bing.

2. 189,844,804 Domestic Shares are held by and 65,000,000 Domestic Shares are to be issued and allotted under specific mandate (more particularly described in the circular of the Company dated 2 February 2018) to Shanghai Gaoxiang Investment Management Co., Ltd.*(上海高湘投資管理有限公司)("Gaoxiang Investment"), which is beneficially owned by Mr. Chen Ji(陳繼先生)and his spouse Ms. Sun Xiangjun(孫湘君女士)in equal share. 18,500,000 Domestic Shares are held by Shanghai Hongzhen Ningshang Investment Management Partnership*(上海泓甄寧尚投資管理合伙企業)("Shanghai Hongzhen Ningshang"), which is beneficially owned as to 83.33% by Mr. Chen Ji and 16.67% by Shanghai Hongzhen Investment Management Co., Ltd.*(上海泓甄投資管理有限公司)("Shanghai Hongzhen Investment"), and Shanghai Hongzhen Investment is beneficially owned as to 60% by Gaoxiang Investment. By virtue of the SFO, Mr. Chen Ji is deemed to be interested in the same 254,844,804 and 18,500,000 Domestic Shares.

3. 9,771,000 H Shares are held by Mr. Chen Ji. 36,300,000 H Shares are held in investment products issued by Guotai Junan Financial Products Limited ("Guotai Junan Financial"), which is beneficially owned by Guotai Junan International Holdings Limited ("Guotai Junan International"). Guotai Junan International is beneficially owned as to 65.74% by Guotai Junan Holdings Limited ("Guotai Junan Holdings"), which is beneficially owned by Guotai Junan Securities Co., Ltd ("Guotai Junan Securities"). Zhongrong International Trust Co., Ltd.*(中融國際信托有限公司)("Zhongrong International"), an investment manager of Gaoxiang Investment, holds such investment products issued by Guotai Junan Financial, and Gaoxiang Investment is beneficially owned by Mr. Chen Ji and his spouse Ms. Sun Xiangjun in equal share. By virtue of the SFO, Mr. Chen Ji is deemed to be interested in the same 36,300,000 H Shares.

4. Short position in 36,300,000 underlying H Shares are derived from unlisted and cash settled derivatives issued by Guotai Junan Financial, which is beneficially owned by Guotai Junan International. Guotai Junan International is beneficially owned as to 65.74% by Guotai Junan Holdings, which is beneficially owned by Guotai Junan Securities. Zhongrong International, an investment manager of Gaoxiang Investment, holds such unlisted and cash settled derivatives issued by Guotai Junan Financial, and Gaoxiang Investment is beneficially owned by Mr. Chen Ji and his spouse Ms. Sun Xiangjun in equal share. By virtue of the SFO, Mr. Chen Ji is deemed to have short position in the same 36,300,000 underlying H Shares.

5. The issued Shares are to be enlarged by the issue and allotment of 200,000,000 Domestic Shares under specific mandate (more particularly described in the circular of the Company dated 2 February 2018). The specific mandate was approved by the extraordinary general meeting on 19 March 2018 and is subject to the approval of the Department of Commerce of Shaanxi Province*(陝西省商務廳).

Saved as disclosed above, as at 31 December 2018, none of the Directors, Supervisors and chief executives of the Company had any other interests or short positions in any Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required 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 they were taken or deemed to have under such provisions of the SFO); or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

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

As at 31 December 2018, so far as is known to the Directors, the Supervisors or chief executive of the Company, the following persons/entities (other than the Directors, Supervisors or chief executive of the Company) who/which had, or are deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who/which were or are expected to be, directly or indirectly, interested 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 the Company; or who/which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions in Domestic Shares

Name of shareholder	Capacity	Number of Domestic Shares	Approximate % in total issued Domestic Shares	Approximate % in total issued Shares	Approximate % in enlarged issued Domestic Shares *(Note 14)*	Approximate % in enlarged issued Shares *(Note 14)*
Ms. Chen Jing (陳靜女士)	Spouse interest and interest in controlled corporation	393,363,637 *(Note 1)*	44.43%	25.69%	36.24%	22.72%
Professor Xiao Liangyong (肖良勇教授)	Parties acting in concert	393,363,637 *(Note 1)*	44.43%	25.69%	36.24%	22.72%
Tian An Corporate	Beneficial owner	328,363,637 *(Note 1)*	37.09%	21.45%	30.25%	18.97%
Ms. Sun Xiangjun (孫湘君女士)	Spouse interest and interest in controlled corporation	273,344,804 *(Note 2)*	30.88%	17.85%	25.19%	15.79%
Gaoxiang Investment	Beneficial owner	254,844,804 *(Note 2)*	28.80%	16.64%	23.48%	14.72%
Xi'an International Medical Investment Co., Ltd.* (西安國際醫學投資股份有限公司)	Beneficial owner	100,000,000	11.29%	6.54%	9.21%	5.78%
Shenzhen Huitai Investment Development Co., Ltd.* (深圳市匯泰投資發展有限公司)	Beneficial owner	75,064,706 *(Note 3)*	8.48%	4.90%	6.92%	4.34%
Ms. Wang Zengdi (王增娣女士)	Interest in controlled corporation	75,064,706 *(Note 3)*	8.48%	4.90%	6.92%	4.34%
Xi'an Haorun Investment Ltd.* (西安昊潤投資有限責任公司)	Beneficial owner	70,000,000 *(Note 4)*	7.91%	4.57%	6.45%	4.04%

Name of shareholder	Capacity	Number of Domestic Shares	Approximate % in total issued Domestic Shares	Approximate % in total issued Shares	Approximate % in enlarged issued Domestic Shares *(Note 14)*	Approximate % in enlarged issued Shares *(Note 14)*
Mr. Wang Yun (王贇先生)	Interest in controlled corporation	70,000,000 *(Note 4)*	7.91%	4.57%	6.45%	4.04%
Beijing Holdings Investment Management Co., Ltd.* (北京京泰投資管理中心)	Beneficial owner	54,077,941 *(Note 5)*	6.11%	3.53%	4.98%	3.12%
Beijing Holdings (Group) Ltd.* (京泰實業(集團)有限公司)	Interest in controlled corporation	54,077,941 *(Note 5)*	6.11%	3.53%	4.98%	3.12%
Ms. Jin Rongfei (金嶸霏女士)	Beneficial owner	50,000,000 *(Note 6)*	5.65%	3.27%	4.61%	2.89%
Shaanxi Yinji Investment Ltd.* (陝西銀吉投資有限公司)	Beneficial owner	20,000,000	2.26%	1.31%	1.84%	1.16%
Mr. Zhang Jiandong (張建東先生)	Beneficial owner	20,000,000 *(Note 7)*	2.26%	1.31%	1.84%	1.16%
Shanghai Hongzhen Ningshang	Beneficial owner	18,500,000 *(Note 2)*	2.08%	1.21%	1.71%	1.07%
Shanghai Maokou Commerce and Trading Ltd.* (上海睿寇商貿有限公司)	Beneficial owner	18,500,000	2.08%	1.21%	1.71%	1.07%
Mr. Jiao Chengyi (焦成義先生)	Beneficial owner	10,943,030	1.24%	0.71%	1.01%	0.63%

Long positions in H Shares

Name of shareholder	Capacity	Number of H Shares *(Note 8)*	Approximate % in total issued H Shares	Approximate % in total issued Shares	Approximate % in enlarged issued Shares *(Note 14)*
Huang Li Hou (黃李厚)	Beneficial owner	85,100,000	13.18%	5.56%	4.92%
Ms. Chen Wei (陳瑋女士)	Beneficial owner and interest in controlled corporation	73,492,000 *(Note 9)*	11.38%	4.80%	4.25%
Hongkong Jinsheng Enterprise Co., Limited (香港錦昇企業有限公司)	Beneficial owner	73,347,000 *(Note 9)*	11.36%	4.79%	4.24%
Oceanic Bliss Holdings Limited (海祥控股有限公司)	Interest in controlled corporation	73,347,000 *(Note 9)*	11.36%	4.79%	4.24%
Zeal Warrior Investments Limited	Interest in controlled corporation	73,347,000 *(Note 9)*	11.36%	4.79%	4.24%
Auspicious Zone Investments Limited (彩域投資有限公司)	Beneficial owner	51,592,000 *(Note 10)*	7.99%	3.37%	2.98%
Sure Rosy Global Investments Limited (順盛環球投資有限公司)	Interest in controlled corporation	51,592,000 *(Note 10)*	7.99%	3.37%	2.98%
Mr. Wang Mingyue (王明月先生)	Interest in controlled corporation	51,592,000 *(Note 10)*	7.99%	3.37%	2.98%
Ms. Sun Xiangjun (孫湘君女士)	Spouse interest and interest in controlled corporation	46,071,000 *(Note 12)*	7.13%	3.01%	2.66%
Clear Renown Global Limited (朗譽環球有限公司)	Beneficial owner	42,000,000 *(Note 11)*	6.50%	2.74%	2.43%
Huang Wei Wen (黃偉汶)	Interest in controlled corporation	42,000,000 *(Note 11)*	6.50%	2.74%	2.43%
Guotai Junan Financial	Issuer of investment products	36,300,000 *(Note 12)*	5.62%	2.37%	2.10%
Guotai Junan International	Interest in controlled corporation	36,300,000 *(Note 12)*	5.62%	2.37%	2.10%
Guotai Junan Holdings	Interest in controlled corporation	36,300,000 *(Note 12)*	5.62%	2.37%	2.10%
Guotai Junan Securities	Interest in controlled corporation	36,300,000 *(Note 12)*	5.62%	2.37%	2.10%
Zhongrong International	Investment manager	36,300,000 *(Note 12)*	5.62%	2.37%	2.10%
Gaoxiang Investment	Beneficial owner	36,300,000 *(Note 12)*	5.62%	2.37%	2.10%

Short positions in H Shares

Name of person	Capacity	Number of underlying H Shares *(Note 8)*	Approximate % in total issued H Shares	Approximate % in total issued Shares	Approximate % in enlarged issued Shares *(Note 14)*
Guotai Junan Financial	Issuer of unlisted and cash settled derivatives	36,300,000 *(Note 13)*	5.62%	2.37%	2.10%
Guotai Junan International	Interest in controlled corporation	36,300,000 *(Note 13)*	5.62%	2.37%	2.10%
Guotai Junan Holdings	Interest in controlled corporation	36,300,000 *(Note 13)*	5.62%	2.37%	2.10%
Guotai Junan Securities	Interest in controlled corporation	36,300,000 *(Note 13)*	5.62%	2.37%	2.10%
Zhongrong International	Investment manager	36,300,000 *(Note 13)*	5.62%	2.37%	2.10%
Gaoxiang Investment	Beneficial owner	36,300,000 *(Note 13)*	5.62%	2.37%	2.10%
Ms. Sun Xiangjun （孫湘君女士）	Interest in controlled corporation	36,300,000 *(Note 13)*	5.62%	2.37%	2.10%

Notes:

1. 328,363,637 Domestic Shares are held by Tian An Corporate, which is beneficially owned as to 60% by Mr. Xiao Bing and 40% by his spouse Ms. Chen Jing. 65,000,000 Domestic Shares are to be issued and allotted under specific mandate (more particularly described in the circular of the Company dated 2 February 2018) to Mr. Xiao Bing. Professor Xiao Liangyong（肖良勇教授）is the father of and a person acting in concert with Mr. Xiao Bing. By virtue of the SFO, each of Ms. Chen Jing and Professor Xiao Liangyong is deemed to be interested in the same 393,363,637 Domestic Shares.

2. 189,844,804 Domestic Shares are held by and 65,000,000 Domestic Shares are to be issued and allotted under specific mandate (more particularly described in the circular of the Company dated 2 February 2018) to Gaoxiang Investment, which is beneficially owned by Mr. Chen Ji and his spouse Ms. Sun Xiangjun in equal share. 18,500,000 Domestic Shares are held by Shanghai Hongzhen Ningshang, which is beneficially owned as to 83.33% by Mr. Chen Ji and 16.67% by Shanghai Hongzhen Investment, and Shanghai Hongzhen Investment is beneficially owned as to 60% by Gaoxiang Investment. By virtue of the SFO, Ms. Sun Xiangjun is deemed to be interested in the same 273,344,804 Domestic Shares.

3. 75,064,706 Domestic Shares are held by Shenzhen Huitai Investment Development Co., Ltd.*（深圳市匯泰投資發展有限公司）, which is beneficially owned by as to 60% by Ms. Wang Zengdi（王增娣女士）. By virtue of the SFO, Ms. Wang Zengdi is deemed to be interested in the same 75,064,706 Domestic Shares.

4. 70,000,000 Domestic Shares are held by Xi'an Haorun Investment Ltd.*（西安昊潤投資有限責任公司）, which is beneficially owned as to 50% by Mr. Wang Yun（王贇先生）. By virtue of the SFO, Mr. Wang Yun is deemed to be interested in the same 70,000,000 Domestic Shares.

5. 54,077,941 Domestic Shares are held by Beijing Holdings Investment Management Co., Ltd.*(北京京泰投資管理中心)("Beijing Holdings"). By virtue of the SFO, Beijing Holdings (Group) Ltd.*(京泰實業(集團)有限公司), which holds more than one third of voting rights of Beijing Holdings, is deemed to be interested in the same 54,077,941 Domestic Shares.

6. 50,000,000 Domestic Shares are to be issued and allotted under specific mandate (more particularly described in the circular of the Company dated 2 February 2018) to Ms. Jin Rongfei(金嶸霏女士).

7. 20,000,000 Domestic Shares are to be issued and allotted under specific mandate (more particularly described in the circular of the Company dated 2 February 2018) to Mr. Zhang Jiandong(張建東先生).

8. Details of these shareholders of the Company are based on information as set out in the website of the Stock Exchange and notified by the Disclosure of Interests Online System of the Stock Exchange.

9. 145,000 H Shares are held by Ms. Chen Wei(陳瑋女士)who is beneficial owner of Zeal Warrior Investments Limited ("Zeal Warrior"). 73,347,000 H Shares are held by Hongkong Jinsheng Enterprise Co., Limited(香港錦昇企業有限公司), which is beneficially owned by Oceanic Bliss Holdings Limited(海祥控股有限公司)("Oceanic Bliss"), and Oceanic Bliss is beneficially owned by Zeal Warrior. By virtue of the SFO, each of Ms. Chen Wei, Oceanic Bliss and Zeal Warrior is deemed to be interested in the same 73,347,000 H Shares.

10. 51,592,000 H Shares are held by Auspicious Zone Investments Limited(彩域投資有限公司), which is beneficially owned by Sure Rosy Global Investments Limited(順盛環球投資有限公司)("Sure Rosy"), and Mr. Wang Mingyue(王明月先生)is beneficial owner of Sure Rosy. By virtue of the SFO, each of Sure Rosy and Mr. Wang Mingyue is deemed to be interested in the same 51,592,000 H Shares.

11. 42,000,000 H Shares are held by Clear Renown Global Limited(朗譽環球有限公司), which is beneficially owned by Huang Wei Wen(黃偉汶). By virtue of the SFO, Huang Wei Wen is deemed to be interested in the same 42,000,000 H Shares.

12. 9,771,000 H Shares are held by Mr. Chen Ji. 36,300,000 H Shares are held in investment products issued by Guotai Junan Financial, which is beneficially owned by Guotai Junan International. Guotai Junan International is beneficially owned as to 65.74% by Guotai Junan Holdings, which is beneficially owned by Guotai Junan Securities. Zhongrong International, an investment manager of Gaoxiang Investment, holds such investment products issued by Guotai Junan Financial, and Gaoxiang Investment is beneficially owned by Mr. Chen Ji and his spouse Ms. Sun Xiangjun in equal share. By virtue of the SFO, Ms. Sun Xiangjun is deemed to be interested in the same 46,071,000 H Shares, and each of Guotai Junan International, Guotai Junan Holdings, Guotai Junan Securities, Zhongrong International and Gaoxiang Investment is deemed to be interested in the same 36,300,000 H Shares.

13. Short position in 36,300,000 underlying H Shares are derived from unlisted and cash settled derivatives issued by Guotai Junan Financial, which is beneficially owned by Guotai Junan International. Guotai Junan International is beneficially owned as to 65.74% by Guotai Junan Holdings, which is beneficially owned by Guotai Junan Securities. Zhongrong International, an investment manager of Gaoxiang Investment, holds such unlisted and cash settled derivatives issued by Guotai Junan Financial, and Gaoxiang Investment is beneficially owned by Mr. Chen Ji and his spouse Ms. Sun Xiangjun in equal share. By virtue of the SFO, each of Guotai Junan International, Guotai Junan Holdings, Guotai Junan Securities, Zhongrong International, Gaoxiang Investment and Ms. Sun Xiangjun is deemed to have short position in the same 36,300,000 underlying H Shares.

14. The issued Shares are to be enlarged by the issue and allotment of 200,000,000 Domestic Shares under specific mandate (more particularly described in the circular of the Company dated 2 February 2018). The specific mandate was approved by the extraordinary general meeting on 19 March 2018 and is subject to the approval of the Department of Commerce of Shaanxi Province*(陝西省商務廳).

Saved as disclosed above, as at 31 December 2018, the Directors, Supervisors and chief executives of the Company were not aware of any other person/entity (other than the Directors, Supervisors or chief executive of the Company) who/which had, or is deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who/which was or is expected to be, directly or indirectly, interested 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 the Company; or who/which was recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE H SHARES

As 31 December 2018, so far as is known to the Directors, Supervisors and chief executives of the Company, none of the Directors, Supervisors or chief executives of the Company or any of their respective associates including spouses and children under 18 years of age had any interest in, or has been granted, or exercised, any rights to subscribe for H Shares (or warrants or debentures, if applicable) or to acquire H Shares.

ARRANGEMENTS TO PURCHASE SHARES

At no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors and Supervisors to acquire benefits by means of the acquisition of Shares in the Company or any other body corporate, and neither the Directors nor Supervisors, nor chief executives of the Company, 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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

At least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December 2018 and as at the date of this report.

COMPETING INTERESTS

None of the Directors, the Supervisors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had an interest in any business which competes or may compete, directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Connected Transactions" and except for Directors' and Supervisors' service contacts, no contract of significance, to which the Company or its subsidiaries was a party and in which a Director or a Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

CONNECTED TRANSACTIONS

During the year, the Company has undertaken and/or approved significant and discloseable connected transactions with connected persons of the Company (as defined under the GEM Listing Rules) as follows:

On 19 March 2018, Mr. Xiao Bing and Gaoxiang Investment were approved by the shareholders of the Company to subscribe 65,000,000 Domestic Shares each with total subscription price of RMB27.30 million in the issue of new Domestic Shares under specific mandate (more particularly described in the circular of the Company dated 2 February 2018). Mr. Xiao Bing, being an executive Director, is a connected person. Gaoxiang Investment is an associate of Mr. Chen, being an executive Director, and hence a connected person.

On 13 July 2018, the Company agreed to contribute RMB4.00 million to the capital of Suzhou Haitian New Antenna Technologies Co., Ltd.*（蘇州海天新天綫科技有限公司）("Suzhou Haitian"), an associate of the Company, in order to increase equity interest held by the Company from 20% to 30%. Suzhou Haitian was beneficially owned as to 60% by Xi'an Xiao's Antenna Technologies Co., Ltd.*（西安肖氏天綫科技有限公司）("Xiao Antenna") and 20% by Mr. Liao Kang（廖康先生）before the capital contribution (more particularly described in the announcement of the Company dated 15 July 2018). Xiao Antenna is an associate of Mr. Xiao Bing, being an executive Director, and hence a connected person. Mr. Liao Kang, being an independent non-executive Director from 29 June 2016 to 30 August 2017, is a connected person.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 11 to 17 of this annual report.

PERMITTED INDEMNITY PROVISIONS

Appropriate insurance cover on Directors' and officers' liabilities has been provided by the Company to cover potential legal actions from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duties.

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint SHINEWING (HK) CPA Limited as auditor of the Company.

On behalf of the Board

Xiao Bing
Chairman

Xi'an, the PRC
22 March 2019

Independent Auditor's Report

For the year ended 31 December 2018

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

TO THE MEMBERS OF XI'AN HAITIANTIAN HOLDINGS CO., LTD.
西安海天天實業股份有限公司
(incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Xi'an Hiaitiantian Holdings Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 57 to 132, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter identified in our audit is summarised as follows:

- Going concern;
- Impairment assessment on intangible assets; and
- Impairment assessment on deposit paid for acquisition of leasehold land and buildings

KEY AUDIT MATTERS *(Continued)*

Going concern

Refer to note 2 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, that the Group incurred a loss attributable to owners of the Company of RMB41,080,398 for the year ended 31 December 2018 and as at 31 December 2018 the Group had net current liabilities of RMB2,981,065. The directors of the Company evaluated the Group's ability to continue as a going concern based upon an assessment of the financial resources available to the Group, including the financial support provided by shareholders of the Group and internally generated funds. In assessing the Group's ability to continue to operate as a going concern the directors prepared a cash flow forecast which required the exercise of significant management judgement, particularly in forecasting the Group's future revenue, operating expenses and capital expenditure. We have identified the going concern assessment as a key audit matter because of the involvement of a significant degree of judgements and estimates made by the management in preparing the cash flow forecast.	Our procedures were designed to review the reasonableness of judgements and estimations used by the management in assess the going concern assumption. We have evaluated the key assumptions used in the cash flow forecast, with reference to historical data, current business performance and future business plan. We have also challenged the appropriateness of the assumptions, judgements and estimations on going concern assumption. We have inspected supporting of cash received subsequently from shareholder and letters of financial support from shareholders and related parties and assessed the ability of shareholders and related parties to provide such financial support by inspecting available financial information. We have evaluated the disclosures in the consolidated financial statements in respect of going concern with reference to the requirements of the accounting standards.

KEY AUDIT MATTERS *(Continued)*

Impairment assessment on intangible assets

Refer to note 18 to the consolidated financial statements and the accounting policy on pages 77 to 78.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the carrying amount of the intangible assets, which represents the self-developed prototype of the unmanned aerial vehicles, were fully impaired. In view of the recurring loss in respect of the sales of unmanned aerial vehicles during the year ended 31 December 2018, the management had performed an impairment review by estimating the recoverable amount of the cash-generating unit (the "CGU") in which the intangible assets belonged to. For the purpose of impairment assessment, the recoverable amount of the CGU was determined based on value-in-use calculation using future discounted cash flow projection, which was prepared by the management. Base on the recoverable amount, the management concluded that full impair loss should be recognised for the intangible assets for the year ended 31 December 2018. We have identified the impairment assessment on intangible assets as a key audit matter because of the involvement of a significant degree of judgements and estimates made by the management in preparing the future discounted cash flows projection for the value-in-use calculation.	Our procedures were designed to review the management's assessment on the indication of possible impairment and the reasonableness of judgements and estimations used by the management to estimate the recoverable amount of the CGU. We have discussed the indication of possible impairment with the management and, where such indicators were identified by the management for the impairment assessment performed by the management. We have assessed management's identification of the CGU based on the Group's accounting policies and our understanding of the Group's business. We have also assessed the underlying data and assumptions used by the management in the value-in-use calculation and compared the future discounted cash flows projection with the actual results available up to the report date. We have also challenged the appropriateness of the assumptions, judgements and estimations used in the impairment assessment.

KEY AUDIT MATTERS *(Continued)*

Impairment assessment on deposit paid for acquisition of leasehold land and buildings

Refer to note 20 to the consolidated financial statements and the accounting policy on page 81.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the Group had carrying amount of deposit paid for acquisition of leasehold land and buildings of RMB18,546,000. In view of the delay in the transfer of land ownership during the year ended 31 December 2018, the management had performed impairment testing on the deposit paid for acquisition of leasehold land and buildings. The management has engaged independent valuer for the calculation of recoverable amount, being the fair value less cost of disposal, for impairment testing. No impairment loss has been recognised for the year ended 31 December 2018. We have identified the impairment assessment on the deposit paid for acquisition of leasehold land and buildings as a key audit matter because of its significance to the consolidated financial statements and the involvement of the estimates and judgements made by the management and the independent valuer.	Our procedures were designed to review the management's assessment on the indication of possible impairment and the reasonableness of the judgements and estimation used by the management and the independent valuer. We have discussed the indication of possible impairment with the management and where such indications were identified by the management, assessed the impairment testing performed by the management and the independent valuer. We have reviewed the valuation report conducted by the independent valuer for the fair value calculation as at 31 December 2018 and evaluated the independent valuer's competence, capabilities and objectivity and the assumption and data used in the fair value calculation. We have also challenged the appropriateness of the judgements and estimation used by the independent valuer for the fair value calculation. We have also reviewed the legal opinion from an independent lawyer that the transfer of the land ownership is still highly probable.

OTHER INFORMATION

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 OF THE COMPANY AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

- Conclude on the appropriateness of the Company's 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 year 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. Lee Shun Ming.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lee Shun Ming
Practising Certificate Number: P07068

Hong Kong
22 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	2018 RMB	2017 RMB
Revenue	8	**44,115,022**	59,925,087
Cost of sales		**(43,302,152)**	(59,777,605)
Gross profit		**812,870**	147,482
Other revenue	10	**747,799**	631,881
Change in fair value of financial assets at fair value through profit or loss ("FVTPL")/held for trading investments		**(8,773,966)**	5,132,378
Distribution expenses		**(420,995)**	(911,672)
Administrative expenses		**(22,202,700)**	(21,695,224)
Impairment loss recognised in respect of trade receivables	23	**–**	(73,201)
Impairment loss recognised in respect of other receivables	24	**(463,428)**	(121,642)
Impairment loss recognised in respect of intangible assets	18	**(5,291,506)**	–
Impairment loss recognised in respect of deposits paid for acquisition of non-current assets	20	**(2,145,299)**	–
Write-off of prepayments	24	**(3,576,091)**	(141,948)
Reversal of impairment loss recognised in respect of trade receivables	23	**516,278**	646,202
Reversal of impairment loss recognised in respect of other receivables	24	**223,246**	63,432
Reversal of impairment loss recognised in respect of prepayments	24	**100,000**	–
Finance costs	11	**–**	(444,969)
Share of result of an associate	19	**(481,752)**	–
Loss before tax		**(40,955,544)**	(16,767,281)
Income tax (expense) credit	12	**(12,051)**	13,282
Loss and total comprehensive expense for the year	13	**(40,967,595)**	(16,753,999)
Attributable to:			
– Owners of the Company		**(41,080,398)**	(16,682,356)
– Non-controlling interest		**112,803**	(71,643)
		(40,967,595)	(16,753,999)
Loss per share:			
– Basic and diluted (RMB cents)	16	**(2.68)**	(1.09)

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB	2017 RMB
Non-current assets			
Plant and equipment	17	**9,903,207**	11,908,193
Intangible assets	18	**–**	6,763,999
Interest in an associate	19	**1,018,248**	–
Deposits paid for acquisition of non-current assets	20	**18,546,000**	20,428,500
Prepayments	24	**225,790**	384,142
		29,693,245	39,484,834
Current assets			
Financial assets at FVTPL / held for trading investments	21	**16,357,613**	25,146,020
Inventories	22	**2,638,479**	2,051,965
Trade receivables	23	**937,317**	700,402
Deposits, other receivables and prepayments	24	**3,364,977**	6,232,513
Amounts due from related parties	25	**11,000**	230,000
Amounts due from a director and a supervisor	26	**805,812**	815,298
Bank balances and cash	27	**6,893,833**	14,811,124
		31,009,031	49,987,322
Current liabilities			
Trade payables	28	**7,858,713**	7,126,240
Other payables, accrued charges and deposits received	29	**9,010,565**	9,966,141
Contract liabilities	30	**20,818**	–
Amounts due to shareholders	31	**16,100,000**	4,700,000
Amounts due to related parties	31	**1,000,000**	–
		33,990,096	21,792,381
Net current (liabilities) assets		**(2,981,065)**	28,194,941
Net assets		**26,712,180**	67,679,775

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB	2017 RMB
Capital and reserves			
Share capital	32	**153,105,882**	153,105,882
Reserves	33	**(129,332,390)**	(88,251,992)
Equity attributable to owners of the Company		**23,773,492**	64,853,890
Non-controlling interest		**2,938,688**	2,825,885
Total equity		**26,712,180**	67,679,775

The consolidated financial statements on pages 57 to 132 were approved and authorised for issue by the board of directors on 22 March 2019 and are signed on its behalf by:

Mr. Xiao Bing
Director

Mr. Chen Ji
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company							
	Share capital *RMB*	Share premium *RMB*	Statutory surplus reserve *RMB* *(Note 33(a))*	Other Reserve *RMB* *(Note 33(c))*	Accumulated losses *RMB*	Sub-total *RMB*	Non-controlling interest *RMB*	Total *RMB*
At 1 January 2017	153,105,882	115,390,048	16,153,228	15,856,279	(218,969,191)	81,536,246	2,897,528	84,433,774
Loss and total comprehensive expense for the year	–	–	–	–	(16,682,356)	(16,682,356)	(71,643)	(16,753,999)
At 31 December 2017	153,105,882	115,390,048	16,153,228	15,856,279	(235,651,547)	64,853,890	2,825,885	67,679,775
Loss and total comprehensive expense for the year	–	–	–	–	(41,080,398)	(41,080,398)	112,803	(40,967,595)
At 31 December 2018	**153,105,882**	**115,390,048**	**16,153,228**	**15,856,279**	**(276,731,945)**	**23,773,492**	**2,938,688**	**26,712,180**

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB	2017 RMB
OPERATING ACTIVITIES		
Loss before tax	**(40,955,544)**	(16,767,281)
Adjustments for:		
Amortisation of intangible assets	**1,472,493**	613,539
Bank interest income	**(26,903)**	(50,410)
Depreciation of plant and equipment	**3,135,387**	2,552,543
Finance costs	**–**	444,969
Government grants received	**(33,000)**	(37,500)
Government grants amortised	**–**	(188,200)
Impairment loss recognised in respect of deposits paid for acquisition of non-current assets	**2,145,299**	–
Impairment loss recognised in respect of trade receivables	**–**	73,201
Impairment loss recognised in respect of other receivables	**463,428**	121,642
Loss on write-off of prepayments	**3,576,091**	141,948
Loss on write-off of plant and equipment	**32,572**	48,748
Reversal of impairment loss recognised in respect of trade receivables	**(516,278)**	(646,202)
Reversal of impairment loss recognised in respect of other receivables	**(223,246)**	(63,432)
Reversal of impairment loss recognised in respect of prepayments	**(100,000)**	–
Change in fair value of financial assets at FVTPL / held for trading investments	**8,773,966**	(5,132,378)
Waiver of trade payables	**(410,777)**	(94,987)
Waiver of other payables	**–**	(63,587)
Impairment loss recognised in respect of intangible assets	**5,291,506**	–
Allowance for inventories	**–**	765,023
Share of loss of an associate	**481,752**	–
Operating cash flows before movements in working capital	**(16,893,254)**	(18,282,364)
(Increase) decrease in inventories	**(586,514)**	25,707
Decrease in trade receivables	**279,363**	14,735,435
Decrease (increase) in financial assets at FVTPL / held for trading investments	**14,441**	(20,013,642)
Increase in deposits, other receivables and prepayments	**(953,184)**	(240,872)
Increase (decrease) in trade payables	**1,143,250**	(11,744,823)
Decrease in other payables, accrued charges and deposits received	**(711,576)**	(458,031)
Increase in contract liabilities	**(223,182)**	–
Cash used in operations	**(17,930,656)**	(35,978,590)
Income tax paid	**(12,051)**	(5,252)
NET CASH USED IN OPERATING ACTIVITIES	**(17,942,707)**	(35,983,842)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 *RMB*	2017 *RMB*
INVESTING ACTIVITIES		
Repayment from related parties	**219,000**	26,500,669
Repayment from a director and a supervisor	**9,486**	92,108
Interest received	**26,903**	50,410
Withdrawal of pledged bank deposit	**–**	5,100
Acquisition of investment in an associate	**(1,500,000)**	–
Purchase of plant and equipment	**(1,162,973)**	(6,399,492)
Payment for acquisition of intangible assets	**–**	(15,074)
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	**(2,407,584)**	20,233,721
FINANCING ACTIVITIES		
Advance from shareholders	**11,400,000**	4,700,000
Advance from related companies	**1,000,000**	–
Government grants received	**33,000**	37,500
Repayment of bank borrowings	**–**	(10,000,000)
Interest paid	**–**	(444,969)
Repayment from directors	**–**	(400)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	**12,433,000**	(5,707,869)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(7,917,291)**	(21,457,990)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**14,811,124**	36,269,114
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented bank balances and cash	**6,893,833**	14,811,124

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL

Xi'an Haitiantian Holdings Co., Ltd. (the "Company") is a joint stock limited company established in the People's Republic of China (the "PRC") and the H shares of the Company are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are research and development, manufacture and sale of base station antennas and related products, underwater and underground surveillance, imaging, mechanical equipment, and complicated environment warning and surveillance equipment, agricultural and forestry used unmanned aerial vehicles, provision of consultancy services and sales of agricultural products. Details of the principal activities of the subsidiaries of the Company are disclosed in note 39.

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

2. BASIS OF PREPARATION OF CONSOLIDATION FINANCIAL STATEMENTS

Notwithstanding that the Group incurred a loss attributable to owners of the Company of RMB41,080,398 for the year ended 31 December 2018 and as at 31 December 2018 the Group had net current liabilities of RMB2,981,065, the consolidated financial statements have been prepared on a going concern basis as the directors of the Company are satisfied that the liquidity of the Group can be maintained in the coming year taking into consideration of the following matters:

(i) The shareholders and related parties of the Group have undertaken not to demand the (i) repayment of the balances due from the Group totalling RMB16,100,000 and (ii) RMB1,000,000 as at 31 December 2018 within twelve months from the end of the reporting period and until the Group is in a financial position to do so; and

(ii) The Group subsequently received fund from shareholders with an amount of RMB40,000,000. The shareholders have undertaken not to demand the repayment of the whole amount until the Group is in a financial position to do so.

Accordingly, the directors of the Group are of the opinion that it is appropriate to prepare these consolidated financial statements for the year ended 31 December 2018 on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(S)")

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").

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

HKFRS 9 *Financial instruments*

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings as at 1 January 2018.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in Note 4 below.

(i) Classification and measurement of financial instruments

The directors of the Company reviewed and assessed the Group's existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of HKFRS 9 has had the following impact on the Group's financial assets and liabilities as regards their classification and measurement:

Debt instruments previously classified as loan and receivables carried at amortised cost:
Debt instruments amounting to RMB17,685,277 are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these instruments continue to be subsequently measured at amortised cost and were reclassified to financial assets at amortised cost upon application of HKFRS 9.

Equity investments previously classified as held for trading investments carried at fair value:
For held for trading equity investments amounting to RMB25,146,020, they continued to be measured at FVTPL.

(ii) Loss allowance for expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement HKFRS 9.

It is concluded that, as at 1 January 2018, no additional credit loss allowance has been recognised against retained earnings as the estimated allowance under the ECL model were not significantly different to the impairment losses previously recognised under HKAS 39.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

HKFRS 9 *Financial instruments* *(Continued)*

(iii) Summary of effects arising from initial application of HKFRS 9

The table below summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets and financial liabilities and reconciles the carrying amounts of financial assets and financial liabilities under HKAS 39 to the carrying amounts under HKFRS 9 on 1 January 2018.

	Carrying amount at 31 December 2017 (HKAS 39)	Adoption of HKFRS 9 – Reclassification	Carrying amount at 1 January 2018 (HKFRS 9)
	RMB	*RMB*	*RMB*
Financial assets			
Loan and receivable			
– Trade receivables	700,402	(700,402)	–
– Other receivables	1,128,453	(1,128,453)	–
– Amounts due from related parties	230,000	(230,000)	–
– Amounts due from a director and a supervisor	815,298	(815,298)	–
– Bank balances and cash	14,811,124	(14,811,124)	–
At amortised cost			
– Trade receivables	–	700,402	700,402
– Deposits and other receivables	–	1,128,453	1,128,453
– Amounts due from related parties	–	230,000	230,000
– Amounts due from a director and a supervisor	–	815,298	815,298
– Bank balances and cash	–	14,811,124	14,811,124
Financial assets at FVTPL/held for trading investments			
FVTPL			
– Trading securities	25,146,020	–	25,146,020

All the financial liabilities have not been impacted by the application of HKFRS 9 and continue to be classified and measured on the same basis as they were under HKAS 39.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue.

The Group's accounting policies for its revenue streams are disclosed in detail in Note 4 below.

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of HKFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

	Carrying amount previously reported at 31 December 2017	Impact on adoption of HKFRS 15 – Reclassification	Carrying amount as restated (before adoption of HKFRS 9) at 1 January 2018
	RMB	*RMB*	*RMB*
Other payables, accrued charges and deposits received *(note a)*	9,966,141	(244,000)	**9,722,141**
Contract liabilities *(note a)*	–	244,000	**244,000**

(a) Advances received from customers

The Group receives advances from customers in respect of sale of goods. Prior to the adoption of HKFRS 15, the Group presented these advances in other payables, accrued charges and deposits received in the consolidated statement of financial position. Upon adoption of HKFRS 15, the Group assessed whether there is a significant financing component for the contracts where the length of time between the customer's advance payment and the transfer of equipment to the customer is more than one year, taking into account the prevailing interest rate, and where appropriate adjusted the transaction price at contract inception. As such, at 1 January 2018, the "Receipt in advance" of RMB244,000 previously included in other payables, accrued charges and deposits received was reclassified to contract liabilities.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

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

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of applying HKFRS 15 on the consolidated statement of financial position at 31 December 2018, by comparing the amounts reported under HKAS 11, HKAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of HKFRS 15 did not have material impact on the Group's operating, investing and financing cash flows.

Impact on the consolidated statement of financial position at 31 December 2018

	As reported	Impact of adopting HKFRS 15	Amount adopting HKAS 18
	RMB	*RMB*	*RMB*
Other payables, accrued charges and deposit received	9,010,565	20,818	9,031,383
Contract liabilities	20,818	(20,818)	–

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(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 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2020.
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
4 Effective for annual periods beginning on or after 1 January 2021.
5 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 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.

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.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") *(Continued)*

HKFRS 16 *Leases* *(Continued)*

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.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB3,106,999 as disclosed in note 35. Out of this balance, an amount of RMB1,319,569 represents operating leases with original lease terms of over one year in which the Group will recognise right-of-use assets and corresponding lease liabilities unless they are exempt from the reporting obligations under HKFRS 16. The directors of the Company expect that, apart from the changes in the measurement, presentation and disclosure as indicated above, the adoption of HKFRS 16 will not have other material impact on amounts in the Group's consolidated financial statements.

4. 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 GEM of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on historical cost basis except for held for trading investments that are measured at 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Group (i.e. its subsidiaries).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

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

Income and expenses of subsidiaries 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.

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

Investments in an associate

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

The Group's investments in an associate is accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in an associate is initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associate is recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15)

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

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

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service that is district or a series of distinct goods or services that are substantially same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates and enhances an asset that the customer controls as the asset is created and enhanced; or
- The Group' performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Policy applicable to the year ended 31 December 2018 (with application of HKFRS 15) *(Continued)*

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group recognised revenue from the following major sources:

- sales of goods;
- rental income;
- interest income.

Sales of goods

Revenue from sale of goods is recognised at the point when the control of the good is transferred to the customers generally when the goods delivered and titles have passed, which is the point in time when the customer has the ability to direct the use of the good and obtain substantially all of the remaining benefits of the good.

The group is acting as a principal in the business it obtains control of the construction related products sold before they are transferred to customers. If the control is unclear, when the Group iss primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, gross amount of the sales and costs of sales of these indent sale transactions are recorded. In determining whether the Group is acting as a principal or as an agent, management is required to exercise significant judgement and to consider all relevant facts and circumstances of the business.

Policy applicable to the year ended 31 December 2017

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.

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;

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Policy applicable to the year ended 31 December 2017 *(Continued)*

- 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.

Service income is recognised when services are provided.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

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 from a financial asset 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.

Leasing

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

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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 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.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income under other payables and accrued charges in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

Retirement benefits

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

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related services is rendered at the undiscounted amount of 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.

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 "loss 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 base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Current and deferred tax are recognised in profit or loss.

Plant and equipment

Plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

Construction in progress for production, supply or administrative purposes is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such construction in progress is classified to the appropriate categories of 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 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets – research and development expenditure

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

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

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

Subsequent to initial recognition, internally-generated intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

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

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (the "CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of the CGU for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets *(Continued)*

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

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

Inventories

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

Cash and cash equivalents

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018)

Financial assets

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.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the 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.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and 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.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), 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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) *(Continued)*

(i) Amortised cost and effective interest method *(Continued)*

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) *(Continued)*

(i) Amortised cost and effective interest method *(Continued)*

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the change in fair value of financial assets at FVTPL. Fair value is determined in the manner described in note 7(c).

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated on individual basis for significant balances or collectively by using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 30 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 5 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

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.

Equity instruments

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

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

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Financial instruments *(Continued)*

Under HKFRS 9 (applicable on or after 1 January 2018) *(Continued)*

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the 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 amortised cost of a financial liability.

Under HKAS 39 (applicable before 1 January 2018)

Financial assets

The Group's financial assets are classified either into financial assets at FVTPL and loans and receivables. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Under HKAS 39 (applicable before 1 January 2018) *(Continued)*

Financial assets

Financial assets at FVTPL

Financial assets at FVTPL represents held for trading investments.

A financial asset is classified as held for trading if:

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

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. Fair value is determined in the manner as described in note 7(c).

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 receivables, deposits and other receivables, amounts due from related parties, amounts due from a director and supervisor, pledged bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired 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 all other financial assets other than financial assets at FVTPL, 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.

For certain categories of financial assets, such as trade receivables 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 range of credit period of 5 days to 240 days, observable changes in national or local economic conditions that correlate with default on receivables.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Under HKAS 39 (applicable before 1 January 2018) *(Continued)*

Financial assets *(Continued)*

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 receivables, deposits and other receivables, amounts due from related parties, a director and supervisor, 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 a trade receivable, deposit and other receivable, amount due from a related party, director or supervisor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment 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.

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.

Other financial liabilities

Other financial liabilities including trade payables, other payables, accrued charges and deposits received, amounts due to directors or shareholders and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Under HKAS 39 (applicable before 1 January 2018) *(Continued)*

Derecognition

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

On derecognition of a financial asset entirely, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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

Fair value measurement

When measuring fair value except for the Group's net realisable value of inventories and value-in-use of plant and equipment and intangible assets 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.

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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets and 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 on-going 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 judgements in applying accounting policies

The followings 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 discloses made in the consolidated financial statements.

Material litigation

As detailed in note 40, the Group has been exposed to certain litigation as at 31 December 2018. Based on the opinion of the independent legal adviser of the Company, the directors of the Company consider that no potential liability should be made in the consolidated financial statements.

Determining whether the Group is acting as a principal or as an agent in sales of construction related products

Management of the Group considered that the Group is acting as a principal in this business because it obtains control of the construction related products sold before they are transferred to customers. If the control is unclear, when the Group is primarily obligated in a transaction, is subject to inventory risk, has latitude in establishing prices and selecting suppliers, or has several but not all of these indicators, gross amount of the sales and cost of sales of these indent sale transactions are recorded. In determining whether the Group is acting as a principal or as an agent, management is required to exercise significant judgment and to consider all relevant facts and circumstances of the business.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The followings 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.

Depreciation and useful lives of plant and equipment

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the period and the estimate will be changed in the future period.

Estimated impairment of plant and equipment

Plant and equipment is tested for impairment if there is any indication that the carrying value of plant and equipment may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the higher of value-in-use and fair value less cost of disposal. The value-in-use calculation requires the directors of the Company to estimate the future cash flows expected to arise from the relevant CGU and a suitable discount rate is used in order to calculate the present value.

As at 31 December 2018, the carrying amount of plant and equipment of the Group was RMB9,903,207 (2017: RMB11,908,193). No Impairment has been made during the year ended 31 December 2018 (2017: nil).

Amortisation and useful lives of intangible assets

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involve management's estimation. The Group assesses annually the useful lives of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation in the period and the estimate will be changed in the future period.

Estimated impairment of intangible assets

Intangible assets are tested for impairment if there is any indication that the carrying value of intangible assets may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the higher of value-in-use and fair value less cost of disposal. The value-in-use calculation requires the directors of the Company to estimate the future cash flows expected to arise from the relevant CGU and a suitable discount rate is used in order to calculate the present value.

As at 31 December 2018, the carrying amount of intangible assets has been fully impaired. Impairment loss of RMB5,291,506 (2017: nil) has been made during the year ended 31 December 2018.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Allowance for inventories

The management of the Group reviews an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items that are identified as not suitable for sales. The management reviews the inventory ageing list on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with respective net realisable value. In addition, the Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items.

As at 31 December 2018, the carrying amount of inventories was RMB2,638,479 (2017: RMB2,051,965). No allowance for inventories has been recognised during the year ended 31 December 2018 and included in the cost of sales (2017: RMB765,023).

Estimated impairment of trade receivables, deposits, other receivables and amounts due from related parties

The policy for making impairment loss on trade receivables, deposits, other receivables and amounts due from related parties is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to each debtor, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Amounts due from related parties are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience of repayment and other factors. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

As at 31 December 2018, the carrying amount of the trade receivables was RMB937,317 (2017: RMB700,402), net of accumulated impairment loss of RMB50,804,063 (2017: RMB52,260,341). No impairment loss in respect of trade receivables has been recognised for the year ended 31 December 2018 (2017: RMB73,201).

As at 31 December 2018, the carrying amount of the deposits and other receivables was RMB1,679,577 (2017: RMB1,128,453), net of accumulated impairment loss of RMB1,853,374 (2017: RMB1,613,192). Impairment loss in respect of other receivables of RMB463,428 (2017: RMB121,642) has been recognised for the year ended 31 December 2018.

As at 31 December 2018, the carrying amount of amounts due from related parties was RMB805,812 (2017: RMB815,298). No impairment has been recognised for the year ended 31 December 2018 (2017: nil).

Income taxes

As at 31 December 2018, no deferred tax asset (2017: RMB1,283,095) in relation to unused has been recognised. No deferred tax asset has been recognised for (i) the remaining unused tax losses of RMB123,780,400 (2017: RMB93,358,906) due to the unpredictability of future profits streams; and (ii) deductible temporary differences of RMB82,123,965 (2017: RMB70,969,468) as the directors of the Company considered that it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised. The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to members 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 shareholders (note 31), amounts due to related parties (note 31), 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 semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018	2017
	RMB	*RMB*
Financial assets		
Financial assets at amortised cost/loan and receivables (including cash and cash equivalents)	**10,327,539**	17,685,277
Financial assets mandatorily measured at FVTPL/held for trading	**16,357,613**	25,146,020
	26,685,152	42,831,297
Financial liabilities		
Financial liabilities at amortised cost	**33,969,278**	21,548,381

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL/held for trading investments, trade receivables, deposits and other receivables, amounts due from related parties, amounts due from a director and supervisor, pledged bank deposit, bank balances and cash, trade payables, other payables, accrued charges and deposits received, amounts due to shareholders, amounts due to related parties. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk

(i) Foreign currency risk

The subsidiaries of the Group mainly operated in their local jurisdictions with most of the transactions settled in their functional currencies of the operations. However, at 31 December 2018 and 2017, the majority of bank balances of the Group are denominated in currencies other than functional currencies of the respective group entities which expose the Group to foreign currency risk. The Group did not have any foreign currency hedging policy as at the end of the reporting period. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	Assets	
	2018	2017
	RMB	*RMB*
Australian dollars ("AU$")	**3,042**	7,654
Hong Kong dollars ("HK$")	**1,532,363**	8,067,701
US$	**288,892**	286,496

Sensitivity analysis

The Group's currency risk is mainly exposed to AU$, HK$ and US$ during the years ended 31 December 2018 and 2017.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in RMB against AU$, US$ and HK$5% (2017: 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% (2017: 5%) change in foreign currency rates.

A positive number below indicates an increase in post-tax loss for the year where RMB strengthen 5% (2017: 5%) against the relevant currency. For a 5% (2017: 5%), weakening of RMB against the relevant currency, there would be an equal and opposite impact on the loss after tax and the balance below would be negative.

	AU$ impact		HK$ impact		US$ impact	
	2018	2017	**2018**	2017	**2018**	2017
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
Loss after tax	**152**	383	**76,618**	403,385	**14,445**	14,325

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate pledged bank deposit and bank balances (note 27). The Group currently does not have an interest rate hedging policy. However, the management monitors the interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

As all the Group's bank balances were short-term in nature, any changes in the interest rate from time to time is not considered to have significant impact to the Group's performance and no sensitivity analysis has been presented.

(iii) Other price risk

The Group is exposed to equity price risk through its financial assets at FVTPL in listed equity securities. The Group did not have any policy to manage the price risk. Instead, the directors of the Company monitor the equity price risk regularly by reviewing the share prices and consider hedging significant price risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period.

If the prices of respective equity instruments had been 10% (2017: 10%) higher/lower, the post-tax loss for the year ended 31 December 2018 would decrease/increase by RMB1,635,761 (2017: RMB2,514,602).

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arisen from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for the 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 debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Starting from 1 January 2018, for trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an individual basis for significant balances or collectively by using provision matrix based on Group's historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other non-trade related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

For amounts due from related parties, a director and supervisor are continuously monitored by assessing the credit quality of the counterparty, taking into account its financial position, past experience of repayment and other factors. Where necessary, impairment loss is made for estimated irrecoverable amounts. As at 31 December 2018 and 2017, the Group does not expect to incur a significant loss for uncollectable amounts due from these parties since it is either subsequently settled or utilised.

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

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase the Group compares the risk of a default occurring on the asset as at the reporting date with the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations

7. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Credit risk *(Continued)*

- actual or expected significant changes in the operating results of the debtor
- significant changes in the value of the collateral supporting the obligation or in the quality of third-art guarantees or credit enhancements
- significant increase in credit risk on other financial instruments of the debtor
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the Group and changes in the operating results of the debtor.

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	**Description**	**Basis for recognising ECL**
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written-off

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The Group's exposure to credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

31/12/2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL	Gross carrying amount *RMB*	Loss allowance *RMB*	Net carrying amount *RMB*
Trade receivables							
– individually assessed	23	N/A	Default	Lifetime ECL (Simplified approach)	50,804,063	(50,804,063)	–
– collectively assessed	23	N/A	N/A	Lifetime ECL (Simplified approach)	937,317	–	937,317
Deposits	24	N/A	Performing	12-month ECL	385,884	–	385,884
Other receivables							
– individually assessed	24	N/A	Default	Lifetime ECL	1,853,374	(1,853,374)	–
– collectively assessed	24	N/A	Performing	12-month ECL	1,293,693	–	1,293,693
Amounts due from related parties	25	N/A	Performing	12-month ECL	11,000	–	11,000
Amounts due from a director and a supervisor	26	N/A	Performing	12-month ECL	805,812	–	805,812
						(52,657,437)	

The Group has concentration of credit risk as 43% (2017: 33%) and 98% (2017: 76%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the sales of construction related products segment.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 100% (2017: 74%) of the total trade receivables as at 31 December 2018.

The directors are of the opinion that the credit risk of trade receivables and other receivables excluding significant doubtful balance is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss of the trade receivables and other receivables excluding significant doubtful balance is assessed to be close to zero and no provision was made as of 31 December 2018.

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 bank borrowings.

The Company's contractual maturity for all its financial liabilities and the undiscounted cash flows of financial liabilities are within one year or on demand as at 31 December 2018 and 2017.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and includes both interest and principal cash flows. The tables have 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.

7. **FINANCIAL INSTRUMENTS** *(Continued)*

(b) **Financial risk management objectives and policies** *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables

At 31 December 2018

	On demand or within one year and total undiscounted cash flows	Carrying amount
	RMB	*RMB*
Non-derivative financial liabilities		
Trade payables	7,858,713	7,858,713
Other payables, accrued charges and deposits received	9,010,565	9,010,565
Amounts due to related parties	1,000,000	1,000,000
Amounts due to shareholders	16,100,000	16,100,000
	33,969,278	33,969,278

At 31 December 2017

	On demand or within one year and total undiscounted cash flows	Carrying amount
	RMB	*RMB*
Non-derivative financial liabilities		
Trade payables	7,126,240	7,126,240
Other payables, accrued charges and deposits received	9,722,141	9,722,141
Amounts due to shareholders	4,700,000	4,700,000
	21,548,381	21,548,381

7. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurement for financial assets that are measured at fair value on a recurring basis

At 31 December 2018, financial assets that are measured at fair value at the end of the reporting period are held for trading investments of RMB16,357,613 (2017: RMB25,146,020) which are classified as financial assets at FVTPL and the fair value measurement was grouped into Level 1 based on the degree to which the fair value is observable in accordance with the Group's accounting policy.

There was no transfer between levels of fair value hierarchy in the current year.

The valuation technique and input used in the fair value measurement of the financial assets on a recurring basis are set out below:

Financial instruments	Fair value as at 2018 RMB	2017 RMB	Fair value hierarchy	Valuation technique and key inputs
Listed equity securities classified as financial assets at FVTPL/held for trading investments	**16,357,613**	25,146,020	Level 1	Quoted bid prices in an active market

(d) Fair value measurement for financial instruments that are not measured at fair value on a recurring basis

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

8. REVENUE

Revenue represents revenue arising on sale of goods for the year. An analysis of the Group's revenue for the year is as follows:

	2018 RMB	2017* RMB
Sales of goods		
Antennas products	**899,354**	971,805
Underwater surveillance and related products	**78,217**	257,809
Unmanned aerial products	**894,544**	1,187,693
Construction related products	**37,565,582**	56,713,620
Agricultural products	**4,677,325**	794,160
	44,115,022	59,925,087

* The amounts for the year ended 31 December 2017 were recognised under HKAS 18.

8. REVENUE *(Continued)*

Disaggregation of the Group's revenue by timing of recognition

	2018
	RMB
At a point in time	**44,115,022**

9. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker (the "CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The directors of the Company have chosen to organise the Group around differences in products and services.

Specifically the Group's reportable segments are as follows:

– Sales of antennas products and related services;

– Sales of underwater surveillance and related products;

– Sales of unmanned aerial products;

– Sales of construction related products; and

– Sales of agricultural products

In 2018, the CODM resolved to cease the provision of legal and investment advisory services. There were no segment revenue, segment result, segment assets or liabilities attributable to this segment since 1 January 2017 and accordingly the cessation of such segment had no significant impact to the Group and no segment information is presented.

The Group's sales of agricultural products was newly introduced for reportable segment for the year ended 31 December 2018 as the business has met the quantitative threshold and the CODM believe that the information of would be useful to the users of the financial statements.

9. SEGMENT INFORMATION *(Continued)*

Segment revenues and results

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

For the year ended 31 December 2018

	Sales of antennas products and related services *RMB*	Sales of underwater surveillance and related products *RMB*	Sales of unmanned aerial products *RMB*	Sales of construction related products *RMB*	Sales of agricultural products *RMB*	Total *RMB*
REVENUE						
External sales	899,354	78,217	894,544	37,565,582	4,677,325	44,115,022
Segment profit (loss)	(27,624)	(107,631)	(12,264,274)	78,318	204,272	(12,116,939)
Unallocated other revenue						627,267
Change in fair value of financial assets at FVTPL						(8,773,966)
Unallocated corporate expenses						(20,691,906)
Finance costs						–
Loss before tax						(40,955,544)

For the year ended 31 December 2017

	Sales of antennas products and related services *RMB*	Sales of underwater surveillance and related products *RMB*	Sales of unmanned aerial products *RMB*	Sales of construction related products *RMB*	Sales of agricultural products (restated) *RMB*	Total *RMB*
REVENUE						
External sales	971,805	257,809	1,187,693	56,713,620	794,160	59,925,087
Segment profit (loss)	760,750	(856,454)	(2,561,433)	(165,311)	(8,194)	(2,830,642)
Unallocated other revenue						247,607
Change in fair value of held for trading investments						5,132,378
Unallocated corporate expenses						(18,871,655)
Finance costs						(444,969)
Loss before tax						(16,767,281)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administration costs, directors' emoluments, certain other revenue, unrealised gain on fair value changes of held for trading investments and finance costs. This is the measure reported to the CODM of the Company for the purposes of the resource allocation and performance assessment.

9. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

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

Segment assets

	2018 *RMB*	2017 *RMB*
Sales of antennas products and related services	5,600,410	1,751,629
Sales of underwater surveillance and related products	799,033	838,232
Sales of unmanned aerial products	21,661,333	39,656,355
Sales of construction related products	1,258,518	1,509,238
Sales of agricultural products	4,140,456	3,067,943
Total segment assets	33,459,750	46,823,397
Unallocated assets	27,242,526	42,648,759
Consolidated total assets	60,702,276	89,472,156

Segment liabilities

	2018 *RMB*	2017 *RMB*
Sales of antennas products and related services	14,136,892	8,574,819
Sales of underwater surveillance and related products	62,069	306,069
Sales of unmanned aerial products	224,657	7,767,230
Sales of construction related products	1,567,330	112,227
Sales of agricultural products	88,511	73,736
Total segment liabilities	16,079,459	16,834,081
Unallocated	17,910,637	4,958,300
Consolidated total liabilities	33,990,096	21,792,381

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

– all assets are allocated to operating segments other than financial assets at FVTPL/held for trading investments, certain amounts due from related parties, pledged bank deposit, bank balances and cash and certain corporate assets. Assets used jointly by operating segments are allocated on the basis of the revenues earned by individual reportable segments; and

– all liabilities are allocated to operating segments other than tax payable, amounts due to shareholders and related parties and certain unallocated head office liabilities. Liabilities for which operating segments are jointly liable are allocated in proportion to segment asset.

9. SEGMENT INFORMATION *(Continued)*

Other segment information

For the year ended 31 December 2018

	Sales of antennas products and related services *RMB*	Sales of underwater surveillance and related products *RMB*	Sales of unmanned aerial products *RMB*	Sales of construction related products *RMB*	Sales of agricultural products *RMB*	Unallocated *RMB*	Total *RMB*
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets	1,522,895	–	–	–	1,140,078	–	2,662,973
Depreciation of plant and equipment	1,938,700	31,410	6,563	–	271,993	886,721	3,135,387
Amortisation of intangible assets	–	–	1,472,493	–	–	–	1,472,493
Impairment loss recognised in respect of other receivables	463,428	–	–	–	–	–	463,428
Impairment loss recognised in respect of intangible assets	–	–	5,291,506	–	–	–	5,291,506
Impairment loss recognised in respect of deposit paid for acquisition of non-current assets	–	–	2,145,299	–	–	–	2,145,299
Loss on write-off of plant and equipment	–	–	–	–	14,612	17,960	32,572
Write-off of prepayments	–	–	3,576,091	–	–	–	3,576,091
Reversal of impairment loss recognised in respect of trade receivables	(516,278)	–	–	–	–	–	(516,278)
Reversal of impairment loss recognised in respect of other receivables	–	–	–	–	–	(223,246)	(223,246)
Reversal of impairment loss recognised in respect of prepayments	–	–	–	–	–	(100,000)	(100,000)
Government grants and government grants amortised	(33,000)	–	–	–	–	–	(33,000)
Waiver of trade payables	(377,754)	–	(27,500)	–	(5,523)	–	(410,777)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:							
Bank interest income	–	–	–	–	–	(26,903)	(26,903)
Income tax expense	–	–	–	12,051	–	–	12,051
Change in fair value of financial assets at FVTPL	–	–	–	–	–	8,773,966	8,773,966

9. SEGMENT INFORMATION *(Continued)*

Other segment information *(Continued)*

For the year ended 31 December 2017

	Sales of antennas products and related services *RMB*	Sales of underwater surveillance and related products *RMB*	Sales of unmanned aerial products *RMB*	Sales of construction related products *RMB*	Sales of agricultural products (restated) *RMB*	Unallocated *RMB*	Total *RMB*
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets	–	3,884	1,203,196	111,564	2,408,965	2,686,957	6,414,566
Depreciation of plant and equipment	8,699	35,847	1,788,426	315,338	12,972	391,261	2,552,543
Amortisation of intangible assets	–	–	613,539	–	–	–	613,539
Impairment losses recognised in respect of trade receivables	–	73,201	–	–	–	–	73,201
Impairment loss recognised in respect of other receivables and prepayments	232,390	31,200	–	–	–	–	263,590
Allowance for inventories	19,303	678,731	66,989	–	–	–	765,023
Loss on write-off of plant and equipment	48,748	–	–	–	–	–	48,748
Reversal of impairment loss recognised in respect of trade receivables	(646,202)	–	–	–	–	–	(646,202)
Reversal of impairment loss recognised in respect of other receivables and prepayments	(63,432)	–	–	–	–	–	(63,432)
Government grants and government grants amortised	(225,700)	–	–	–	–	–	(225,700)
Waiver of trade payables	(94,987)	–	–	–	–	–	(94,987)
Waiver of other payables	(63,587)	–	–	–	–	–	(63,587)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:							
Bank interest income	–	–	–	–	–	(50,410)	(50,410)
Finance costs	–	–	–	–	–	444,969	444,969
Income tax expense (credit)	–	–	–	–	5,252	(18,534)	(13,282)
Unrealised gain on fair value changes of held for trading investments	–	–	–	–	–	(5,132,378)	(5,132,378)

9. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group's operations are located in the PRC and other Asian countries excluding the PRC.

Information about the Group's revenue from external customers is presented based on the location of the operations and information about its non-current assets is presented based on the geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2018	2017	**2018**	2017
	RMB	*RMB*	***RMB***	*RMB*
The PRC (country of domicile)	**44,115,022**	59,925,087	**28,525,587**	37,603,072
Other Asian countries excluding the PRC	**–**	–	**1,167,658**	1,881,762
	44,115,022	59,925,087	**29,693,245**	39,484,834

Information about major customers

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

	2018	2017
	RMB	*RMB*
Customer A	**N/A**	33,144,524
Customer B	**N/A**	7,780,336
Customer C	**20,926,873**	N/A
Customer D	**8,786,773**	N/A
Customer E	**5,248,499**	N/A

1 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

For the years ended 31 December 2018, segment revenue generated from the above customers contributing over 10% of the total revenue relates to the sales of construction related products (2017: sales of construction related products) segment.

10. OTHER REVENUE

	2018 RMB	2017 RMB
Bank interest income	26,903	50,410
Government grants *(note (i))*	33,000	37,500
Government grants amortised	–	188,200
Net exchange gain	68,153	–
Rental income	193,714	193,714
Sales of scrap materials	9,114	–
Waiver of trade payables *(note (ii))*	410,777	94,987
Waiver of other payables	–	63,587
Others	6,138	3,483
	747,799	631,881

Notes:

(i) Government grants during the years ended 31 December 2018 and 2017 were received from several local government authorities for the Group's contribution to local economies, of which there are no unfulfilled conditions or contingencies relating to those grants and recognised upon receipts.

(ii) During the year ended 31 December 2018, five (2017: one) suppliers have agreed to waive certain trade payables.

11. FINANCE COSTS

	2018 RMB	2017 RMB
Interests on bank borrowings	–	444,969

12. INCOME TAX EXPENSE(CREDIT)

	2018 RMB	2017 RMB
Current tax:		
PRC Enterprise Income Tax	**12,051**	5,252
Over-provision in prior years:		
Hong Kong	**–**	(18,534)
	12,051	(13,282)

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2018 and 2017 as there were no assessable profits for both years.

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 Company and the PRC subsidiaries is 25% for both years.

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

	2018 RMB	2017 RMB
Loss before tax	**(40,955,544)**	(16,767,281)
Tax at the domestic income tax rate of 25% (2017: 25%)	**(10,238,886)**	(4,191,820)
Tax effect of expenses not deductible for tax purpose	**910,181**	770,886
Tax effect of income not taxable for tax purpose	**–**	(18,489)
Tax effect of unused tax losses not recognised	**6,383,716**	4,350,152
Tax effect of utilisation of unused tax losses not recognised	**–**	(1,283,095)
Tax effect of deductible temporary differences not recognised	**2,788,624**	275,453
Tax effect of utilisation of deductible temporary difference not recognised	**(212,365)**	(177,408)
Effect of different tax rate of a subsidiary operating in other jurisdiction	**380,781**	279,573
Over-provision in prior years	**–**	(18,534)
Income tax expense (credit)	**12,051**	(13,282)

13. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging (crediting):

	2018 RMB	2017 RMB
Depreciation of plant and equipment	3,135,387	2,552,543
Amortisation of intangible assets	1,472,493	613,539
Auditor's remuneration	620,000	600,000
Staff costs:		
– Directors' and supervisors' emoluments *(note 14)*	2,175,116	2,575,674
– Salaries, wages and allowances	6,723,954	5,195,238
– Retirement benefit scheme contributions (excluding directors and supervisors)	1,085,068	884,294
Total staff costs	9,984,138	8,655,206
Loss on write-off of plant and equipment	32,572	48,748
Amount of inventories recognised as an expense	43,302,152	59,012,582
Allowance for inventories (included in cost of sales)	–	765,023
Exchange (gain) loss, net	(68,153)	668,224
Minimum lease payments paid under operating leases rentals in respect of rented office premises	1,413,785	1,004,189
Research and development costs recognised as an expense *(note)*	751,825	613,496

Note: Included in research and development costs were staff costs and depreciation of plant and equipment of RMB530,298 (2017: RMB563,514) and RMB56,732 (2017: RMB21,004) respectively.

14. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Directors' emoluments

The emoluments paid or payable to each of the twelve (2017: twelve) directors of the Company were as follows:

	Fees		Salaries and allowances		Retirement benefit scheme contributions		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
Executive directors								
Xiao Bing	**–**	–	**383,491**	487,891	**60,123**	49,665	**443,614**	537,556
Chen Ji	**–**	295,000	**561,942**	279,513	**21,008**	13,965	**582,950**	588,478
Non-executive directors								
Li Wenqi	**6,000**	6,000	**–**	–	**–**	–	**6,000**	6,000
Sun Wenguo	**6,000**	6,000	**–**	–	**–**	–	**6,000**	6,000
Huang Jing	**231,503**	324,000	**–**	–	**3,343**	–	**234,846**	324,000
Yan Weimin	**6,000**	6,000	**–**	–	**–**	–	**6,000**	6,000
Zuo Hong	**363,270**	363,280	**–**	–	**32,290**	32,366	**395,560**	395,646
Independent non-executive directors								
Shi Ping	**12,000**	12,000	**–**	–	**–**	–	**12,000**	12,000
Tu Jijun	**12,000**	12,000	**–**	–	**–**	–	**12,000**	12,000
Zhang Jun	**12,000**	12,000	**–**	–	**–**	–	**12,000**	12,000
Dr. Lam Lee G (appointed on 15 September 2017 and resigned on 23 July 2018)	**7,000**	4,000	**–**	–	**–**	–	**7,000**	4,000
Professor Lei Zhenya (appointed on 19 October 2018)	**2,000**	–	**–**	–	**–**	–	**2,000**	–
Liao Kang (resigned on 30 August 2017)	**–**	9,000	**–**	–	**–**	–	**–**	9,000
	657,773	1,049,280	**945,433**	767,404	**116,764**	95,996	**1,719,970**	1,912,680

14. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(Continued)*

Directors' emoluments *(Continued)*

The amounts disclosed above represent emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiaries undertakings.

No chief executive has been appointed by the Company during the years ended 31 December 2018 and 2017.

No directors waived or agreed to waive any emoluments for both years.

Supervisors' emoluments

The emoluments paid or payable to each of the six (2017: five) supervisors of the Company were as follows:

	Fees		Salaries and allowances		Retirement benefit scheme contributions		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
Supervisors								
Wang Xiaokun	**12,000**	12,000	**–**	–	**–**	–	**12,000**	12,000
Zhang Yi	**12,000**	12,000	**–**	–	**–**	–	**12,000**	12,000
Li Tianzuo	**–**	–	**192,820**	194,160	**24,864**	24,940	**217,684**	219,100
Shen Hongxiu	**–**	–	**162,000**	324,000	**45,462**	89,894	**207,462**	413,894
Yan Feng (resigned on 7 May 2018)	**3,000**	6,000	**–**	–	**–**	–	**3,000**	6,000
Shang Lijian (appointed on 29 June 2018)	**3,000**	–	**–**	–	**–**	–	**3,000**	–
Total	**30,000**	30,000	**354,820**	518,160	**70,326**	114,834	**455,146**	662,994

No emoluments have been paid by the Group to the directors or supervisors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office in any of the two years ended 31 December 2018 and 2017.

14. DIRECTORS' AND SUPERVISORS' EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(Continued)*

Five highest paid employees

Of the five individuals with the highest emoluments in the Group, three (2017: three) were directors and supervisors of the Company whose emoluments are included in the disclosures as above. The emoluments of the remaining two (2017: two) individuals were as follows:

	2018 *RMB*	2017 *RMB*
Salaries and allowances	**1,092,669**	901,730
Retirement benefit scheme contributions	**57,352**	47,896
	1,150,021	949,626

Their emoluments were within the following band:

	2018 Number of employees	2017 Number of employees
Nil to HK$1,000,000 (equivalent to RMB843,000 (2017: equivalent to RMB870,000))	**2**	2

Senior management's remuneration

Other than the emoluments of directors, supervisors and the remaining two individuals with the highest emoluments in the Group disclosed above, the emoluments of the senior management whose profiles are set out in the section headed "Directors, Supervisors and Senior Management" of the annual report fell within the following band:

	2018 Number of employees	2017 Number of employees
Nil to HK$1,000,000 (equivalent to RMB843,000 (2017: equivalent to RMB870,000))	**2**	2

No emoluments have been paid by the Group to the five individuals with highest emoluments and senior management in the Group as an inducement to join or upon joining the Group, or as compensation for loss of office in any of the years ended 31 December 2018 and 2017.

15. DIVIDENDS

No dividend was paid or proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: nil).

16. LOSS PER SHARE

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of RMB41,080,398 (2017: RMB16,682,356) and the weighted average number of 1,531,058,824 (2017: 1,531,058,824) shares in issue during the year.

The diluted loss per share is equal to the basic loss per share as calculated above since the Company does not have any potential shares outstanding for the years ended 31 December 2018 and 2017.

17. PLANT AND EQUIPMENT

	Motor vehicles	Plant and machinery	Furniture, fixtures and equipment	Leasehold improvement	Construction in progress	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
COST						
At 1 January 2017	2,016,316	4,903,228	3,483,382	4,924,111	1,521,436	16,848,473
Additions	1,143,220	3,884	605,782	2,250,612	2,395,994	6,399,492
Write-off	–	(240,077)	(779,447)	–	–	(1,019,524)
Transfers	–	102,632	–	–	(102,632)	–
At 31 December 2017	3,159,536	4,769,667	3,309,717	7,174,723	3,814,798	22,228,441
Additions	–	14,663	60,688	–	1,087,622	1,162,973
Write-offs	–	–	(17,960)	–	(14,612)	(32,572)
Transfers	–	4,787,808	–	–	(4,787,808)	–
At 31 December 2018	3,159,536	9,572,138	3,352,445	7,174,723	100,000	23,358,842

17. PLANT AND EQUIPMENT *(Continued)*

	Motor vehicles *RMB*	Plant and machinery *RMB*	Furniture, fixtures and equipment *RMB*	Leasehold improvement *RMB*	Construction in progress *RMB*	Total *RMB*
ACCUMULATED DEPRECIATION						
At 1 January 2017	199,482	4,740,021	2,886,284	912,694	–	8,738,481
Provided for the year	552,066	122,547	243,017	1,634,913	–	2,552,543
Eliminated on write-off	–	(239,372)	(731,404)	–	–	(970,776)
At 31 December 2017	751,548	4,623,196	2,397,897	2,547,607	–	10,320,248
Provided for the year	620,269	604,799	249,668	1,660,651	–	3,135,387
At 31 December 2018	1,371,817	5,227,995	2,647,565	4,208,258	–	13,455,635
CARRYING VALUES						
At 31 December 2018	1,787,719	4,344,143	704,880	2,966,465	100,000	9,903,207
At 31 December 2017	2,407,988	146,471	911,820	4,627,116	3,814,798	11,908,193

The above items of plant and equipment, except for construction in progress, are depreciated on a straight-line basis, after taking into account their estimated residual values, over their estimated useful lives as follows:

Motor vehicles	3 – 5 years
Plant and machinery	3 – 10 years
Furniture, fixtures and equipment	3 – 5 years
Leasehold improvement	Over the shorter of the term of the lease, or 3 to 5 years

18. INTANGIBLE ASSETS

	Development costs *RMB*	Technical know-how *RMB*	Development in progress *RMB*	Self-developed prototype *RMB*	Total *RMB*
COST					
At 1 January 2017	62,385,900	10,000,000	7,362,464	–	79,748,364
Additions	–	–	15,074	–	15,074
Transfer	–	–	(7,377,538)	7,377,538	–
At 31 December 2017 and at 31 December 2018	62,385,900	10,000,000	–	7,377,538	79,763,438
ACCUMULATED AMORTISATION AND IMPAIRMENT					
At 1 January 2017	62,385,900	10,000,000	–	–	72,385,900
Provided for the year	–	–	–	613,539	613,539
At 31 December 2017	62,385,900	10,000,000	–	613,539	72,999,439
Provided for the year	–	–	–	1,472,493	1,472,493
Impairment	–	–	–	5,291,506	5,291,506
At 31 December 2018	62,385,900	10,000,000	–	7,377,538	79,763,438
CARRYING VALUES					
At 31 December 2018	–	–	–	–	–
At 31 December 2017	–	–	–	6,763,999	6,763,999

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

Development costs	5 years
Technical know-how	10 years
Self-developed prototype	5 years

19. INTEREST IN AN ASSOCIATE

	2018 RMB	2017 RMB
Cost of listed interest in an associate	**1,500,000**	–
Share of post-acquisition loss and other comprehensive expense	**(481,752)**	–
	1,018,248	–

Details of the associate as at 31 December 2018 as follows:

Name of entities	Form of business	Principal place of operation and establishment	Proportion of ownership interest or participating shares held by the Group		Proportion of voting power held by the Group		Principal activities
			2018	2017	**2018**	2017	
蘇州海天新天綫科技有限公司 Suzhou Haitian New Antenna Technologies Co., Ltd. * ("Suzhou Haitian")	Incorporated	PRC	**20%**	–	**20%**	–	Development, sales and provision of after-sales services in respect of mobile communications antenna products and electronic communications equipment

The Group's interest in an associate is not individually material. The aggregate financial information and carrying amount of the Group's interest in that associate that is accounted for using the equity method are set out below.

	2018 RMB	2017 RMB
Share of post-acquisition loss and other comprehensive expense	**(481,752)**	–
	(481,752)	–

20. DEPOSITS PAID FOR ACQUISITION OF NON-CURRENT ASSETS

	2018 RMB	2017 RMB
Deposit paid for acquisition of leasehold land and buildings *(note)*	**18,546,000**	18,546,000
Deposit paid for acquisition of plant and equipment	**2,145,299**	1,882,500
Less: Impairment loss	**(2,145,299)**	–
	18,546,000	20,428,500

Note: On 21 August 2015, the Company entered into a sale and purchase agreement with 西安翔宇航空科技股份有限公司 ("西安翔宇") for the acquisition of leasehold land and buildings situated in High Technology Zone in Xi'an, Shaanxi Province, the PRC, at a cash consideration of RMB40,000,000. Initial deposit of RMB18,546,000 has been paid to the Xi'an Intermediate People's Court in accordance with the sale and purchase agreement during the year ended 31 December 2016.

The acquisition has not been completed at the end of the reporting period as the transfer of land title has not yet completed as detailed in note 40(c).

21. FINANCIAL ASSETS AT FVTPL / HELD FOR TRADING INVESTMENTS

Financial assets at FVTPL / held for trading investments include:

	2018 RMB	2017 RMB
Trading securities		
– Equity securities listed in the PRC	**16,357,613**	25,146,020

22. INVENTORIES

	2018 RMB	2017 RMB
Raw materials	**319,474**	895,323
Work-in-progress	**423,288**	55,175
Finished goods	**1,895,717**	1,101,467
	2,638,479	2,051,965

During the year ended 31 December 2018 and 2017, no reversal of allowance for inventories has been recognised.

23. TRADE RECEIVABLES

	2018 RMB	2017 RMB
Trade receivables	**51,741,380**	52,960,743
Less: allowance for impairment loss	**(50,804,063)**	(52,260,341)
	937,317	700,402

In general, the Group allows a credit period ranging from 5 to 240 days (2017: 5 to 240 days) to its trade customers. The Group does not hold any collateral over these balances.

The following is an ageing analysis of trade receivables, net of allowance for impairment loss, presented based on the invoice dates, which approximates the respective revenue recognition dates, at the end of the reporting period.

	2018 RMB	2017 RMB
Within 60 days	**598,217**	679,002
61 to 120 days	**26,040**	21,400
121 to 180 days	**–**	–
181 to 365 days	**313,060**	–
	937,317	700,402

As at 31 December 2017, included in the Group's trade receivables balance are trade receivables with aggregate carrying amount of RMB186,102 which are past due at the end of the reporting period for which the Group has not provided for impairment loss as the balance was subsequently settled.

	31/12/2017 RMB
Within 60 days	186,102
Neither past due nor impaired	514,300
	700,402

Trade receivables that were neither past due nor impaired related to a customer for whom there was no recent history of default.

23. TRADE RECEIVABLES *(Continued)*

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated on individual basis for significant balances and using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

As the group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the group's different customer bases.

The Group recognised lifetime ECL for trade receivables based on individually significant customer or the ageing of customers collectively that are not individually significant as follows:

	Weighted average expected loss rate *%*	Gross carrying amount *RMB*	Loss allowance *RMB*
Within 90 days past due	0	937,317	–
Default receivables	100	50,804,063	(50,804,063)
		51,741,380	(50,804,063)

At the end of each reporting period, the Group's trade receivables were individually determined to be impaired with an aggregate balance of RMB50,804,063 (2017: RMB52,260,341). The trade receivables are determined to be impaired based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment loss was recognised. The movement in the allowance for impairment loss of trade receivables is as follows:

	2018 *RMB*	2017 *RMB*
At 1 January	52,260,341	52,833,342
Impairment loss recognised	–	73,201
Amounts written off as uncollectible	(940,000)	–
Reversal of impairment loss recognised in previous years	(516,278)	(646,202)
At 31 December	50,804,063	52,260,341

24. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

	2018 *RMB*	2017 *RMB*
Non-current portion:		
Prepayments	**225,790**	384,142
Current portion:		
Other receivables, gross	**3,147,067**	2,409,868
Less: Allowance for impairment loss	**(1,853,374)**	(1,613,192)
Other receivable, net *(note)*	**1,293,693**	796,676
Rental deposits	**385,884**	331,777
Deposits and other receivables	**1,679,577**	1,128,453
Prepayments to a supplier	**4,639,400**	4,639,400
Less: Amount write-off	**(3,576,091)**	–
Prepayments to a supplier, net	**1,063,309**	4,639,400
Other prepayments, gross	**2,416,519**	1,598,926
Less: Allowance for impairment loss	**(1,794,428)**	(1,134,266)
Other prepayments, net	**622,091**	464,660
Prepayments	**1,685,400**	5,104,060
	3,364,977	6,232,513

Note: Included in other receivables are advances to employees (net of allowance for impairment loss) of RMB323,728 (2017: RMB259,454). The advances are interest-free, unsecured and repayable on demand.

24. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

During the year ended 31 December 2018, in determining the expected credit losses for deposits and other receivables excluding prepayments, the directors of the Company have taken into account the historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for other receivables excluding prepayments.

The Group has adopted HKFRS 9 from 1 January 2018. As at 31 December 2018, an analysis of the gross amount of other receivables excluding prepayments is as follows:

The movement in the loss allowance for deposits and other receivables is set out below:

	RMB
At 1 January 2017	1,554,982
Impairment loss recognised	121,642
Reversal of impairment loss recognised in previous years	(63,432)
At 31 December 2017	1,613,192

	12-month ECL *RMB*	**Lifetime ECL** *RMB*	**Lifetime ECL-credit impaired** *RMB*	**Total** *RMB*
At 1 January 2018	**–**	**–**	**1,613,192**	**1,613,192**
Increase during the year	**–**	**–**	**463,428**	**463,428**
Reversal of impairment losses	**–**	**–**	**(223,246)**	**(223,246)**
At 31 December 2018	**–**	**–**	**1,853,374**	**1,853,374**

Included in the allowance for impairment deposits and other receivables with an aggregate balance of RMB1,853,374 (2017: RMB1,613,192) which have been long outstanding and unsatisfactory repayment record.

25. AMOUNTS DUE FROM RELATED PARTIES

Particulars of amounts due from related parties are as follows:

Name of related party	Relationship	Outstanding amount 2018 *RMB*	Outstanding amount 2017 *RMB*
陝西天地通通信發展有限公司 ("陝西天地通")	Controlled by a director *(note (i))*	–	230,000
西安海天高科動力有限公司 ("西安海天高科")	Controlled by a director *(note (ii))*	11,000	–
		11,000	230,000

The amounts are unsecured, interest-free and repayable on demand.

Notes:

(i) Zuo Hong is the non-executive director of the Company and the substantial shareholder of 陝西天地通, which is owned as to 90% by Zuo Hong during the years ended 31 December 2018 and 2017.

(ii) Zuo Hong is the non-executive director of the Company and executive director and shareholder of the 西安海天高科，which is owned as to 5% by Zuo Hong, during the years ended 31 December 2018 and 2017.

26. AMOUNTS DUE FROM A DIRECTOR AND A SUPERVISOR

The amounts due from a director and a supervisor are unsecured, interest-free and repayable on demand.

Particulars of amounts due from a director and a supervisor are as follow:

Name of Director and supervisor	Outstanding amount 2018 *RMB*	Outstanding amount 2017 *RMB*
Zuo Hong, a director	802,312	815,298
Li Tianzuo, a supervisor	3,500	–
	805,812	815,298

27. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market interest rate at the end of each reporting period.

28. TRADE PAYABLES

The following is an ageing analysis of trade payables, presented based on the invoice dates, at the end of the reporting period.

	2018 *RMB*	2017 *RMB*
Within 60 days	21,873	66,322
61 to 120 days	–	89,437
121 to 365 days	578,315	324,132
Over 365 days	7,258,525	6,646,349
	7,858,713	7,126,240

The average credit period on purchases of goods is 90 days (2017: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

29. OTHER PAYABLES, ACCRUED CHARGES AND DEPOSITS RECEIVED

	31/12/2018 *RMB*	1/1/2018 *RMB*	31/12/2017 *RMB*
Other payables	5,085,616	5,922,236	5,922,236
Accrued charges	3,907,999	3,782,955	3,782,955
Receipt in advance	–	–	244,000
Rental deposit received	16,950	16,950	16,950
	9,010,565	9,722,141	9,966,141

30. CONTRACT LIAIBLITIES

	31/12/2018 *RMB*	1/1/2018 *RMB*
Sales of goods	20,818	244,000

Contract liabilities include advances received to deliver goods.

Revenue recognised during the year ended 31 December 2018 that was included in the contract liabilities as at 1 January 2018 is approximately RMB244,000. There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

31. AMOUNTS DUE TO SHAREHOLDERS/RELATED PARTIES

The shareholders of the related parties are also the common directors of the company. The amounts are unsecured, interest-free and repayable on demand.

32. SHARE CAPITAL

	Number of shares		Share capital	
	2018	2017	**2018**	2017
			RMB	*RMB*
Domestic shares of RMB0.10 each				
Registered, issued and fully paid:				
At the beginning and the end of the year	**885,294,118**	885,294,118	**88,529,412**	88,529,412
H shares of RMB0.10 each				
Registered, issued and fully paid:				
At the beginning and the end of the year	**645,764,706**	645,764,706	**64,576,470**	64,576,470
	1,531,058,824	1,531,058,824	**153,105,882**	153,105,882

33. RESERVES

(a) Statutory surplus reserve

In accordance with the Articles of Association of the Company and certain PRC subsidiaries of the Company, the Company and certain PRC subsidiaries are required to appropriate 10% of its profit after tax each year to the statutory surplus reserve until the balance reaches 50% of the registered capital. The statutory surplus reserve shall only be used for utilising the prior year losses, capitalised into share capital and expansion of the Company's production and operation.

(b) Distributable reserves

In accordance with the Articles of Association of the Company, the reserves available for distribution is the lower of amount determined under accounting principles generally accepted in the PRC and the amount determined under the HKFRSs. Based on the financial statements of the Company prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC, the Company does not have any distributable reserve available for distribution to its owners as at 31 December 2018 and 2017.

(c) Other reserve

西安海天投資, a related company of the Company under common shareholders, agreed to waive the rental payable by the Company of RMB11,917,380 and RMB3,938,899 for the years ended 31 December 2012 and 2009 respectively. Such waiver is deemed to be a transaction with owners of the Company and therefore recognised in other reserve.

34. 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.

	1 January 2018 *RMB*	**Financing cash flows** *RMB*	**31 December 2018** *RMB*
Amounts due to shareholders	**4,700,000**	**11,400,000**	**16,100,000**
Amounts due to related parties	**–**	**1,000,000**	**1,000,000**
	4,700,000	**12,400,000**	**17,100,000**

	1 January 2017 RMB	Financing cash flows RMB	Interest expenses accrued RMB	31 December 2017 RMB
Amounts due to shareholders	–	4,700,000	–	4,700,000
Bank borrowings	10,000,000	(10,444,969)	444,969	–
Amounts due to directors	400	(400)	–	–
	10,000,400	(5,745,369)	444,959	4,700,000

35. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 *RMB*	2017 *RMB*
Within one year	**1,787,430**	1,100,389
In the second to fifth years inclusive	**1,043,036**	1,192,640
Over five years	**276,533**	276,533
	3,106,999	2,569,562

Operating lease payments represent rentals payable by the Group for its office premises. Leases are negotiated for a range of 1 – 20 years (2017: 1 – 20 years) and rentals are fixed at the inception of the respective leases.

36. CAPITAL COMMITMENTS

	2018 *RMB*	2017 *RMB*
Capital expenditure in respect of following contracted for but not provided in the consolidated financial statements:		
– Acquisition of property, plant and equipment	**21,454,000**	21,454,000
– Acquisition of an associate	**4,500,000**	2,000,000
	25,954,000	23,454,000

37. RETIREMENT BENEFITS SCHEME

(i) Hong Kong

A subsidiary in Hong Kong operates the MPF Scheme under the Mandatory Provident Fund Schemes Ordinance, for all of its employee in Hong Kong. The Group contributes 5% of the relevant payroll costs, capped at HK$1,500 per month, to the MPF Scheme, in which the contribution is matched by the employees. The assets of the MPF Scheme are held separately. The subsidiary's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The total cost charged to profit or loss of RMB164,340 (2017: RMB67,366) represents contributions payable to this scheme by the Group in respect of the current accounting period.

(ii) The PRC, other than Hong Kong

The Group participates in a defined contribution retirement scheme operated by the relevant local government authority in the PRC. All employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Group is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at 20% (2017: 20%) of the local standard basic salaries.

The total cost charged to profit or loss of RMB1,272,158 (2017: RMB1,027,758) represents contributions payable to retirement benefit scheme by the Group in respect of the current accounting period.

38. RELATED PARTY TRANSACTIONS

(a) Saved as disclosed elsewhere in the consolidated financial statements, the Group had no other material balances or transactions with related parties during the years ended 31 December 2018 and 2017.

(b) Compensation of key management personnel

The compensation paid to key management personnel, being the directors, supervisors and senior management of the Company, during the year was as follows:

	2018 *RMB*	2017 *RMB*
Short-term benefits	**3,108,047**	3,709,573
Post-employment benefits	**244,854**	300,287
	3,352,901	4,009,860

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

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ establishment/ operations	Class of shares held	Paid up capital/ share capital	Percentage of equity interest and voting power held by the Company				Principal activities
				Directly		Indirectly		
				2018	2017	2018	2017	
Xaht Antenna Technologies (Hongkong) Limited	Hong Kong	Ordinary shares	HK$1,500,000	100%	100%	–	–	Investment holding
Xi'an Haitian Communication System Engineering Co., Ltd. # (西安海天通信系統工程有限公司) *	The PRC	Registered capital	RMB5,000,000	100%	100%	–	–	Design and installation of the antennas and related products
Xi'an Haitian Wireless System Equipment Co., Ltd. # (西安海天無綫系統設備有限公司) *	The PRC	Registered capital	RMB20,000,000	100%	100%	–	–	Development of and provision of consulting and testing services for mobile communication system equipment
Haitian Antenna (Shanghai) International Trade Co., Ltd. # (海天天綫(上海)國際貿易有限公司) *	The PRC	Registered capital	RMB20,000,000	100%	100%	–	–	Trading of construction related products and provision of consultancy services
Xi'an Haitian Marine Technologies Co., Ltd. # (西安海天海洋科技有限公司) *	The PRC	Registered capital	RMB10,000,000	100%	100%	–	–	Research, development and marketing of underwater surveillance, underwater imaging, underwater mechanical equipment and other related products.
Xi'an Haitian Aerospace Technologies Co., Ltd. # (西安海天航空航天科技有限公司) *	The PRC	Registered capital	RMB10,000,000	100%	100%	–	–	Development of unmanned aerial vehicles, avionics imaging and monitoring, and other related products and services.

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place of incorporation/ establishment/ operations	Class of shares held	Paid up capital/ share capital	Percentage of equity interest and voting power held by the Company				Principal activities
				Directly		Indirectly		
				2018	2017	2018	2017	
Xi'an Haitian Automotive Electronics Technologies Co., Ltd. # (西安海天汽車電子科技有限公司)*	The PRC	Registered capital	RMB1,000,000	100%	100%	–	–	Inactive
Yi County Hailan Natural Agriculture Development Co., Ltd # (易縣海蘭天然農業開發有限責任公司)* ("Yi County Hailan")	The PRC	Registered capital	RMB8,000,000	–	–	51%	51%	Trading of poultry and agricultural products
Heinz (Hong Kong) Light Aviation Engines Limited	Hong Kong	Ordinary shares	US$1	–	–	100%	N/A	Inactive
Beijing Hailan Taixing Technologies Development Co., Ltd # (北京海蘭太行科技開發有限公司)*	The PRC	Registered Capital	RMB1,000,000	100%	N/A	–	–	Inactive
Wuxi Shanshui Haitian Network Technologies Co., Ltd. # (無錫山水海天網絡科技有限公司)*	The PRC	Registered Capital	RMB10,000,000	100%	N/A	–	–	Development and provision of technical services and consulting for computer network

* Limited company established in the PRC
\# The English name is for identification purpose only

None of the subsidiaries had issued any debt securities at the end of each reporting period or during the reporting periods.

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

The table below shows details of a non-wholly owned subsidiary of the Group that has non-controlling interest that are material to the Group:

Name of subsidiary	Place of establishment/ operations	Proportion of ownership interest held by non-controlling interest	Proportion of voting power held by non-controlling interest	Profit (loss) attributable to non-controlling interest *RMB*	Accumulated non-controlling interest *RMB*
2018					
Yi County Hailan	The PRC	49%	49%	112,803	2,938,688
2017					
Yi County Hailan	The PRC	49%	49%	(71,643)	2,825,885

Summarised financial information in respect of the Group's subsidiary that has non-controlling interest which are material to the Group is set out below. The summarised financial information below represents amounts before intra-group eliminations.

Yi County Hailan

	2018 *RMB*	2017 *RMB*
Non-current assets	**3,441,150**	2,652,784
Current assets	**4,968,207**	3,188,064
Current liabilities	**(330,402)**	(73,736)
Equity attributable to owners of the Company	**(5,140,267)**	(2,941,227)
Non-controlling interest	**(2,938,688)**	(2,825,885)
Revenue	**4,716,350**	663,434
Expenses	**(4,486,140)**	(809,644)
Profit (loss) and total comprehensive expense for the year	**230,210**	(146,210)
Profit (loss) and total comprehensive expense attributable to:		
– owners of the Company	**117,407**	(74,567)
– non-controlling interest	**112,803**	(71,643)
	230,210	(146,210)

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Yi County Hailan *(Continued)*

	2018	2017
	RMB	*RMB*
Net cash (outflows) inflows from operating activities	**(14,226)**	1,593,999
Net cash outflows from investing activities	**(957,563)**	(2,652,784)
Net cash outflows from financing activities	**–**	(400)
Net cash outflows	**(971,789)**	(1,059,185)

40. LITIGATION

As at the end of the reporting period, the Company has the following outstanding litigation cases:

(a) During the year ended 31 December 2015, 西安厚普智能工程有限責任公司 (the "Plaintiff A") filed a writ against 西安海天投資, a related company of the Group, for the outstanding building construction fee of RMB606,000 and against the Company in which the Company was jointly responsible. In 2015, the Xi'an Court concluded the related company was liable for the claim while the Company is not liable to the joint responsibility. The related company appealed the case on 18 May 2015. After retrial, the People's Court dismissed all the claims from the Plaintiff A. The Court has accepted the Plaintiff A's appeal on the retrial judgement. On 8 June 2018, the Xi'an Court concluded that affirm the original sentence.

No provision was made for this case as the directors of the Company consider that legal conclusion would state unchanged and be favour to the Company. Therefore no provision has been recognised in this regard.

(b) During the year ended 31 December 2015, 西安慶建塑業有限公司 (the "Plaintiff B"), a supplier of the Company, filed a dispute at 西安仲裁委員會 (the "Commission") against the Company for a disagreement on a outstanding inventory cost of RMB1,204,294, which is different from the amount RMB517,970 recorded in the ledger of the Company. The trial has gone through twice and is pending to the final conclusion.

No provision was made for this case as the directors of the Company consider that legal conclusion would state unchanged and be favour to the Company. Therefore no provision has been recoginsed in this regard.

(c) Pursuant to the sale and purchase agreement dated 21 August 2015, the Group acquired a piece of leasehold land and buildings from 西安翔宇航空科技股份有限公司 (the "Defendant B") situated in Xi'an, Shaanxi Province, the PRC, at a consideration of RMB40,000,000. During the year ended 31 December 2016, an initial deposit for the acquisition of leasehold land and buildings of RMB18,546,000 has been paid in accordance the sale and purchase agreement, but the Defendant B failed to assist the Group for the transfer of the land ownership. After several unsuccessful negotiations with the Defendant B, the Group has filed a writ to the People's Court against the Defendant B in September 2017. However, the People's Court dismissed the Group's prosecution with the grounds that the Group could not provide relevant supporting documents. The Group is in the action to appeal again to the Xi'an Intermediate People's Court and the court will open on 10 April 2019.

The directors of the Company consider the legal consultation and concluded that the transfer of the land ownership is still highly probable.

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

	2018 *RMB*	2017 *RMB*
Non-current assets		
Plant and equipment	**4,276,197**	6,041,740
Investments in subsidiaries *(note (i))*	**11,000,000**	15,030,652
Investment in an associate	**1,018,248**	–
Intangible assets	**92,625**	–
Deposits paid for acquisition of non-current assets	**18,546,000**	18,546,000
	34,933,070	39,618,392
Current assets		
Inventories	**–**	–
Trade receivables	**88,500**	514,300
Other receivables and prepayments	**806,150**	174,773
Amounts due from subsidiaries *(note (ii))*	**34,454,357**	17,276,549
Amount due from a related party	**11,000**	–
Bank balances and cash	**995,319**	8,025,621
	36,355,326	25,991,243
Current liabilities		
Trade payables	**5,042,068**	5,775,239
Other payables and accrued charges	**6,559,284**	7,740,121
Amounts due to shareholders	**14,700,000**	–
Amount due to a related party	**1,000,000**	–
Amounts due to subsidiaries	**32,110,727**	11,079,840
	59,412,079	24,595,200
Net current (liabilities) assets	**(23,056,753)**	1,396,043
Net assets	**11,876,317**	41,014,435
Capital and reserves		
Share capital *(note 32)*	**153,105,882**	153,105,882
Reserves *(note (iii))*	**(141,229,565)**	(112,091,447)
Total equity	**11,876,317**	41,014,435

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes:

(i) Investments in subsidiaries

	2018 RMB	2017 RMB
COST		
At the beginning of the year	68,597,500	53,597,500
Additions	10,000,000	15,000,000
At the end of the year	78,597,500	68,597,500
IMPAIRMENT		
At the beginning of the year	53,566,848	42,597,500
Additions	14,030,652	10,969,348
At the end of the year	67,597,500	53,566,848
CARRYING AMOUNT		
At 31 December	11,000,000	15,030,652

(ii) The amounts are unsecured and non-interest bearing and repayable on demand.

(iii) Movement in reserves

	Share premium RMB	Statutory surplus reserve RMB (Note 33(a))	Other Reserve RMB (Note 33(c))	Accumulated losses RMB	Total RMB
At 1 January 2017	115,390,048	16,153,228	15,856,279	(205,738,600)	(58,339,045)
Loss and total comprehensive expense for the year	–	–	–	(53,752,402)	(53,752,402)
At 31 December 2017	115,390,048	16,153,228	15,856,279	(259,491,002)	(112,091,447)
Loss and total comprehensive expense for the year	–	–	–	(29,138,118)	(29,138,118)
At 31 December 2018	115,390,048	16,153,228	15,856,279	(288,629,120)	(141,229,565)

42. EVENTS AFTER THE REPORTING PERIOD

(i) Subsequently to the end of the reporting period, there was a subsequent increase in the fair value of the equity securities listed in the PRC and the estimated unrealised gain on fair value changes of financial assets at FVTPL of RMB2,844,802 would be expected with reference to the market price of these equity securities as at the date on which the consolidated financial statements are approved by the board of directors of the Company.

(ii) On 19 March 2019, the Group received fund from shareholders with an amount of RMB40,000,000 which included RMB27,300,000 for a subscription shares under specific mandate described in the circular of the Company date 2 February 2018. The shareholders have undertaken not to demand the repayment of the whole amount until the Group is in a financial position to do so.

Financial Summary

	Year ended 31 December				
	2014	2015	2016	2017	**2018**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
RESULTS					
Revenue					
– Sales of antennas products and related services	11,028,978	13,496,935	1,946,936	971,805	**899,354**
– Sales of underwater surveillance and related products	–	9,840,617	3,939,916	257,809	**78,217**
– Sales of unmanned aerial products	–	–	–	1,187,693	**894,544**
– Sales of construction related products	–	–	26,088,273	56,713,620	**37,565,582**
– Provision of consultancy services	–	–	3,203,329	–	**–**
– Sales of agricultural products	–	–	–	794,160	**4,677,325**
– Others	–	–	1,064,641	–	**–**
	11,028,978	23,337,552	36,243,095	59,925,087	**44,115,022**
Profit (loss) before tax	(2,840,491)	(21,930,481)	37,656,283	(16,767,281)	**(40,955,544)**
Income tax (expense) credit	(782,442)	(5,565)	–	13,282	**(12,051)**
Profit (loss) and total comprehensive income (expense) for the year	(3,622,933)	(21,936,046)	37,656,283	(16,753,999)	**(40,967,595)**

	As at 31 December				
	2014	2015	2016	2017	**2018**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
ASSETS AND LIABILITIES					
Total assets					
– Sales of antennas products and related services	132,603,552	37,749,323	4,746,587	1,751,629	**5,600,410**
– Sales of underwater surveillance and related products	–	17,067,656	5,522,082	838,232	**799,033**
– Sales of unmanned aerial products	–	6,586,939	34,669,053	39,656,355	**21,661,333**
– Sales of construction related products	–	–	16,177,411	1,509,238	**1,258,518**
– Provision of consultancy services	–	–	204,701	–	**–**
– Sales of agricultural products	–	–	–	3,067,943	**4,140,456**
– Unallocated	–	57,477,615	62,774,883	42,648,759	**27,242,526**
	132,603,552	118,881,533	124,094,717	89,472,156	**60,702,276**
Total liabilities					
– Sales of antennas products and related services	(124,038,551)	(19,661,861)	(14,398,726)	(8,574,819)	**(14,136,892)**
– Sales of underwater surveillance and related products	–	(5,411,483)	(4,819,525)	(306,069)	**(62,069)**
– Sales of unmanned aerial products	–	(52,649)	(152,599)	(7,767,230)	**(224,657)**
– Sales of construction related products	–	–	(10,254,541)	(112,227)	**(1,567,330)**
– Provision of consultancy services	–	–	(17,018)	–	**–**
– Sales of agricultural products	–	–	–	(73,736)	**(88,511)**
– Unallocated	–	(20,319,771)	(10,018,534)	(4,958,300)	**(17,910,637)**
	(124,038,551)	(45,445,764)	(39,660,943)	(21,792,381)	**33,990,096**
Total equity	8,565,001	73,435,769	84,433,774	67,679,775	**26,712,180**