



星辰通信国际控股有限公司

Centron Telecom International Holding Limited

(incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立之有限公司)

(Stock Code: 1155)

(股份代號：1155)

ANNUAL REPORT

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年 度 報 告

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dai Guoliang (*Chairman and Chief Executive Officer*)

Guo Zeli (resigned on 22 October 2015)

Dai Guoyu

Ng Wai-kee

Yang Weimin

Independent non-executive Directors

Lin Yuanfang

Li Hongbin

Hung Ee Tek (resigned on 1 July 2015)

Ku Kin Shing Ignatius (appointment with effect from 1 July 2015)

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1606, 16th Floor,

Tai Tung Building

8 Fleming Road

Hong Kong

COMPANY SECRETARY

Lee Cheuk Wang (resigned on 1 October 2015)

Hung Ee Tek (appointment with effect from 1 October 2015)

AUTHORIZED REPRESENTATIVES

Dai Guoliang

Ng Wai-kee (resigned on 1 September 2015)

Hung Ee Tek (appointment with effect from 1 September 2015)

MEMBERS OF AUDIT COMMITTEE

Ku Kin Shing Ignatius (*Chairman*) (appointment with effect from 1 July 2015)

Hung Ee Tek (resigned on 1 July 2015)

Lin Yuanfang

Li Hongbin

MEMBERS OF REMUNERATION COMMITTEE

Lin Yuanfang (*Chairman*)

Hung Ee Tek (resigned on 1 July 2015)

Li Hongbin

Yang Weimin

Ku Kin Shing Ignatius (appointment with effect from 1 July 2015)

MEMBERS OF NOMINATION COMMITTEE

Dai Guoliang (*Chairman*)

Lin Yuanfang

Li Hongbin

LEGAL ADVISERS

As to Hong Kong Law

Locke Lord

AUDITORS

Ernst & Young

Certified Public Accountants

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited

Bank of China Tower

1 Garden Road

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

17M Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

WEBSITE

<http://www.centron.com.hk>

Dear Esteemed Shareholders,

On behalf of Centron Telecom International Holding Limited (the “Company”), I hereby report to you the consolidated operation and development of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2015 (the “Year”). In 2015, total revenue realized by the Group amounted to RMB1,534.0 million, representing a decrease of approximately 2.4% as compared with the revenue recorded for the corresponding period in 2014. In addition to the relatively intense competition of the industry and market, the decrease in total revenue was also attributed to the slight delay in the sales of traditional wireless telecommunication network coverage system equipment as a result of a strategic fine adjustment of the product mix of the Group in order to strengthen our sales resources on private telecommunication network systems and products while maintaining the sale of traditional products to a certain scale. With regard to profit for the Year, due to the remarkable effective cost control measures implemented by the Group, a net profit of RMB50.8 million was recorded, representing an increase of 33.3% as compared with the net profit recorded for the corresponding period for last year.

In recent years, world economies have entered into the information era, the acceleration of the construction of information and network facilities has become the consensus among nations around the world. Nowadays, the continuous construction of 4G network and the optimization of its network coverage, the persistent increase in the number of users of mobile broadband communications and the enlarging user group has brought a strong demand for better quality service and a booming development in the consumption mode of digitized and visualized communications. In early 2015, after the release of FDD-LTE licenses, a new round of information digitization reform has occurred in China. Information digitization has brought enormous business opportunities and changed the operation mode of the industry, as well as changed the lifestyle and habits of people. The Group has captured this opportunity to adjust its development strategy timely, that is developing and innovating while consolidating our original base and reacting to those market changes actively, to maximise various edges of the Group in network optimization and indoor signal coverage and the building network coverage engineering resources accumulated over the years.

Following the economic and social developments, and the wide concern about public security around the world, the application of private wireless communication equipment has become more and more popular, the global market of private wireless communication will continue to develop steadily. In recent years, the China government has promulgated numerous policies and regulations to support the development of the private network communication industry and strengthen the supervision and management of the industry which provide a good platform for the private network communication industry. Meanwhile, the stronger awareness in self-developed innovations of both the public and the private sectors has provided a better innovative environment for the technology innovations of private network communication. Private network communications, relying on the growing demand of industry information, has become a non-negligible competitive force in the communication sector. The industry has a stronger development capability and optimistic prospect. With the advantage of well-establishments in the public network communication sector, the Group has optimized and deepened the research and development in private network communication and its related products so as to gain a steady growth in the industry in recent years. The Group is actively expanding its products on information systems of power grids, energy and public security.

CHAIRMAN'S STATEMENT

FUTURE PROSPECT

Building of a broadband network that is “high speed and smooth flow, urban and rural covered, good quality and low price, convenient and fast service” will drive investment demand and information consumption effectively, support the “Internet+” action plan, facilitate the community to march towards full digitization and stimulate the overall economic activities. Fixed broadband network is the foundation of the internet. Total demand for bandwidth has been increasing steadily and mobile internet and internet of things will become the major driving forces for mobile communication development. The development of mobile internet has brought explosive growth in flow volume, driving another round of reforms in communication technology and industries. In future, under the support and guidance of the China government policies and the characteristics of contemporary developments, the Group will further consolidate its own network service advantages of mobile public network to accelerate the development of private network business and strives to provide personalized solutions for customers with competitive prices.

APPRECIATION

On behalf of the Board (the “Board”) of Directors of the Company, I would like to take this opportunity to extend our sincere gratitude to the shareholders, customers and suppliers for their long term confidence in and support of the Group. I also express our gratitude to the management team and all staff for their dedication and contribution in the past year.

Dai Guoliang
Chairman

BUSINESS REVIEW

During the year ended 31 December 2015, revenue from wireless telecommunications coverage system equipment and the provision of related engineering services was approximately RMB1,382.6 million, representing approximately 90.1% of the Group's total revenue.

During the year ended 31 December 2015, revenue from private telecommunications network systems and products was approximately RMB145.9 million, representing approximately 9.5% of the Group's total revenue.

During the year ended 31 December 2015, revenue from digital television network coverage equipment and the provision of related engineering services was approximately RMB5.5 million, representing approximately 0.4% of the Group's total revenue.

Wireless Telecommunications Network Coverage & Optimization Solution

In 2015, wireless telecommunications network coverage & optimization solution business remained the largest source of revenue for the Group and contributed revenue of approximately RMB1,382.6 million, representing approximately 90.1% of the total revenue of the Group. Its revenue represents a decrease of approximately 5.8% as compared to that for the year ended 31 December 2014.

The year of 2015 was a year of global economic uncertainties. Besides, there was a trend of slowdown in mainland China's domestic economic growth. The foreshadowing of 4G networks in mainland China entered into a full investment period. Mobile network operators continued with their basic foreshadowing for networks. Infrastructure of the communication industry showed stable growth. The network optimization industry also synchronously consolidated and moved forward. With the issuance of TDD-LTE and FDD-LTE licenses, the investment focus of operators has shifted to 4G networks. On the other hand, China Tower Corporation Limited (中國鐵塔股份有限公司) ("National Tower Company") focused on acquiring telecommunications towers and related assets from the top three network operators in the PRC during the initial period of its establishment and the investment in the indoor network optimization and distribution business was relatively steady. Industry and market competition was also relatively intense. Nevertheless, the Group's multi-mode digital signal distribution system, high-performance radio frequency devices and multi-mode multi-frequency indoor signal distribution solution products maintained a rigid demand. To sum up the annual sales, the Group's wireless telecommunications network coverage and optimization solution business edged down slightly compared to last year.

The Group will continue to invest in research and development of high-end products, optimize the overall indoor network solution, and continuously participate in integrated engineering services and products in connection with 4G network coverage and optimization in major cities throughout China.

MANAGEMENT DISCUSSION AND ANALYSIS

Private Telecommunications Network Systems and Products

In 2015, the Group recorded revenue from the private telecommunications network systems and products of RMB145.9 million, representing approximately 9.5% of the Group's total revenue. Its revenue represents an increase of approximately 65.2% as compared to that for the year ended 31 December 2014.

The wave of analog communications to digital communications of private network has begun to spread in various countries around the world. However, in consideration of the actual progress of analog communications to digital communications of dedicated interphones in China, the Ministry of Industry and Information Technology publicly announced that the term of validity of the approval certificate for 400MHz analogue interphone device models could be extended to 31 December 2017 upon application. As a result, the transformation from analog communications to digital communications still needs to go through a transitional phase. Nevertheless, the Group believes that analog communications to digital communications of private network is an irreversible trend and will continue to invest in the technological research and development of private network communication and the development of its new products. A series of digital cluster system products of the Group such as digital repeaters, dispatch centres and base stations for commercial private network users and industry private network users have been recognized by the market. Meanwhile, hand-held interphones and digital private network and other software and hardware have been upgraded and improved. The Group continued the production of analogue and digital interphones and relevant private network communication systems and products. With specialized digital interphones as primary end products of the industry private network, the Group will continue to construct sales channels and invest in developing products integrating the Internet with industry private network information digitization including energy grids.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

1. Operating results

For the year ended 31 December 2015, the Group realised revenue of RMB1,534.0 million, representing a decrease of RMB37.5 million or 2.4% as compared with the revenue of RMB1,571.5 million for the year ended 31 December 2014.

By customers

During the year, revenue from China Mobile Communications Corporation and its subsidiaries (collectively “China Mobile Group”); China United Network Communications Group Company Limited and its subsidiaries (collectively “China Unicom Group”); China Telecommunications Corporation and its subsidiaries (collectively “China Telecom Group”); and other customers were as follows:

| | Year ended 31 December | | | |
|---|-------------------------|--------------|-------------------------|----------|
| | 2015 | | 2014 | |
| | <i>RMB (in million)</i> | <i>%</i> | <i>RMB (in million)</i> | <i>%</i> |
| By customers | | | | |
| China Mobile Group | 687.2 | 44.8 | 627.5 | 39.9 |
| China Unicom Group | 373.9 | 24.4 | 445.1 | 28.3 |
| China Telecom Group | 261.0 | 17.0 | 327.6 | 20.8 |
| | 1,322.1 | | 1,400.2 | |
| Others | 211.9 | 13.8 | 171.3 | 11.0 |
| | 1,534.0 | 100.0 | 1,571.5 | 100.0 |
| By business category | | | | |
| Manufacture and sale of wireless telecommunications coverage system equipment and the provision of related engineering services | 1,382.6 | 90.1 | 1,467.9 | 93.4 |
| Manufacture and sale of private telecommunications network systems and products | 145.9 | 9.5 | 88.3 | 5.6 |
| Sale of digital television network coverage equipment and the provision of related engineering services | 5.5 | 0.4 | 15.3 | 1.0 |
| | 1,534.0 | 100.0 | 1,571.5 | 100.0 |

MANAGEMENT DISCUSSION AND ANALYSIS

2. Gross profit

For the year ended 31 December 2015, the Group realised gross profit of RMB347.5 million, representing a decrease of RMB26.3 million or 7.0% over the gross profit of RMB373.8 million for the year ended 31 December 2014.

For the year ended 31 December 2015, gross profit margin was approximately 22.7%, decreased 1.1 percent points from 23.8% when compared to the year ended 31 December 2014.

The decrease in the gross profit margin of the Group was primarily due to the keen market competition and implementation of the tightened cost control measures of the big three telecom operators in the PRC.

3. Research and development expenditure

For the year ended 31 December 2015, research and development (“R&D”) expenditure of the Group was approximately RMB82.0 million, representing a decrease of approximately RMB53.8 million or 39.6% over the R&D expenditure of RMB135.8 million for the year ended 31 December 2014. This expenditure was included in the general and administrative expenses.

The decrease in the R&D expenditure was mainly attributable to the decrease in expenditure in the hardware and software developments in particular of private telecommunications network.

4. Selling and distribution expenses

For the year ended 31 December 2015, selling and distribution expenses were approximately RMB78.5 million, representing 5.1% of the revenue of the year. There was an increase of 11.3% over the selling and distribution expenses of RMB70.6 million in 2014, which represented 4.5% of the revenue of 2014. The percentage of selling and distribution expenses to revenue increased by 0.6 percent point as compared to 2014.

The increase was mainly attributable to the increase in after sale service and marketing expenses.

5. General and administrative expenses

For the year ended 31 December 2015, general and administrative expenses were approximately RMB157.8 million, representing a decrease of RMB57.5 million or 26.7% over the general and administrative expenses of RMB215.3 million for the year ended 31 December 2014.

The decrease was mainly attributable to the decrease in R&D expenditure.

MANAGEMENT DISCUSSION AND ANALYSIS

6. Finance costs

For the year ended 31 December 2015, finance costs were approximately RMB36.7 million, representing an increase of approximately 36.9% over the finance costs of RMB26.8 million for the year ended 31 December 2014.

The increase in finance costs was mainly attributable to the increase in bank loans.

During the year, the Group was financed by interest-bearing bank loans of total outstanding amount of RMB789.6 million (31 December 2014: RMB574.3 million) as at 31 December 2015, of which RMB582.6 million were secured bank borrowings and RMB207.0 million were unsecured bank borrowings. Except for the bank loans of RMB192.0 million which bore a fixed interest rate, all the bank loans bore a floating interest rate.

The management is prudent to manage the credit risk and monitors closely the latest development of financial market in order to control and minimise finance costs. The management plans and arranges the most appropriate financing tools for the purpose of capital investment, R&D investment and working capital of the Group.

7. Taxation

For the year ended 31 December 2015, the income tax expense of the Group was RMB28.9 million, representing an increase of approximately 13.3% over the income tax expense of RMB25.5 million for the year ended 31 December 2014. The increase was mainly due to the increase in chargeable income.

As a high-new technology enterprise, Centron Communications Technologies Fujian Co., Ltd. ("Fujian Centron"), a wholly-owned subsidiary, was entitled to the preferential tax rate of 15% for the year ended 31 December 2015. Whilst the earnings generated from other subsidiaries established in Mainland China were subject to relevant income tax rate of 25%. In addition, the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, by making an assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future, were RMB1.6 million (2014: RMB2.0 million).

8. Net profit

For the year ended 31 December 2015, net profit was RMB50.8 million, which increased by approximately 33.3% from the net profit of RMB38.1 million for the year ended 31 December 2014. The net profit margin accounted for 3.3% of the total revenue, representing an increase of 0.9 percent point as compared with 2.4% for year of 2014.

The increase in net profit during the year was mainly attributable to the effectiveness of the Group's cost control measures.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Wireless Telecommunications Network Coverage & Optimization Solution

With continued 4G network construction and network coverage optimization, a continued increase in the number of mobile broadband communication users, especially after the FDD-LTE license was issued at the beginning of 2015, communication network operators have begun to vigorously propel the construction of the FDD-LTE core network and comprehensive indoor signal coverage systems, ushering in a new wave of changes in digital information technology. Information digitization has brought huge business opportunities, changed the operating model of the industry and also changed humanities, life and habits at the same time. The Group has seized the opportunity to involve in the research and development and production of high-quality passive devices and high-performance indoor coverage antennae required by National Tower Company and become a recognized qualified supplier of National Tower Company. These contribute a solid foundation for the equipment base supply mode of operation in addition to the Group's existing integrated mode of operation. The Group has also continued to impel multi-mode digital signal distribution systems, multi-mode and multi-frequency indoor signal distribution solutions compatible with TDD-LTE/FDD-LTE and outdoor coverage optimization solutions so that the advantages of the Group in network optimization and indoor coverage and building network coverage engineering resources accumulated over the years can be reflected to the utmost.

The communication industry is faced with cross-sector mutual competition and complementarity. Part of the operations of communication network operators have begun to open up. Under the condition of big data, terminal equipment manufacturers have begun to provide comprehensive information and communication solutions. Some have begun to explore the joint operating model, which will inevitably expand the Group's business space.

Private Telecommunications Network Systems And Products

The opening of spectrum resources to specific industries has promoted the development of the digital private network communication sector. In an era of Internet+ and big data, the private telecommunications network market has ushered in participants from different industries. Well-established sales networks, efficient communication channel, leading technologies and good relationship with spectrum resources management agencies contribute a good foundation for developing private telecommunications network solutions. Based on the advantages of the Group's presence in the public telecommunications network sector, the Group has optimized and deepened research and development in the private telecommunications network sector and its related products. Led by the relevant national policies and capitalizing on the advantage of the interphone industry in Quanzhou, the Group participated in formulating the industry standard for digital interphones with independent intellectual property rights in China in 2015. The Group has joined the strategic alliance for Police Digital Trunking ("PDT") digital cluster industry technology innovation and the Group's Centron PDT product has obtained the testing and inspection accreditation by the relevant national authorities. The Group also obtained some construction experience in private network emergency communication which help to form the foundation for this industry. The efforts above will allow the Group to take a steady pace in respect of its future development in the private telecommunications network industry.

CONCLUSION

With the development of economic globalization and changes in information technology, information communication is undergoing rapid changes. Economic development in China has entered a new normality. Despite the slowdown in growth, policies relating to the communication industry and the electronic communication industry have been launched in succession, which is driving the integration of cross-industry sectors and the reconstruction of the business ecosystem. The communication industry is developing towards customization and intelligence. In future, the Group will, under the guidance and support of national policies and combining its own strengths, utilize limited resources to implement effective countermeasures, further consolidate advantages in mobile public network services, cater the trend of the evolution from 3G to 4G, accelerate the development of the private network business and focus on providing customized and cost-effective solutions to customers. Meanwhile, the Group will seize development opportunities of Internet+, smart city in areas such as power and public security, and lay a solid foundation for promoting the industrial upgrade of the Group's core business.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the Group had cash and cash equivalents of RMB329.4 million (2014: RMB201.0 million), most of which were denominated in US dollars, Hong Kong dollars and Renminbi.

As at 31 December 2015, the Group had pledged deposits of RMB56.5 million (2014: RMB73.9 million).

As at 31 December 2015, the Group had restricted bank deposits of RMB3.1 million (2014: RMB2.1 million).

As at 31 December 2015, the Group had interest-bearing bank borrowings payables within one year of RMB567.3 million (2014: RMB210.6 million) which are payables within one year.

As at 31 December 2015, the Group had RMB222.3 million (2014: RMB363.6 million) interest-bearing bank borrowings payables more than one year.

Average trade receivable turnover period was 374 days (2014: 377 days).

The Group's trading terms with its customers are mainly on credit. The credit period is generally nine months. A longer credit term of twelve months may be extended to customers with a long-term business relationship and a good payment history. The Group does not hold any collateral or other credit enhancements over these balances. The balances are non-interest-bearing and include retention money which is generally receivable after final verification of products by customers, performed within four to seven months after signing the sale and purchase contracts, or upon completion of the warranty period of one to two years granted to customers.

Average inventory turnover period was 184 days (2014: 139 days). Overall, the Group maintained a current ratio of 3.02 as at 31 December 2015 (2014: 3.98).

As at 31 December 2015, the gearing ratio (as defined as total interest-bearing bank borrowings divided by total equity) was 48.8% (2014: 36.1%).

TREASURY POLICIES

During the year ended 31 December 2015, the majority of the Group's transactions were denominated in Renminbi. There has not been any significant operational foreign exchange exposure. The Group has USD and HKD bank borrowings and due to the recent fluctuation of the exchange rates of RMB, it might have adverse effect on the repayment of bank borrowings other than in RMB. The Group will closely monitor the exposure of the fluctuation of RMB exchange rates. The related departments of the PRC Government said that RMB is stable gradually and therefore the Group has not entered into any hedging instruments on foreign exchange. In addition, for the interest rates applicable to the Group, the management did not encounter any material rise in the lending rates in the PRC during the year ended 31 December 2015. Accordingly, the Group did not enter into any hedging instruments on interest rate. However, the management will closely monitor the Group's exposure to any potential foreign exchange and interest rate risks and will enter into appropriate financial instruments for hedging purpose when necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's operation is exposed to certain risks and uncertainties, some of which are beyond control. Such risks and uncertainties include domestic and overseas economic conditions, credit policies and foreign exchange policies in the PRC, changes in the laws and regulations.

A substantial part of the Group's revenue is attributable to the three network operators in the PRC which accounted for 86.2% (2014: 89.0%) of the Group's revenue for the year ended 31 December 2015. Although our business practice is to interact with each local affiliate individually, they are under the common control of their parent company. In addition, the establishment of National Tower Company will undertake and consolidate most of their procurement functions gradually. Our Group's results of operations could be materially affected by the three network operators and National Tower Company if they significantly change their procurement policies.

CAPITAL EXPENDITURE

As at 31 December 2015, the Group incurred capital expenditure of approximately RMB11.5 million, which was financed by the Group's internal resources.

PLEDGE OF ASSETS

As at 31 December 2015, certain of the Group's interest-bearing bank borrowings were guaranteed/secured by:

- (i) corporate guarantee of RMB35,000,000 (2014: RMB35,000,000) from Fujian Centron, a wholly-owned subsidiary;
- (ii) corporate guarantee of US\$60,000,000 (2014: US\$60,000,000) jointly from Nice Group Resources Limited ("Nice Group"), Centron Telecom System (Asia) Limited and Centron Telecom Hong Kong Limited, wholly-owned subsidiaries;
- (iii) personal guarantee of RMB85,000,000 (2014: Nil) collectively from Mr. Dai Guoliang, a director of the Company, and Mrs. Chen Shuru, spouse of Mr. Dai Guoliang;
- (iv) share mortgage over the entire issued share capital of Nice Group;
- (v) pledge of Nice Group's equity interest in Fujian Centron;
- (vi) assignment of an amount due from Fujian Centron of RMB237,426,000 (2014: RMB328,687,000) as at 31 December 2015 to Nice Group; and
- (vii) pledge deposits of RMB43,345,000 (2014: RMB46,500,000).

As at 31 December 2015, the Group also pledged deposits of RMB13,171,000 (2014: RMB27,373,000) for bills payable facilities.

MANAGEMENT DISCUSSION AND ANALYSIS

DISPOSAL OF A SUBSIDIARY

In December 2015, Fujian Centron, a wholly-owned subsidiary of the Company disposed of 56.985% equity interest (the “Disposal”) in Shenzhen ZHT Communication and Technology Company Limited*, (深圳澤惠通通訊技術有限公司, a subsidiary of Fujian Centron, “ZHT”) for a consideration of RMB9.1 million. After the Disposal, Fujian Centron still holds 10% equity interest in ZHT. The Disposal resulted in a loss of RMB2.2 million. Details of the Disposal had been set out in the announcement of the Company dated 31 December 2015.

CONTINGENT LIABILITIES

As at 31 December 2015, the Group did not have any significant contingent liabilities.

LITIGATION

During the year, a subsidiary of the Group was a defendant of a lawsuit brought by a bank in the PRC (the “Bank”), which alleged that the subsidiary was involved in defaulting bank loans granted by the Bank to a supplier of the Group. The amount of the bank loans involved was RMB15,200,000. Having considered the advice from the Group’s legal counsel, the directors believe that the allegation is unfounded and, accordingly, the Group has not provided for any claim arising from the litigation.

EMPLOYEE INFORMATION

As at 31 December 2015, the Group had approximately 1,300 (2014: 1,500) full-time employees. Salaries and wages are generally reviewed on an annual basis in accordance with individual qualifications and performance, the Group’s results and market conditions. The Group provides discretionary bonus, medical insurance, provident fund, educational subsidy and training to its employees.

The Company adopted a share option scheme under which the Company can grant options to the employees of the Group to subscribe for shares of the Company.

The remunerations paid/payable to our employees for the year ended 31 December 2015 were within the following bands:

| Remuneration bands (RMB) | Number of individuals |
|--------------------------|-----------------------|
| 0-100,000 | 1,280 |
| 100,001-150,000 | 5 |
| Over 150,001 | 15 |

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2015.

SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investment as at 31 December 2015.

DIRECTORS AND SENIOR MANAGEMENT

CHAIRMAN AND EXECUTIVE DIRECTOR

Dai Guoliang, aged 54, the Chairman and an executive director of the Company. He is also the director of 5 subsidiaries of the Company. Mr. Dai founded 福建先創電子有限公司 (Centron Communications Technologies Fujian Co., Ltd.) (“Fujian Centron”), a wholly-owned subsidiary of the Company on December 18, 1989 and has been in charge of general management of the Company. Mr. Dai is a director of Oriental City Profits Ltd., a shareholder of the Company. Mr. Dai is an experienced engineer and has almost 30 years of experience in management, research, production and sales within the telecommunications industry. Mr. Dai has completed the EMBA program in Hua Qiao University. Mr. Dai Guoliang is the brother of Mr. Dai Guoyu.

EXECUTIVE DIRECTORS

Dai Guoyu, aged 51, an executive director of the Company. He is also the director of 3 subsidiaries of the Company. Mr. Dai is mainly responsible for the investment and financing affairs, strategy making and implementation of the Company. Mr. Dai joined Fujian Centron on May 2, 1994. Mr. Dai is a director of Oriental City Profits Ltd., a shareholder of the Company. Mr. Dai has almost 30 years of sales and management experience within the telecommunications industry and therefore has accumulated extensive customer network. Mr. Dai obtained the title of engineer in 2006 and has completed the EMBA program in Hua Qiao University. Mr. Dai Guoyu is the brother of Mr. Dai Guoliang.

Ng Wai-kee, aged 56, an executive director of the Company. He is also the director of 1 subsidiary of the Company. Mr. Ng is mainly responsible for the development of the Group’s new business. Mr. Ng joined the Group on October 1, 2006. Mr. Ng has around 28 years of experience in accounting and auditing. Mr. Ng previously worked as company secretary of Global Bio-chem Technology Group Company Limited (a company listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), Stock Code: 809), Datasys Technology Holdings Limited (a company previously listed on the Stock Exchange, Stock Code: 8057) and Grand T G Gold Holdings Limited (a company listed on the Stock Exchange, Stock Code: 8299). Mr. Ng now serves as a non-executive director of CDW Holding Limited (a company listed on the Singapore Stock Exchange, Stock Code: D38). Mr. Ng graduated from Hong Kong Shue Yan College in July 1985 with a diploma in accounting. Mr. Ng is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Yang Weimin, aged 47, an executive director of the Company. He is also a director of 4 subsidiaries of the Company. Mr. Yang joined the Group on February 1, 2005. Mr. Yang has over 11 years of experience in electronic technologies development as well as the state affairs and public relations. Prior to joining the Group, Mr. Yang was employed by Fujian Film Machinery Factory and was the chief engineer of Zhejiang Xinda Machinery Company Limited. Mr. Yang received a Bachelor’s degree in engineering, majoring in physics in magnetic fields and devices, from University of Electronic Science and Technology of China in July 1991. Mr. Yang is qualified as an engineer.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lin Yuanfang, aged 75, an independent non-executive director. Mr. Lin was appointed to the board of directors of the Company on April 1, 2007. Mr. Lin was previously an independent non-executive director of Xiamen Overseas Chinese Electronic Co., Limited (廈門華僑電子股份有限公司). Mr. Lin has been the vice chairman of China Electronic Imaging Industry Association (中國電子視像行業協會) since November 2001. Mr. Lin was the vice department head of the Economic System Reform and Operation Department of the PRC Ministry of Information Industry (“MII”) from 1998 to 2000. Prior to that and from 1980, Mr. Lin held various official positions in the MII, and the Ministry of Electronic Industry (電子工業部). Mr. Lin graduated from Fudan University in 1964 majoring in physics.

Li Hongbin, aged 50, an independent non-executive director. Mr. Li was appointed to the board of directors of the Company on April 1, 2007. Mr. Li has been a professor in information technologies at Peking University in 2004. Prior to that, Mr. Li was employed by Xi’an Electronic Technology University (西安電子科技大學) from 1989 to 2002. From 2002 to 2005, Mr. Li was a member of the expert panel for a national advanced technologies research and development project (Project 863). Mr. Li obtained a master’s degree in January 1989 from Xi’an Electronic Technology University (西安電子科技大學).

Ku Kin Shing Ignatius, aged 54, has over 22 years of experience in finance and accounting and had worked in an international accounting firm and previously also held the position of financial controller in a listed company in Singapore. Mr. Ku holds a Bachelor of Commerce (Accounting) degree from the University of Canberra, Australia. He is a member of the Australian Society of Certified Practicing Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He is currently the company secretary and financial controller of China Putian Food Holdings Limited (a company listed on the Stock Exchange, Stock Code: 1699).

SENIOR MANAGEMENT PROFILE

Hung Ee Tek, aged 53, is the chief financial officer and company secretary of the Company. Mr. Hung has more than 20 years of experience in finance, accounting and auditing. He had worked in local and international accounting firms and had been finance manager and company secretary and financial controller of listed companies in Hong Kong. Mr. Hung holds a master’s degree in arts (China Studies) from The Hong Kong University of Science and Technology and a master’s degree in arts, majoring in international accounting from The City University of Hong Kong.

Liu Qiongbin, aged 50, is the financial controller of Centron Communications Technologies Fujian Co., Ltd. (福建先創電子有限公司), a subsidiary of the Group, currently responsible for the financial management of Centron Communications Technologies Fujian Co., Ltd. Mr. Liu has 28 years of experience in finance and management. Mr. Liu graduated from Anhui University of Finance and Economics, obtained the China qualification of accountant in 1998 and a Master of Business Administration (MBA) degree in 2007 from the Open University of Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT

Cheng Lvbang, aged 42, currently general manager of the research and development center and chief engineer of the Company, mainly responsible for the research and development and product management of the Company. Mr. Cheng graduated from Beijing University of Posts and Telecommunications and received a PhD in signal and information processing. Mr. Cheng joined the Company since July 2011 and has over 15 years of working experience in research and development of mobile communication products and management. He had worked for DT Mobile Technologies Co., Ltd. and served as head of the physical research center of the terminal department, the deputy manager of terminal product lines and director of LTE products. He was also a core technician and main person-in-charge for the research and development and formulation of TD-SCDMA standards, as well as the development of TD-SCDMA terminal and base station products. Since 2007, Mr. Cheng has been participated in the research and development of China's major projects, "R&D of LTE TDD Key Technologies and Research Prototype of Base Station Equipment (LTE TDD 關鍵技術及基站設備科研樣機研發)" and other key projects such as "Development of Pre-commercial Equipment for TDD-LTE Base Station (TDD-LTE 基站預商用設備開發)" and "R&D of TDD-LTE Commercial Base Station (TDD-LTE 面向商用基站研發)". During the course of research and development, Mr. Cheng had applied for over 10 utility patents in respect of TD-SCDMA and TDD-LTE, among which, "Multi-user Code Activation Detection and Device for Wireless Communication System(無線通信系統中多用戶碼道必激活檢測的方法和裝置)" was awarded the Second National Outstanding Patented Engineering Technology.

Dai Guohuang, aged 44, is currently responsible for the daily marketing work of the Group, including sales and marketing of the specific network business. Mr. Dai is the brother of Mr. Dai Guoliang, the Chairman of the Board. He has successively held positions such as head of the marketing department, manager of the Beijing branch and manager of the Tianjin branch of Fujian Centron. He has served as the general manager of 福建東電能源有限公司 and the general manager of Linktop Technologies, with a wealth of management and sales experience in the communications industry.

Qiu Xiaping, aged 47, general manager of the manufacturing centre of Fujian Centron, is responsible for production and procurement of Fujian Centron. Mr. Qiu joined the Fujian Centron in 2008. He had worked in Xiamen Overseas Chinese Electronic Co, Ltd. as production manager of television factory, manager of inventory department, product development officer and general manager of production centre. Mr. Qiu is a senior business administrator and has more than 18 years of experience in research, development, production and management in electronic sector. Mr. Qiu graduated from Fuzhou University and Xiamen University and majored in social work and business management respectively.

Chen Hong, aged 39, the general manager of the Company's security and investment department, also an assistant of Chairman and of chief financial controller. Mr. Chen is responsible for the investor relationship of the Company and has been involving in the investment and financing operations of the Company. Mr. Chen joined the Group in 2006 and was previously the secretary to the board of Fujian Centron and Nice Group, wholly-owned subsidiaries of the Company. Mr. Chen previously worked in a company listed on Hong Kong Stock Exchange Limited before joining the Company. Mr. Chen obtained a Bachelor's degree in science from Fudan University and a Master's degree (major in accountancy) and a Doctor's degrees (major in accountancy) from Xiamen University.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to ensure high standard of corporate governance with a view to enhancing management efficiency of the Company as well as preserve the interests of its shareholders. The directors of the Company (the “Directors”) confirm, to the best of their knowledge, except for the requirements that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual (Code provision A.2.1), the Company has complied with the Corporate Governance Code (the “Corporate Governance Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the financial year ended 31 December 2015 (the “Financial Year”) and up to the date of this annual report.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code for directors’ dealing in securities of the Company (the “Own Code”). Having made specific enquiry of the Company’s directors, the directors confirmed that they have fully complied with the required standard as set out in the Own Code throughout the Financial Year.

COMPOSITION OF THE BOARD OF DIRECTORS

The Board comprises four executive directors and three independent non-executive directors. The biographical details of all Directors are set out on pages 14 to 16 of this annual report. The composition of the Board is well balanced with Directors having sound knowledge and skill on different areas of the Group’s business. Details of composition of the Board and the respective area of responsibilities of the Directors are set out in the table on page 2 of this annual report.

The Company has received, from each independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent, who will provide independent views and share their knowledge and experience with other members of the Board.

FUNCTIONS OF THE BOARD

The Board is responsible for (i) the formulation of operational and strategic directions of the Group; (ii) monitoring the financial performance of the Group; (iii) overseeing the performance of management of the Company (the “Management”); and (iv) ensure that the business and operation of the Group are managed by properly authorized and competent management. The Management is responsible for the day-to-day operation of the Group under the leadership of the Board.

Moreover, the Board as a whole is responsible for performing the corporate governance duties set out in the Corporate Governance Code. The Board reviews at least annually the corporate governance practices of the Company to ensure its continuous compliance with the Corporate Governance Code, and make appropriate changes if considered necessary. During the Financial Year, the Board has performed the corporate governance duties set out in the Corporate Governance Code.

CORPORATE GOVERNANCE REPORT

TRAINING FOR DIRECTORS

The Directors are committed to complying with Code Provision A.6.5 of the Corporate Governance Code on Directors' training. All Directors have participated in continuous professional development by attending seminars and/or studying materials relevant to Director's duties and responsibility and provided a record of training they received for the Financial Year to the Company.

During the year, the executive Directors, namely Mr. Dai Guoliang, Mr. Dai Guoyu, and Mr. Yang Weimin and the independent non-executive Directors, namely Mr. Lin Yuanfang, Mr. Li Hongbin and Mr. Ku Kin Shing Ignatius attended a seminar regarding the Listing Rules prepared by Locke Lord, the Company's Hong Kong legal adviser for the year.

The Company has from time to time provided briefings to all directors to develop and refresh their duties and responsibilities. All directors are also encouraged to attend relevant training courses at the Company's expense and they have been requested to provide the Company with their training records for the courses attended.

MEETINGS OF THE BOARD

During the Financial year, the Board held 7 Board meetings. At least 7 days notice of regular Board meetings was given to all Directors and they can include matters for discussion in the agenda as they think fit. Minutes of every Board meeting are kept by the secretary of the Company at the registered office and the Directors are entitled to have full access to the minutes and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities. Details of individual attendance of Directors are set out in the attendance table on page 21 of this annual report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Corporate Governance Code, the roles of Chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Dai Guoliang has held the position of the Chairman and the Chief Executive Officer of the Company since Mr. Dai Guoyu resigned as Chief Executive Officer with effect from 23 April 2010 as Mr. Dai Guoliang is well acquainted with the business and operation of the Group. The Board has been in process of identifying a suitable candidate to take the office of Chief Executive Officer.

RELATIONSHIP OF THE BOARD MEMBERS

None of the Directors has any financial, business, family or other material or relevant relationships with other members of the Board except that Mr. Dai Guoliang and Mr. Dai Guoyu are brothers.

DIRECTORS' INTEREST IN CONTRACT

Before each Board meeting, the Directors have to declare their interests in the subject matter to be considered in the relevant Board meeting. Any Director who or whose associates have any material interest in any proposed Board resolutions will not be counted as a quorum in the relevant Board meeting nor vote for the Board resolutions. The independent non-executive Directors who and whose associates have no material interest in the matter will attend the meeting to deal with the matter if it is considered appropriate.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

In accordance with the Company's Articles of Association, all Directors (including independent non-executive Directors) are subject to retirement by rotation at least once every three years.

Each of the independent non-executive Directors was appointed for a specific term of three years.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance of the Corporate Governance Code. The Remuneration Committee consisted of four members, namely Mr. Lin Yuanfang, Mr. Li Hongbin, Mr. Ku Kin Shing Ignatius and Mr. Yang Weimin. Mr. Lin Yuanfang, Mr. Li Hongbin and Mr. Ku Kin Shing Ignatius are independent non-executive Directors. Mr. Hung Ee Tek resigned as a member of the Remuneration Committee on 1 July 2015. Mr. Lin Yuanfang has been appointed as the chairman of the Remuneration Committee with effect from 26 March 2012. During the Financial Year, three meetings of the Remuneration Committee were held and the attendance of each member is set out in the attendance table on page 21 of this annual report.

The primary functions of the Remuneration Committee include making recommendations on the Company's policy and structure for all Directors' and senior management's remuneration and determining, with delegated responsibility, the specific remuneration package of all executive Directors and senior management and making recommendations to the Board on the remuneration of non-executive Directors.

During the Financial Year, 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.

For the Financial Year, the annual remuneration of the members of the senior management who are not Directors are within the following band:

| Remuneration band (RMB) | Number of individuals |
|--------------------------------|------------------------------|
| 0 – 600,000 | 6 |

Details of the remuneration of each Director for the Financial Year are set out in note 8 to the financial statements contained in this annual report.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") consisted of the three independent non-executive Directors, namely Mr. Ku Kin Shing Ignatius, Mr. Lin Yuanfang and Mr. Li Hongbin. Mr. Hung Ee Tek resigned as a member of the Audit Committee on 1 July 2015. The chairman of the Audit Committee is Mr. Ku Kin Shing Ignatius. During the Financial Year, two meetings of the Audit Committee were held and the attendance of each member is set out in the attendance table on page 21 of this annual report.

CORPORATE GOVERNANCE REPORT

The principal responsibilities of the Audit Committee include (i) reviewing the financial information of the Company; (ii) overseeing the Group's financial reporting system and internal control procedure; (iii) assisting the Board on the appointment, reappointment and removal of the external auditor, (iv) considering and approving the remuneration and terms of engagement of the external auditor; and (v) performing other duties as set out in the Corporate Governance Code.

During the Financial Year, the Audit Committee has, amongst other things, reviewed half-yearly and annual results of the Company and reviewed internal control matters of the Company.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") has primary duties of reviewing the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and qualification in order to ensure the fairness and transparency of all nominations. The Nomination Committee consisted of three members, namely, Mr. Dai Guoliang, the Group's chairman and two independent non-executive Directors, namely, Mr. Lin Yuanfang and Mr. Li Hongbin. Mr. Dai Guoliang is the chairman of the Nomination Committee.

One meeting of the Nomination Committee was held during the Financial Year and the attendance of each member is set out in the attendance table on page 21 of this annual report.

During the Financial Year, 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 to select and recommend candidates for directorship during the year.

Details of the appointment and resignation during the Financial Year are set out in the section of "Report of the Directors" of this annual report.

AUDITORS' REMUNERATION

An analysis of the remuneration of the Company's auditors, Ernst & Young, for the Financial Year is set out below:

| | Fee paid/payable |
|---|-------------------------------|
| | Approximately RMB' million |
| Services rendered | |
| Audit fee for 2015 annual audit | 2.4 |
| Non-audit service (Agreed upon procedures on interim results for the six months ended 30 June 2015) | 0.5 |
| Total | <u>2.9</u> |

CORPORATE GOVERNANCE REPORT

Attendance Table (Attendance out of numbers of meetings)

| Name of Director | Position | Annual General meeting | Board meeting | Meeting of the Remuneration Committee | Meeting of the Audit Committee | Meeting of the Nomination Committee |
|--|------------------|------------------------------|------------------|--|---|--|
| Executive Directors | | | | | | |
| Mr. Dai Guoliang | Chairman and CEO | 1/1 | 7/7 | N/A | N/A | 1/1 |
| Mr. Guo Zeli (Note 1) | Vice Chairman | 0/1 | 6/7 | N/A | N/A | N/A |
| Mr. Dai Guoyu | | 0/1 | 7/7 | N/A | N/A | N/A |
| Mr. Ng Wai-kee | | 1/1 | 7/7 | N/A | N/A | N/A |
| Mr. Yang Weimin | | 1/1 | 7/7 | 3/3 | N/A | N/A |
| Independent non-executive Directors | | | | | | |
| Mr. Hung Ee Tek (Note 2) | | 1/1 | 2/2 | 2/2 | 1/1 | N/A |
| Mr. Lin Yuanfang | | 0/1 | 7/7 | 3/3 | 2/2 | 1/1 |
| Mr. Li Hongbin | | 0/1 | 6/7 | 3/3 | 2/2 | 1/1 |
| Mr. Ku Kin Shing Ignatius (Note 3) | | N/A | 4/4 | 1/1 | 1/1 | N/A |

Note:

1. Mr. Guo Zeli resigned as an executive Director on 22 October 2015.
2. Mr. Hung Ee Tek resigned as an independent non-executive Director on 1 July 2015.
3. Mr. Ku Kin Shing Ignatius was appointed as an independent non-executive Director with effect from 1 July 2015.

ACCOUNTABILITY OF THE BOARD

The Directors acknowledge that it is their responsibilities for preparing the financial statements of the Group, so as to give a true and fair view of the financial position, results and cash flow of the Group and presenting the interim and annual reports and results announcements to shareholders. In preparing the financial statements for the Financial Year, the Directors have adopted suitable accounting policies and applied them consistently, made judgements and estimations that are prudent and reasonable and have prepared the financial statements on a going concern basis.

COMPANY SECRETARY

The position of Company Secretary is held by Mr. Hung Ee Tek. In compliance with Rule 3.29 of the Listing Rules, Mr. Hung confirmed that, during the Financial Year, he has taken no less than 15 hours of relevant professional training.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to provide its shareholders accurate, clear, comprehensive and timely information of the Group via the publication of annual reports, interim reports, announcements, press releases and also the Company's website at <http://www.centron.com.hk>. The Board will maintain regular communication with institutional investors to address their enquiries on the Group's strategies, operations management and plans.

CORPORATE GOVERNANCE REPORT

All the shareholders of the Company are to be given a formal notice at least 20 clear business days in advance of the Company's annual general meeting and 10 clear business days in advance of the Company's all others general meetings where the shareholders will have an opportunity to communicate directly with the Board.

SHAREHOLDERS' RIGHTS

Procedures for convening of an extraordinary general meeting and putting forward proposals at shareholders' meeting

Pursuant to Article 58 of the articles of association of the Company, shareholder(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company may, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. In the event that the Board fails to proceed to convene such meeting within twenty-one days of the deposit of the requisition, the shareholder(s) of the Company who deposit such requisition may do so in the same manner, and all reasonable expenses incurred by such shareholder(s) of the Company as result of the failure of the Board shall be reimbursed to such shareholder(s) of the Company.

The said written requisition shall be deposited at the principal place of business of the Company in Hong Kong.

Procedures for Shareholders to Put Enquiries to the Board

Shareholders of the Company should direct their enquiries about their shareholdings to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. In respect of other enquiries, the shareholders of the Company may put forward enquiries to the Board through the Company's principal place of business in Hong Kong which will direct the enquiries to the Board for handling.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has established an on-going process for identifying, evaluating and managing the potential risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines.

The Board conducts a review of the effectiveness of the Group's internal control systems on an annual basis and is of the view that the system of internal controls in place for the Financial Year and up to the date of this annual report is effective and adequate to safeguard the interests of shareholders and employees, and the Group's assets.

CHANGES IN THE COMPANY'S CONSTITUTIONAL DOCUMENTS

There was no change in the Company's memorandum of association and the articles of association during the Financial Year.

REPORT OF THE DIRECTORS

The directors of the Company (the “Directors”) present their report and the audited consolidated financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

Details of business review are set out in this report of the directors and the “Management Discussion and Analysis” on pages 5 to 13. This discussion forms part of this directors’ report.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2015 and the Group’s financial position at that date are set out in the financial statements on pages 35 to 94.

The Directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities, non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and prepared on the basis as set out herein, is set out below. This summary does not form a part of the audited financial statements.

REPORT OF THE DIRECTORS

RESULTS

| | Year ended 31 December | | | | |
|---|------------------------|----------------|----------------|----------------|----------------|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| REVENUE | 1,534,030 | 1,571,548 | 1,462,555 | 1,478,743 | 1,599,522 |
| PROFIT BEFORE TAX | 79,699 | 63,513 | 50,239 | 103,044 | 234,644 |
| Income tax expense | (28,931) | (25,451) | (43,369) | (42,874) | (56,662) |
| PROFIT FOR THE YEAR | 50,768 | 38,062 | 6,870 | 60,170 | 177,982 |
| Attributable to: | | | | | |
| Ordinary equity holders of the Company | 50,922 | 40,488 | 7,107 | 59,530 | 175,458 |
| Non-controlling interests | (154) | (2,426) | (237) | 640 | 2,524 |
| | 50,768 | 38,062 | 6,870 | 60,170 | 177,982 |
| | As at 31 December | | | | |
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Total assets | 2,681,519 | 2,562,956 | 2,264,080 | 2,173,104 | 2,144,101 |
| Total liabilities | (1,063,738) | (972,158) | (701,531) | (619,403) | (622,062) |
| Non-controlling interests | — | (2,962) | (10,491) | (10,728) | (10,088) |
| | 1,617,781 | 1,587,836 | 1,552,058 | 1,542,973 | 1,511,951 |

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options during the year are set out in notes 23 and 24 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to RMB392,510,000. The amount of RMB392,510,000 includes the Company's share premium account and capital reserve of RMB657,944,000 in aggregate as at 31 December 2015, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 90% of the total sales for the year and sales to the largest customer included therein accounted for 45%. Purchases from the Group's five largest suppliers accounted for 13% of the Group's total purchases for the year and purchases to the largest supplier accounted for 3%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and/or five largest suppliers during the year.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors:

Mr. Dai Guoliang

Mr. Dai Guoyu

Mr. Guo Zeli (resigned on 22 October 2015)

Mr. Ng Wai-kee

Mr. Yang Weimin

Independent non-executive Directors:

Mr. Lin Yuanfang

Mr. Li Hongbin

Mr. Hung Ee Tek (resigned on 1 July 2015)

Mr. Ku Kin Shing Ignatius (appointed on 1 July 2015)

In accordance with article 87(1) of the Company's articles of association, Mr. Dai Guoliang, Mr. Yang Weimin and Mr. Ku Kin Shing Ignatius will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive Directors and independent non-executive Directors are appointed for periods of three years.

The Company has received annual confirmations of independence from Mr. Lin Yuanfang, Mr. Li Hongbin, Mr. Ku Kin Shing Ignatius and Mr. Hung Ee Tek (during his tenure of office as independent non-executive director) pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 16 of this annual report.

PERMITTED INDEMNITY PROVISIONS

During the year and up to the date of this report, there was no permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise).

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors (except Mr. Ng Wai-kee) has entered into a service agreement with the Company for a term of three years which commenced on 6 July 2013. Mr. Ng Wai-kee has entered into an appointment letter with the Company. Mr. Ng is not appointed for a specific term but he is subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company in accordance with the articles of association of the Company. Each of the independent non-executive Directors (except Mr. Ku King Shing Ignatius) has been appointed for a term of three years which commenced on 1 April 2013. Mr. Ku Kin Shing Ignatius has entered into an appointment letter with the Company for a term of three years which commenced on 1 July 2015. Under the said service agreements and the said appointment letters, the remuneration payable to each of the Directors is subject to the discretion of the Company's board of directors.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting 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.

EMOLUMENT POLICIES AND DIRECTORS' REMUNERATION

The Directors' remuneration is subject to shareholders' approval at general meetings with reference to the recommendation of the Group's remuneration committee. The Group's emolument policies are formulated based on the performance of individual employees and are reviewed regularly. Subject to the Group's profitability, the Group may also provide a discretionary bonus to its employees as an incentive for their contribution to the Group. The primary goal of the remuneration policy with regard to the remuneration packages of the executive Directors is to enable the Group to retain and motivate executive directors by linking their compensation with performance as measured against corporate objectives achieved.

The principal elements of the Group's remuneration packages include basic salaries, discretionary bonuses, housing benefits and share option benefits.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No director nor a connected entity of a director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, or any of the Company's subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, the interests and short positions of the Directors and the chief executive in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

REPORT OF THE DIRECTORS

Long positions in ordinary shares of the Company:

| Name of director | Note | Capacity and nature of interests | Number of shares | Percentage of the Company's issued share capital |
|-------------------------|-------------|---|-------------------------|---|
| Mr. Dai Guoliang | 1 | Through controlled corporation | 169,092,668 | 21.70 |

Short positions in ordinary shares of the Company:

| Name of director | Note | Capacity and nature of interests | Number of shares | Percentage of the Company's issued share capital |
|-------------------------|-------------|---|-------------------------|---|
| Mr. Dai Guoliang | 1 | Through controlled corporation | 24,081,308 | 3.09 |

Note:

- Oriental City Profits Ltd. ("Oriental City") held (i) 169,092,668 shares of the Company in long position, representing 21.70% of the entire issued share capital of the Company, and (ii) 24,081,308 shares of the Company in short position, representing 3.09% of the entire issued share capital of the Company as at 31 December 2015. As at 31 December 2015, the share capital of Oriental City was beneficially owned as to 87.53% by Mr. Dai Guoliang and as to 12.47% by Mr. Dai Guoyu. As mentioned above, Mr. Dai Guoliang's beneficial interest in Oriental City amounted to 87.53%. Accordingly, pursuant to the SFO, Mr. Dai Guoliang was deemed to be interested in the shares held by Oriental City as he was entitled to control one-third or more of the voting power at the general meetings of Oriental City.

Long positions in ordinary shares of an associated corporation:

| Name of director | Name of associated corporation | Capacity and nature of interests | Relationship with the Company | Number of shares held | Approximate percentage of the associated corporation's issued share capital |
|-------------------------|---------------------------------------|---|--------------------------------------|------------------------------|--|
| Mr. Dai Guoliang | Oriental City | Beneficial and registered owner | (note 1) | 323 | 87.53 |
| Mr. Dai Guoyu | Oriental City | Beneficial owner | (note 2) | 46 | 12.47 |

Notes:

- Oriental City held (i) 169,092,668 shares of the Company in long position, representing 21.70% of the entire issued share capital of the Company, and (ii) 24,081,308 shares of the Company in short position, representing 3.09% of the entire issued share capital of the Company as at 31 December 2015. The share capital of Oriental City was beneficially owned as to 87.53% by Mr. Dai Guoliang and as to approximately 12.47% by Mr. Dai Guoyu.
- Mr. Dai Guoyu was beneficially interested in approximately 12.47% of the issued share capital of Oriental City.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2015, none of the Directors or the chief executive of the Company had registered any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Share option scheme" below, at no time during the year 2015 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Share Option Scheme are disclosed in note 24 to the financial statements.

During the financial year ended 31 December 2015, no share options were granted, exercised or cancelled by the Company under the Share Option Scheme.

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

No contracts of significance in relation to the Group's business in which the Company, or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2015, the interests or short positions of the persons, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long positions:

| Name | Notes | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's issued share capital | |
|--------------------------------------|-------|----------------------------------|--------------------------------|--|--|
| Oriental City | (1) | Directly beneficially owned | 169,092,668 | 21.70 | |
| | | | (long position) | | |
| Mr. Dai Guoliang | (1) | Through a controlled corporation | 24,081,308 | 3.09 | |
| | | | (short position) | | |
| | | | 169,092,668 | 21.70 | |
| Cathay Mobile Communications Limited | (2) | Directly beneficially owned | (long position) | | |
| | | | 24,081,308 | 3.09 | |
| | | | (short position) | | |
| Cathay Capital Holdings, L.P. | (2) | Through a controlled corporation | 105,000,000 | 13.48 | |
| Molatis Limited | (3) | Directly beneficially owned | 47,250,000 | 6.06 | |
| Mr. Sussman Selwyn Donald | (3) | Through a controlled corporation | 47,250,000 | 6.06 | |
| Mr. Sussman Selwyn Donald | (3) | Directly beneficially owned | 8,766,000 | 1.13 | |

Notes:

- (1) Oriental City held (i) 169,092,668 shares of the Company in long position, representing 21.70% of the entire issued share capital of the Company, and (ii) 24,081,308 shares of the Company in short position, representing 3.09% of the entire issued share capital of the Company as at 31 December 2015. The share capital of Oriental City was beneficially owned as to 87.53% by Mr. Dai Guoliang and as to approximately 12.47% by Mr. Dai Guoyu.
- (2) The ordinary shares were held by Cathay Mobile Communications Limited, a direct wholly-owned subsidiary of Cathay Capital Holdings, L.P..
- (3) The ordinary shares, in an aggregate number of 56,016,000, were beneficially held by Mr. Sussman Selwyn Donald, of which 47,250,000 shares were held through Molatis Limited.

Save as disclosed above, as at 31 December 2015, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DISCLOSURES PURSUANT TO RULES 13.21 AND 13.22 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contain covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to a facility agreement dated 20 November 2014 made between the Company, Bank of China (Hong Kong) Limited and CITIC Bank International Limited relating to US dollars and Hong Kong dollars dual currency term loan facilities up to US\$60,000,000, it shall be an event of default if: (i) Mr. Dai Guoliang is not or cease to be chairman of the Company; (ii) Mr. Dai Guoliang or Mr. Dai Guoyu is not or cease to be executive director of the Company; (iii) Mr. Dai Guoliang and Mr. Dai Guoyu collectively do not or cease to maintain control over the management and business of the Group; (iv) Mr. Dai Guoliang does not or ceases to own, directly or indirectly, at least 20% of the beneficial shareholding carrying at least 20% of the voting rights in the Company, free from any mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect (the "Security"); (v) Mr. Dai Guoliang does not or ceases to be the single largest controlling shareholder of the Company; (vi) Mr. Dai Guoliang and Mr. Dai Guoyu, collectively, do not or cease to own, directly or indirectly, 100% of the beneficial shareholding carrying 100% of the voting rights in Oriental City free from any Security; or (vii) any Guarantor or Fujian Centron is not or ceases to be, directly or indirectly, a wholly owned subsidiary of the Company, free from any security (other than security created under the security documents).

ENVIRONMENTAL POLICIES AND COMPLIANCES

The Group is subject to a number of laws and regulations in China concerning overall environmental protection, impact to the environment and environmental protection for development projects. The Group places high concerns on complying with relevant environmental laws and regulations. The Group requires our own staff and products quality to comply with the relevant PRC laws and regulations relating to the environmental, labour, social and safety regulations, as well as its own standards and specifications. The Group believes that it is in compliance in all material respects with applicable environmental laws and regulations in China.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holdings of the shares of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, as far as the directors and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

REPORT OF THE DIRECTORS

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals.

Remuneration packages of employees are generally structured with reference to prevailing market terms and individual qualifications. The Group maintains close relationship with the customers with a close monitor over service improvement to fulfill their immediate and long-term need. The Group did not have any major supplier that has significant influence on the operations. However, the Group had always maintained fair and co-operating relationship with the suppliers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total number of issued shares were held by the public as at the date of this report.

CONNECTED TRANSACTIONS

During the year, Fujian Centron, a wholly-owned subsidiary of the Company disposed of 56.985% of its equity interest (the "Disposal") in Shenzhen ZHT Communication and Technology Company Limited*, (深圳澤惠通通訊技術有限公司, a subsidiary of Fujian Centron, "ZHT") for a consideration of RMB9.1 million. Four of the purchasers are directors of the ZHT. Accordingly, they are connected persons of the Company at the subsidiary level. The aggregate consideration payable by such connected persons to Fujian Centron is RMB6.0 million. After the Disposal, Fujian Centron still holds 10% of the equity interest in ZHT. The Disposal resulted in a loss of RMB2.2 million. Details of the Disposal had been set out in the announcement of the Company dated 31 December 2015. The directors of the Company confirm that the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Dai Guoliang

Chairman

Hong Kong

30 March 2016



To the shareholders of Centron Telecom International Holding Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Centron Telecom International Holding Limited (the “Company”) and its subsidiaries set out on pages 35 to 94, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (continued)

To the shareholders of Centron Telecom International Holding Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

22/F CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

30 March 2016

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|--|-------|--------------------|--------------------|
| Revenue | 5 | 1,534,030 | 1,571,548 |
| Cost of sales | | <u>(1,186,536)</u> | <u>(1,197,752)</u> |
| Gross profit | | 347,494 | 373,796 |
| Other income and gain | 5 | 5,247 | 2,407 |
| Selling and distribution expenses | | (78,512) | (70,564) |
| General and administrative expenses | | (157,823) | (215,347) |
| Finance costs | 7 | <u>(36,707)</u> | <u>(26,779)</u> |
| PROFIT BEFORE TAX | 6 | 79,699 | 63,513 |
| Income tax expense | 10 | <u>(28,931)</u> | <u>(25,451)</u> |
| PROFIT FOR THE YEAR | | <u>50,768</u> | <u>38,062</u> |
| Attributable to: | | | |
| Ordinary equity holders of the Company | | 50,922 | 40,488 |
| Non-controlling interests | | <u>(154)</u> | <u>(2,426)</u> |
| | | <u>50,768</u> | <u>38,062</u> |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 11 | | |
| Basic and diluted (RMB cents) | | <u>6.54</u> | <u>5.20</u> |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

| | 2015 | 2014 |
|--|-----------------|----------------|
| | RMB'000 | RMB'000 |
| PROFIT FOR THE YEAR | <u>50,768</u> | <u>38,062</u> |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) | | |
| Other comprehensive income/(expense) to be reclassified to income statement in subsequent periods: | | |
| Exchange differences on translation of foreign operations | <u>(20,977)</u> | <u>(4,710)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>29,791</u> | <u>33,352</u> |
| Attributable to: | | |
| Ordinary equity holders of the Company | 29,945 | 35,778 |
| Non-controlling interests | <u>(154)</u> | <u>(2,426)</u> |
| | <u>29,791</u> | <u>33,352</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|--|-------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | 165,531 | 178,622 |
| Prepaid land lease payments | 13 | 9,743 | 9,984 |
| Available-for-sale investments | 14 | 1,600 | — |
| Other receivables | 17 | 888 | — |
| Deferred tax assets | 22 | 2,388 | 3,540 |
| Total non-current assets | | <u>180,150</u> | <u>192,146</u> |
| CURRENT ASSETS | | | |
| Inventories | 15 | 608,360 | 535,644 |
| Trade and bills receivables | 16 | 1,459,415 | 1,537,997 |
| Prepayments, deposits and other receivables | 17 | 41,534 | 20,183 |
| Available-for-sale investments | 14 | 3,000 | — |
| Restricted bank deposits | 18 | 3,113 | 2,098 |
| Pledged deposits | 18 | 56,516 | 73,873 |
| Cash and cash equivalents | 18 | 329,431 | 201,015 |
| Total current assets | | <u>2,501,369</u> | <u>2,370,810</u> |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 19 | 173,468 | 289,806 |
| Other payables and accruals | 20 | 57,437 | 64,461 |
| Bank and other advances for discounted bills | 32(a) | — | 2,860 |
| Interest-bearing bank borrowings | 21 | 567,286 | 210,627 |
| Tax payable | | 29,001 | 28,161 |
| Total current liabilities | | <u>827,192</u> | <u>595,915</u> |
| NET CURRENT ASSETS | | <u>1,674,177</u> | <u>1,774,895</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>1,854,327</u> | <u>1,967,041</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|--|-------|------------------|------------------|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>1,854,327</u> | <u>1,967,041</u> |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 21 | <u>222,346</u> | 363,643 |
| Deferred tax liabilities | 22 | <u>14,200</u> | <u>12,600</u> |
| Total non-current liabilities | | <u>236,546</u> | <u>376,243</u> |
| Net assets | | <u>1,617,781</u> | <u>1,590,798</u> |
| EQUITY | | | |
| Equity attributable to ordinary equity holders of the Company | | | |
| Share capital | 23 | <u>74,977</u> | 74,977 |
| Reserves | 25 | <u>1,542,804</u> | <u>1,512,859</u> |
| | | <u>1,617,781</u> | 1,587,836 |
| Non-controlling interests | | <u>—</u> | <u>2,962</u> |
| Total equity | | <u>1,617,781</u> | <u>1,590,798</u> |

Dai Guoliang

Director

Yang Weimin

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

| | | Attributable to ordinary equity holders of the Company | | | | | | | | |
|------|-----------------------------------|--|-----------------|----------------|-----------------|-----------------|------------------|------------------|--------------|------------------|
| | | Reserves | | | | | | | | |
| | | Share | Enterprise | | Exchange | | Non- | Total | | |
| Note | Share | premium | Capital | and statutory | Retained | fluctuation | Total | controlling | Total | |
| | capital | account | reserve | reserve funds | profits | reserve | | interests | equity | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| | (note 23) | | (note 25) | (note 25) | | | | | | |
| | At 1 January 2015 | 74,977 | 499,014 | 85,106 | 227,098 | 721,679 | (20,038) | 1,587,836 | 2,962 | 1,590,798 |
| | Profit for the year | — | — | — | — | 50,922 | — | 50,922 | (154) | 50,768 |
| | Other comprehensive | | | | | | | | | |
| | income/(expense) for the year: | | | | | | | | | |
| | Exchange differences on | | | | | | | | | |
| | translation of foreign operations | — | — | — | — | — | (20,977) | (20,977) | — | (20,977) |
| | Total comprehensive | | | | | | | | | |
| | income/(expense) for the year | — | — | — | — | 50,922 | (20,977) | 29,945 | (154) | 29,791 |
| | Disposal of a subsidiary | 26 | — | — | — | — | — | — | (2,808) | (2,808) |
| | Transfer to enterprise expansion | | | | | | | | | |
| | and statutory reserve funds | — | — | — | 12,653 | (12,653) | — | — | — | — |
| | At 31 December 2015 | <u>74,977</u> | <u>499,014*</u> | <u>85,106*</u> | <u>239,751*</u> | <u>759,948*</u> | <u>(41,015)*</u> | <u>1,617,781</u> | <u>—</u> | <u>1,617,781</u> |
| | At 1 January 2014 | 74,977 | 499,014 | 85,106 | 213,208 | 695,081 | (15,328) | 1,552,058 | 10,491 | 1,562,549 |
| | Profit for the year | — | — | — | — | 40,488 | — | 40,488 | (2,426) | 38,062 |
| | Other comprehensive | | | | | | | | | |
| | income/(expense) for the year: | | | | | | | | | |
| | Exchange differences on | | | | | | | | | |
| | translation of foreign operations | — | — | — | — | — | (4,710) | (4,710) | — | (4,710) |
| | Total comprehensive | | | | | | | | | |
| | income/(expense) for the year | — | — | — | — | 40,488 | (4,710) | 35,778 | (2,426) | 33,352 |
| | Transfer to enterprise expansion | | | | | | | | | |
| | and statutory reserve funds | — | — | — | 13,890 | (13,890) | — | — | — | — |
| | Final dividend declared to | | | | | | | | | |
| | non-controlling shareholders | | | | | | | | | |
| | of a subsidiary | — | — | — | — | — | — | — | (5,103) | (5,103) |
| | At 31 December 2014 | <u>74,977</u> | <u>499,014*</u> | <u>85,106*</u> | <u>227,098*</u> | <u>721,679*</u> | <u>(20,038)*</u> | <u>1,587,836</u> | <u>2,962</u> | <u>1,590,798</u> |

* These reserve accounts comprise the consolidated reserves of RMB1,542,804,000 (2014: RMB1,512,859,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|--|-------|------------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | 79,699 | 63,513 |
| Adjustments for: | | | |
| Interest income | 5 | (2,634) | (890) |
| Interest expense | 7 | 31,803 | 22,514 |
| Amortisation of bank charges on syndicated loans | 7 | 4,904 | 4,265 |
| Depreciation | 6 | 23,702 | 23,833 |
| Amortisation of prepaid land lease payments | 6 | 241 | 241 |
| Loss/(gain) on disposal of items of property, plant and equipment | 6 | (54) | 28 |
| Loss on disposal of a subsidiary | 6 | 2,234 | — |
| Impairment of goodwill | 6 | — | 1,135 |
| Impairment/(write-back of impairment) of inventories, net | 6 | 20,560 | (6,555) |
| Write-off of inventories | 6 | 2,618 | — |
| Write-back of impairment of trade receivables, net | 6 | (13,075) | (3,608) |
| Write-back of impairment of prepayments and other receivables, net | 6 | (182) | (332) |
| | | 149,816 | 104,144 |
| Increase in inventories | | (106,838) | (205,682) |
| Decrease in trade and bills receivables | | 63,397 | 14,688 |
| Decrease/(increase) in prepayments, deposits and other receivables | | (21,325) | 29,422 |
| Increase/(decrease) in trade and bills payables | | (114,053) | 85,694 |
| Increase/(decrease) in other payables and accruals | | 14,304 | (32,258) |
| Exchange realignment | | (21,227) | (5,271) |
| Cash used in operations | | (35,926) | (9,263) |
| Interest received | | 2,634 | 890 |
| PRC profits tax paid | | (24,625) | (31,928) |
| Net cash flows used in operating activities | | (57,917) | (40,301) |

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|-------|-----------------------|-----------------------|
| Net cash flows used in operating activities | | <u>(57,917)</u> | <u>(40,301)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | (11,461) | (22,866) |
| Proceeds from disposal of items of property, plant and equipment | | 58 | — |
| Disposal of a subsidiary | 26 | (1,001) | — |
| Increase in restricted bank deposits | | (1,015) | (2,098) |
| Decrease/(increase) in pledged deposits | | 17,357 | (59,690) |
| Increase in available-for-sale investments | | (3,000) | — |
| Exchange realignment | | <u>(8)</u> | <u>—</u> |
| Net cash flows from/(used in) investing activities | | <u>930</u> | <u>(84,654)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| New bank loans | | 581,716 | 849,110 |
| Repayment of bank loans | | (393,486) | (642,227) |
| Increase in bank and other advances for discounted bills | | 6,498 | 1,360 |
| Interest paid | | (31,803) | (22,514) |
| Exchange realignment | | <u>22,228</u> | <u>5,030</u> |
| Net cash flows from financing activities | | <u>185,153</u> | <u>190,759</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at the beginning of year | | 201,015 | 134,650 |
| Effect of foreign exchange rate changes, net | | <u>250</u> | <u>561</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF YEAR | | <u>329,431</u> | <u>201,015</u> |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 18 | 389,060 | 276,986 |
| Less: Restricted bank deposits for certain installation contracts | 18 | (3,113) | (2,098) |
| Less: Deposits pledged for bills payable facilities | 18 | (13,171) | (27,373) |
| Less: Deposits pledged for bank loans | 18 | <u>(43,345)</u> | <u>(46,500)</u> |
| | | <u>329,431</u> | <u>201,015</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands on 6 March 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 1606, 16th Floor, Tai Tung Building, 8 Fleming Road, Hong Kong. The principal activity of the Company is investment holding.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operation | Issued ordinary share/ registered and paid-up capital | Percentage of equity attributable to the Group | Principal activities |
|---|--|---|--|---|
| Directly held: | | | | |
| Nice Group Resources Limited ("Nice Group")* | British Virgin Islands (the "BVI")/ Hong Kong | US\$1,000 | 100 | Investment holding |
| Indirectly held: | | | | |
| Centron Communications Technologies Fujian Co., Ltd. ("Fujian Centron") * | People's Republic of China ("PRC")/ Mainland China | RMB358,000,000 (note (i)) | 100 | Manufacture and sale of wireless telecommunications coverage system equipment and provision of related engineering services |
| Centron Telecom System (Asia) Limited ("Centron Asia") | Hong Kong | HK\$1 | 100 | Sale of wireless telecommunications coverage system equipment and provision of related engineering services |

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's principal subsidiaries are as follows: (continued)

| Name | Place of incorporation/ registration and operation | Issued ordinary share/ registered and paid-up capital | Percentage of equity attributable to the Group | Principal activities |
|---|--|--|---|---|
| Indirectly held: (continued) | | | | |
| 星辰先創通信系統 (廈門)有限公司 ("Centron Xiamen")* | PRC/Mainland China | HK\$100,000,000 (note (ii)) | 100 | Manufacture and development of digital television network coverage equipment, wireless telecommunications coverage system equipment and provision of related engineering services |
| 福建先創通信有限公司 ("Fujian Telecommunications")* | PRC/Mainland China | RMB50,000,000 (note (iii)) | 100 | Sale of wireless telecommunications coverage system equipment and provision of related engineering services |
| Centron Telecom Hong Kong Limited ("Centron HK") | Hong Kong | HK\$10,000 | 100 | Management services |
| 福建先創技術有限公司 (formerly known as 福建先創系統集成 有限公司) ("先創技術")* | PRC/Mainland China | RMB20,000,000 (note (iv)) | 100 | Manufacture and sale of private telecommunications network systems and products |
| 廈門融創達供應鏈 管理有限公司 ("融創達")* | PRC/Mainland China | RMB5,000,000 (note (v)) | 100 | Sale of wireless telecommunications coverage system equipment |

* The statutory financial statements of these subsidiaries were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

NOTES TO FINANCIAL STATEMENTS

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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Notes:

- (i) Fujian Centron was established as a collectively-owned enterprise in the PRC in 1989 and was converted into a limited liability company on 23 March 2001. Fujian Centron became a wholly-owned foreign enterprise with an operating period of 50 years commencing on 11 January 2006.
- (ii) Centron Xiamen was registered as a wholly-foreign-owned enterprise under the PRC law.
- (iii) Fujian Telecommunications is a limited liability company established in the PRC which was owned by Mr. Dai Guoliang, Mr. Dai Guoyu and Mr. Yi Zhangtao (collectively, the "Vendors"). Mr. Dai Guoliang and Mr. Dai Guoyu are also directors of the Company. Mr. Yi Zhangtao was a director of the Company, who resigned as a director of the Company on 31 March 2014. Pursuant to the execution of certain contractual agreements, the entire equity interest in Fujian Telecommunications was transferred from the Vendors to two PRC individuals (the "PRC Shareholders") for a consideration of RMB15,000,000 during the year ended 31 December 2009. The consideration of RMB15,000,000 was determined by reference to the net asset value of Fujian Telecommunications at the completion date, which also approximated its fair value as of that date. The consideration was settled by Fujian Centron, a wholly-owned subsidiary of the Group, by assuming the liability (the "Liability") of the same amount due from the PRC Shareholders to Fujian Telecommunications. During the year ended 31 December 2010, the registered capital of Fujian Telecommunications increased from RMB15,000,000 to RMB50,000,000, which was fully paid up as at 31 December 2010. The additional capital contribution of RMB35,000,000 (the "Capital Contribution") was injected by the PRC Shareholders, who entered into a loan agreement with Fujian Centron to borrow the same amount. In connection with taking up the Liability and funding of the Capital Contribution, the Group, through a series of contractual arrangements, established a 100% control of Fujian Telecommunications by way of controlling its voting rights, appointing or removing the members of its board of directors and governing its financial and operating policies so as to obtain benefits from its activities. Fujian Telecommunications is therefore considered a wholly-owned subsidiary of the Group.
- (iv) 先創技術 was registered as a limited liability company under the PRC law.
- (v) 融創達 was established and registered as a limited liability company under the PRC law on 8 April 2015.

As at 31 December 2014, the Company indirectly held 66.985% equity interests in 深圳澤惠通通信技術有限公司 ("ZHT"), a limited liability company under the PRC law. During the year, the Group disposed of its 56.985% equity interests in ZHT, a then non-wholly-owned subsidiary of the Group, to certain non-controlling shareholders and management of ZHT at an aggregate cash consideration of RMB9,117,000 (2014: Nil). Thereafter, ZHT ceased to be a subsidiary of the Group and became an available-for-sale investment of the Group. Further details of this disposal are included in note 26 to the financial statements and the Company's announcement dated 31 December 2015.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi (the "RMB") and all amounts are rounded to the nearest thousand except where otherwise indicated.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

NOTES TO FINANCIAL STATEMENTS

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

| | |
|--|--|
| Amendments to HKAS 19 | <i>Defined Benefit Plans: Employee Contributions</i> |
| <i>Annual Improvements to HKFRSs 2010-2012 Cycle</i> | Amendments to a number of HKFRSs |
| <i>Annual Improvements to HKFRSs 2011-2013 Cycle</i> | Amendments to a number of HKFRSs |

The adoption of the above revised standards has had no significant financial effect on these financial statements.

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKFRS 9 | <i>Financial Instruments</i> ² |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴ |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | <i>Investment Entities: Applying the Consolidation Exception</i> ¹ |
| Amendments to HKFRS 11 | <i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹ |
| HKFRS 14 | <i>Regulatory Deferral Accounts</i> ³ |
| HKFRS 15 | <i>Revenue from Contracts with Customers</i> ² |
| Amendments to HKAS 1 | <i>Disclosure Initiative</i> ¹ |
| Amendments to HKAS 16 and HKAS 38 | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹ |
| Amendments to HKAS 16 and HKAS 41 | <i>Agriculture: Bearer Plants</i> ¹ |
| Amendments to HKAS 27 (2011) | <i>Equity Method in Separate Financial Statements</i> ¹ |
| <i>Annual Improvements 2012-2014 Cycle</i> | Amendments to a number of HKFRSs ¹ |

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

⁴ No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in the income statement. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in the income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fair value measurement (continued)**

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

Impairment of non-financial assets

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

| | |
|--|--|
| Buildings | Over the shorter of lease terms and 20 years |
| Plant and machinery | 5 - 10 years |
| Leasehold improvements | Over the shorter of lease terms and 10 years |
| Motor vehicles | 3 - 5 years |
| Furniture, fixtures, office equipment and others | 3 - 5 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Intangible assets (other than goodwill)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to the income statement as incurred.

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Investments and other financial assets (continued)***Available-for-sale financial investments (continued)*

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to the income statement over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

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

NOTES TO FINANCIAL STATEMENTS

31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Impairment of financial assets (continued)***Available-for-sale financial investments (continued)*

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Derecognition of financial assets

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, bank and other advances from discounted bills and interest-bearing bank borrowings.

Subsequent measurement

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

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

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

Product warranty costs are recognised as expenses in the income statement in the period in which they are incurred.

Income tax

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

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

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Revenue recognition**

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

- (a) from the sale of goods and rendering of services associated with goods sold, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment is established.

Borrowing costs

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

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

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

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

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Other employee benefits (continued)***Pension schemes (continued)*

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentages of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the PRC government. The PRC government undertakes to assume the benefit obligations of all existing and retained employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for its qualified employees under these plans.

Foreign currencies

These financial statements are presented in RMB, which is also the Company's presentation currency. The functional currency of the Company is Hong Kong dollars. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the PRC, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or the income statement is also recognised in other comprehensive income or the income statement, respectively).

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31 December 2015

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

Withholding taxes arising from the distributions of dividends

In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

Estimation uncertainty

Provision for product warranties

The Group generally provides one to two years' warranties to its customers on certain of its products, under which faulty products are repaired and replaced. The amount of the warranty provisions is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. During the year ended 31 December 2015, the Group's product warranty cost amounted to RMB13,258,000 (2014: RMB11,097,000), which represented 0.9% (2014: 0.7%) of the Group's total revenue for the year. The Group considered the effect was not significant and provision for product warranties was not recognised for the reporting period.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (continued)**Estimation uncertainty (continued)***Write-down of inventories to net realisable value*

Write-down of inventories to net realisable value is made based on the estimated net realisable value of inventories. The assessment of the required write-down amount involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of the inventories and the write-down charge/write-back amount in the period in which such estimate has been changed.

Impairment allowances for trade and other receivables

Impairment allowances for trade and other receivables are based on the assessment of the recoverability of trade and other receivables. The identification of impairment allowances requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying values of the receivables and impairment or its reversal in the period in which such estimate has been changed.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of wireless telecommunications coverage system equipment and the provision of related engineering services, the manufacture and sale of private telecommunications network systems and products, and the sale of digital television network coverage equipment and the provision of related engineering services. Almost all of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single reportable operating segment.

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, the PRC, which is the Group's principal place of business and operations. Therefore, no analysis by geographical region is presented.

For the year ended 31 December 2015, revenue from sales to three groups of the Group's customers amounting to RMB687,220,000, RMB373,921,000 and RMB261,042,000 individually accounted for over 10% of the Group's total revenue. For the year ended 31 December 2014, revenue from sales to three groups of the Group's customers amounting to RMB627,482,000, RMB445,113,000 and RMB327,578,000 individually accounted for over 10% of the Group's total revenue.

NOTES TO FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAIN

Revenue represents the net invoiced value of goods sold and services rendered during the year, after allowances for returns and trade discounts.

An analysis of revenue, other income and gain is as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|-------------------------|-------------------------|
| Revenue | | |
| Manufacture and sale of wireless telecommunications coverage system equipment and the provision of related engineering services | 1,382,622 | 1,467,862 |
| Manufacture and sale of private telecommunications network systems and products | 145,945 | 88,294 |
| Sale of digital television network coverage equipment and the provision of related engineering services | <u>5,463</u> | <u>15,392</u> |
| | <u>1,534,030</u> | <u>1,571,548</u> |
| Other income and gain | | |
| Bank interest income | 2,634 | 890 |
| Foreign exchange differences, net | 9 | 599 |
| Income derived from available-for-sale investments | 473 | — |
| Gain on disposal of items of property, plant and equipment | 54 | — |
| VAT refunds* | 1,834 | 780 |
| Others | <u>243</u> | <u>138</u> |
| | <u>5,247</u> | <u>2,407</u> |

* There are no unfulfilled conditions or contingencies relating to these VAT refunds from government.

6. PROFIT BEFORE TAX

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

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|-------|------------------|-----------------|
| Cost of inventories sold and services provided ¹ | | 1,186,536 | 1,197,752 |
| Depreciation | 12 | 23,702 | 23,833 |
| Amortisation of prepaid land lease payments | 13 | 241 | 241 |
| Minimum lease payments under operating leases | | 2,643 | 2,309 |
| Loss/(gain) on disposal of items of property, plant and equipment | | (54) | 28 |
| Loss on disposal of a subsidiary ² | 26 | 2,234 | — |
| Employee benefit expense (including directors' remuneration - note 8): | | | |
| Wages and salaries | | 98,662 | 100,548 |
| Fees | | 645 | 670 |
| Staff welfare expenses | | 6,765 | 8,029 |
| Pension scheme contributions (defined contribution schemes) ³ | | 109 | 110 |
| | | 106,181 | 109,357 |
| Auditors' remuneration | | 2,390 | 2,239 |
| Research and development expenditure ⁴ | | 82,045 | 135,823 |
| Product warranty cost ⁵ | | 13,258 | 11,097 |
| Impairment/(write-back of impairment) of inventories, net | | 20,560 | (6,555) |
| Write-off of inventories | | 2,618 | — |
| Impairment of goodwill ² | | — | 1,135 |
| Write-back of impairment of trade receivables, net ² | 16 | (13,075) | (3,608) |
| Write-back of impairment of prepayments and other receivables, net ² | 17 | (182) | (332) |
| Foreign exchange differences, net | | (9) | (599) |

¹ The cost of inventories sold and services provided for the year includes RMB68,646,000 (2014: RMB38,430,000) relating to employee benefit expense, depreciation of manufacturing facilities, impairment/(write-back of impairment) of and write-off of inventories, which are also included in the total amounts disclosed above for each of these types of expenses.

² Write-back of impairment of prepayments and other receivables, net, impairment of goodwill, write-back of impairment of trade receivables, net, and loss on disposal of a subsidiary for the year are included in "General and administrative expenses" on the face of the consolidated income statement.

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31 December 2015

6. PROFIT BEFORE TAX (continued)

- ³ As at 31 December 2015 and 31 December 2014, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years.
- ⁴ The research and development expenditure for the year includes RMB24,054,000 (2014: RMB22,833,000) relating to operating lease rentals of land and buildings, depreciation of a research and development centre and employee benefit expense for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.
- ⁵ The product warranty cost for the year is included in "Selling and distribution expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

| | 2015 RMB'000 | 2014 RMB'000 |
|--|-----------------|-----------------|
| Interest on bank loans | 31,803 | 22,514 |
| Amortisation of bank charges on syndicated loans | 4,904 | 4,265 |
| | <u>36,707</u> | <u>26,779</u> |

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation, is as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Fees: | | |
| Executive directors | 308 | 319 |
| Independent non-executive directors | 337 | 351 |
| | <u>645</u> | <u>670</u> |
| Other emoluments: | | |
| Salaries and benefits in kind | 4,599 | 3,542 |
| Pension scheme contributions | 40 | 42 |
| | <u>4,639</u> | <u>3,584</u> |
| | <u>5,284</u> | <u>4,254</u> |

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|----------------------------|-----------------|-----------------|
| Mr. Lin Yuanfang | 96 | 96 |
| Mr. Li Hongbin | 96 | 96 |
| Mr. Ku Kin Shing Ignatius* | 64 | — |
| Mr. Hung Ee Tek* | 81 | 159 |
| | <u>337</u> | <u>351</u> |

* Mr. Hung Ee Tek resigned as an independent non-executive director on 1 July 2015 and Mr. Ku Kin Shing Ignatius was appointed as an independent non-executive director on the same date.

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

(b) Executive directors

| | Fees RMB'000 | Salaries and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|----------------------|-----------------|--|---|----------------------------------|
| 2015 | | | | |
| Executive directors: | | | | |
| Mr. Dai Guoliang* | 64 | 1,510 | 14 | 1,588 |
| Mr. Dai Guoyu | 64 | 1,081 | 14 | 1,159 |
| Mr. Guo Zeli** | 52 | 509 | — | 561 |
| Mr. Ng Wai-Kee | 64 | 758 | 12 | 834 |
| Mr. Yang Weimin | 64 | 741 | — | 805 |
| | <u>308</u> | <u>4,599</u> | <u>40</u> | <u>4,947</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2015

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors (continued)

| | Fees RMB'000 | Salaries and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|----------------------|-----------------|--|---|----------------------------------|
| 2014 | | | | |
| Executive directors: | | | | |
| Mr. Dai Guoliang* | 64 | 1,044 | 14 | 1,122 |
| Mr. Dai Guoyu | 64 | 756 | 14 | 834 |
| Mr. Yi Zhangtao*** | 16 | 98 | — | 114 |
| Mr. Guo Zeli | 64 | 513 | — | 577 |
| Mr. Ng Wai-Kee | 64 | 892 | 14 | 970 |
| Mr. Yang Weimin*** | 47 | 239 | — | 286 |
| | <u>319</u> | <u>3,542</u> | <u>42</u> | <u>3,903</u> |

* Mr. Dai Guoliang is also the chief executive officer of the Company.

** Mr. Guo Zeli resigned as an executive director of the Company on 22 October 2015.

*** Mr. Yi Zhangtao resigned as an executive director of the Company on 31 March 2014 and Mr. Yang Weimin was appointed as an executive director of the Company on the same date.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2014: Nil).

There was no performance related bonus paid or payable to any director during the year (2014: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2014: five) directors, details of whose remuneration are set out in note 8 above, and one employee. Details of the remuneration for the year of the remaining one (2014: Nil) highest paid employee who is neither a director nor chief executive of the Company are as follows:

| | 2015 | 2014 |
|---|----------------|---------|
| | RMB'000 | RMB'000 |
| Salaries, allowances and benefits in kind | 562 | — |
| Pension scheme contributions | 5 | — |
| | 567 | — |

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

| Remuneration band (RMB) | Number of employees | |
|-------------------------|----------------------------|------|
| | 2015 | 2014 |
| 0 to 1,000,000 | 1 | — |

During the year, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2014: Nil).

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10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2014: Nil). Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates.

| | 2015 | 2014 |
|-------------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Current tax - Mainland China | | |
| Charge for the year | 26,179 | 24,478 |
| Deferred (note 22) | 2,752 | 973 |
| Total tax charge for the year | 28,931 | 25,451 |

Pursuant to the income tax law of the PRC being effective on 1 January 2008, the PRC income tax rate is unified at 25% for all enterprises. During the years ended 31 December 2015 and 2014, Fujian Centron was entitled to PRC corporate income tax rate for High-New Technology Enterprise of 15% (the "Tax Concession").

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries operate to the tax expense at the effective tax rates is as follows:

2015

| | Hong Kong | Mainland | Total |
|---|------------------|-----------------|----------------|
| | RMB'000 | China | RMB'000 |
| | RMB'000 | RMB'000 | RMB'000 |
| Profit/(loss) before tax | (29,975) | 109,674 | 79,699 |
| Tax expense/(credit) at the statutory tax rate | (4,946) | 27,419 | 22,473 |
| Lower tax rate due to the Tax Concession | — | (3,929) | (3,929) |
| Income not subject to tax | (893) | (3,309) | (4,202) |
| Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries | — | 1,600 | 1,600 |
| Expenses not deductible for tax | 5,119 | 5,769 | 10,888 |
| Tax losses not recognised | 720 | 1,469 | 2,189 |
| Others | — | (88) | (88) |
| Tax charge at the Group's effective rate | — | 28,931 | 28,931 |

10. INCOME TAX (continued)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries operate to the tax expense at the effective tax rates is as follows:
(continued)

2014

| | Hong Kong RMB'000 | Mainland China RMB'000 | Total RMB'000 |
|--|----------------------|------------------------------|------------------|
| Profit/(loss) before tax | (10,710) | 74,223 | 63,513 |
| Tax expense/(credit) at the statutory tax rate | (1,767) | 18,556 | 16,789 |
| Lower tax rate due to the Tax Concession | — | (2,328) | (2,328) |
| Income not subject to tax | (1,291) | (5,469) | (6,760) |
| Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries | — | 2,000 | 2,000 |
| Expenses not deductible for tax | 3,619 | 9,204 | 12,823 |
| Tax losses not recognised | 625 | 2,186 | 2,811 |
| Others | — | 116 | 116 |
| Tax charge at the Group's effective rate | 1,186 | 24,265 | 25,451 |

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of RMB50,922,000 (2014: RMB40,488,000) and the 779,134,831 (2014: 779,134,831) ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2015 and 2014.

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12. PROPERTY, PLANT AND EQUIPMENT

| | Note | Buildings RMB'000 | Plant and machinery RMB'000 | Leasehold improvements RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures, office equipment and others RMB'000 | Total RMB'000 |
|---------------------------|------|----------------------|-----------------------------------|--------------------------------------|------------------------------|---|------------------|
| 31 December 2015 | | | | | | | |
| Cost: | | | | | | | |
| At 1 January 2015 | | 117,935 | 158,599 | 34,864 | 6,812 | 25,179 | 343,389 |
| Additions | | — | 10,070 | — | — | 1,391 | 11,461 |
| Disposals | | — | — | — | (368) | (51) | (419) |
| Disposal of a subsidiary | 26 | — | (1,975) | (496) | — | (1,104) | (3,575) |
| Exchange realignment | | — | — | — | — | 19 | 19 |
| At 31 December 2015 | | <u>117,935</u> | <u>166,694</u> | <u>34,368</u> | <u>6,444</u> | <u>25,434</u> | <u>350,875</u> |
| Accumulated depreciation: | | | | | | | |
| At 1 January 2015 | | 38,718 | 77,195 | 20,634 | 6,444 | 21,776 | 164,767 |
| Charge for the year | | 5,739 | 13,684 | 3,364 | 46 | 869 | 23,702 |
| Disposals | | — | — | — | (368) | (47) | (415) |
| Disposal of a subsidiary | 26 | — | (1,677) | (321) | — | (723) | (2,721) |
| Exchange realignment | | — | — | — | — | 11 | 11 |
| At 31 December 2015 | | <u>44,457</u> | <u>89,202</u> | <u>23,677</u> | <u>6,122</u> | <u>21,886</u> | <u>185,344</u> |
| Net book value: | | | | | | | |
| At 31 December 2015 | | <u>73,478</u> | <u>77,492</u> | <u>10,691</u> | <u>322</u> | <u>3,548</u> | <u>165,531</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2015

12. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Buildings | Plant and machinery | Leasehold improvements | Motor vehicles | Furniture, fixtures, office equipment and others | Total |
|---------------------------|----------------|------------------------|---------------------------|-------------------|--|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 31 December 2014 | | | | | | |
| Cost: | | | | | | |
| At 1 January 2014 | 117,935 | 136,432 | 34,864 | 6,807 | 24,860 | 320,898 |
| Additions | — | 22,167 | — | — | 699 | 22,866 |
| Disposals | — | — | — | — | (384) | (384) |
| Exchange realignment | — | — | — | 5 | 4 | 9 |
| At 31 December 2014 | <u>117,935</u> | <u>158,599</u> | <u>34,864</u> | <u>6,812</u> | <u>25,179</u> | <u>343,389</u> |
| Accumulated depreciation: | | | | | | |
| At 1 January 2014 | 32,979 | 63,769 | 17,270 | 6,306 | 20,957 | 141,281 |
| Charge for the year | 5,739 | 13,426 | 3,364 | 133 | 1,171 | 23,833 |
| Disposals | — | — | — | — | (356) | (356) |
| Exchange realignment | — | — | — | 5 | 4 | 9 |
| At 31 December 2014 | <u>38,718</u> | <u>77,195</u> | <u>20,634</u> | <u>6,444</u> | <u>21,776</u> | <u>164,767</u> |
| Net book value: | | | | | | |
| At 31 December 2014 | <u>79,217</u> | <u>81,404</u> | <u>14,230</u> | <u>368</u> | <u>3,403</u> | <u>178,622</u> |

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13. PREPAID LAND LEASE PAYMENTS

| | 2015 | 2014 |
|---|----------------|---------|
| | RMB'000 | RMB'000 |
| Carrying amount at 1 January | 10,225 | 10,466 |
| Amortised during the year | (241) | (241) |
| Carrying amount at 31 December | 9,984 | 10,225 |
| Current portion included in prepayments, deposits and other receivables | (241) | (241) |
| Non-current portion | 9,743 | 9,984 |

14. AVAILABLE-FOR-SALE INVESTMENTS

| | | 2015 | 2014 |
|---|---------|----------------|---------|
| | Notes | RMB'000 | RMB'000 |
| Non-current: | | | |
| Unlisted equity investment, at fair value | (i), 26 | 1,600 | — |
| Current: | | | |
| Unlisted investment fund, at cost | (ii) | 3,000 | — |
| | | 4,600 | — |

Notes:

- (i) During the year, the Group disposed of 56.985% of its equity interests in ZHT, a non-wholly-owned subsidiary to certain non-controlling shareholders and management of ZHT and a loss on disposal of ZHT approximately RMB2,234,000 (note 26) had been recognised as general and administrative expenses in the consolidated financial statements for the year ended 31 December 2015. As at 31 December 2015, the remaining 10% equity interests in ZHT retained by the Group is classified as an available-for-sale investment and was stated at fair value.
- (ii) The unlisted investment fund was stated at cost less impairment because the investment does not have a quoted market price in an active market and whose fair value cannot be reliably measured.

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15. INVENTORIES

| | 2015 | 2014 |
|------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| Raw materials | 351,878 | 258,378 |
| Work in progress | 57,544 | 67,190 |
| Finished goods | 198,938 | 210,076 |
| | <u>608,360</u> | <u>535,644</u> |

16. TRADE AND BILLS RECEIVABLES

| | 2015 | 2014 |
|-----------------------------|------------------|------------------|
| | RMB'000 | RMB'000 |
| Trade and bills receivables | 1,523,858 | 1,616,603 |
| Impairment | (64,443) | (78,606) |
| | <u>1,459,415</u> | <u>1,537,997</u> |

The Group's trade receivables mainly relate to a few groups of recognised and creditworthy customers. The Group's trading terms with its customers are mainly on credit. The credit period is generally nine months (2014: nine months). A longer credit term of twelve months may be extended to customers with a long-term business relationship and a good payment history. The Group does not hold any collateral or other credit enhancements over these balances. The balances are non-interest-bearing and include retention money which is generally receivable after final verification of products by customers, performed within four to seven months after signing the sale and purchase contracts, or upon completion of the warranty period of one to two years granted to customers.

An aged analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

| | 2015 | 2014 |
|-----------------|------------------|------------------|
| | RMB'000 | RMB'000 |
| Within 3 months | 366,200 | 470,208 |
| 3 to 6 months | 389,709 | 490,805 |
| 6 to 12 months | 556,958 | 504,865 |
| Over 1 year | 146,548 | 72,119 |
| | <u>1,459,415</u> | <u>1,537,997</u> |

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16. TRADE AND BILLS RECEIVABLES (continued)

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

| | 2015 RMB'000 | 2014 RMB'000 |
|--|-----------------|-----------------|
| At 1 January | 78,606 | 82,214 |
| Written-off during the year | (413) | — |
| Impairment losses written-back, net (note 6) | (13,075) | (3,608) |
| Disposal of a subsidiary | (675) | — |
| | <u>64,443</u> | <u>78,606</u> |

Included in the above impairment allowance for trade receivables is an allowance for individually impaired trade receivables of RMB63,722,000 (2014: RMB73,055,000), with a carrying amount before provision of RMB63,722,000 (2014: RMB73,055,000). The individually impaired trade receivables relate to customers that have been overdue for a long time.

An aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|-------------------------------|------------------|------------------|
| Neither past due nor impaired | 1,053,267 | 1,239,868 |
| Less than 1 month past due | 82,903 | 127,789 |
| 1 to 3 months past due | 176,682 | 96,165 |
| More than 3 months past due | 146,563 | 74,175 |
| | <u>1,459,415</u> | <u>1,537,997</u> |

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

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

NOTES TO FINANCIAL STATEMENTS

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17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2015 | 2014 |
|-----------------------------------|----------------|---------|
| | RMB'000 | RMB'000 |
| Prepayments and other receivables | 12,510 | 15,535 |
| Deposits paid | 488 | 343 |
| Value added tax receivables | 29,424 | 4,305 |
| | 42,422 | 20,183 |
| Less: Non-current portion | (888) | — |
| Current portion | 41,534 | 20,183 |

Net of prepayments and other receivables as at 31 December 2015 is an impairment provision of RMB8,257,000 (2014: RMB8,439,000).

The movements in provision for impairment of prepayments and other receivables are as follows:

| | 2015 | 2014 |
|--|----------------|---------|
| | RMB'000 | RMB'000 |
| At 1 January | 8,439 | 9,373 |
| Written-off during the year | — | (602) |
| Impairment losses written-back, net (note 6) | (182) | (332) |
| | 8,257 | 8,439 |

Included in the above impairment provision for prepayments and other receivables is a provision for individually impaired prepayments and other receivables of RMB8,257,000 (2014: RMB8,439,000), with a carrying amount before provision of RMB8,257,000 (2014: RMB8,439,000). The individually impaired prepayments and other receivables relate to prepayments and other receivables that have been outstanding for a long time and not expected to be recovered.

NOTES TO FINANCIAL STATEMENTS

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18. CASH AND CASH EQUIVALENTS, RESTRICTED BANK DEPOSITS AND PLEDGED DEPOSITS

| | 2015 RMB'000 | 2014 RMB'000 |
|--|-----------------------|-----------------------|
| Cash and bank balances | 376,113 | 276,986 |
| Time deposits with original maturity of less than three months when acquired | <u>12,947</u> | <u>—</u> |
| | 389,060 | 276,986 |
| Less: Restricted bank deposits for certain installation contracts | (3,113) | (2,098) |
| Less: Deposits pledged for bills payable facilities | (13,171) | (27,373) |
| Less: Deposits pledged for bank loans | <u>(43,345)</u> | <u>(46,500)</u> |
| Cash and cash equivalents | <u>329,431</u> | <u>201,015</u> |

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB323,823,000 (2014: RMB159,069,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

19. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|-----------------|-----------------------|-----------------------|
| Within 3 months | 132,311 | 225,909 |
| 3 to 6 months | 34,300 | 57,210 |
| 6 to 12 months | 12 | 1,265 |
| Over 1 year | <u>6,845</u> | <u>5,422</u> |
| | <u>173,468</u> | <u>289,806</u> |

The trade payables are non-interest-bearing and are normally settled on two to three months' terms.

NOTES TO FINANCIAL STATEMENTS

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20. OTHER PAYABLES AND ACCRUALS

| | 2015 | 2014 |
|--|---------------|---------------|
| | RMB'000 | RMB'000 |
| Other payables | 28,591 | 26,928 |
| Value added tax payables | 4,728 | 6,449 |
| Accruals | 23,661 | 24,341 |
| Deposits received from customers | 457 | 1,640 |
| Dividend payable to non-controlling shareholders of a subsidiary | — | 5,103 |
| | <u>57,437</u> | <u>64,461</u> |

All these balances are non-interest-bearing and other payables have an average term of four months.

21. INTEREST-BEARING BANK BORROWINGS

| | 2015 | 2014 |
|--|----------------|----------------|
| | RMB'000 | RMB'000 |
| Current | | |
| Bank loans - secured | 360,286 | 135,627 |
| Bank loans - unsecured | 207,000 | 75,000 |
| | <u>567,286</u> | <u>210,627</u> |
| Non-current | | |
| Bank loans - secured | 222,346 | 363,643 |
| | <u>789,632</u> | <u>574,270</u> |
| Analysed into: | | |
| Bank loans repayable | | |
| Within one year | 567,286 | 210,627 |
| In the second year | 222,346 | 151,229 |
| In the third to fifth years, inclusive | — | 212,414 |
| | <u>789,632</u> | <u>574,270</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2015

21. INTEREST-BEARING BANK BORROWINGS (continued)

- (a) Except for secured bank loans of RMB304,122,000 (2014: RMB281,864,000) and RMB193,510,000 (2014: RMB182,406,000) which are denominated in United States dollars (“US\$”) and HK\$, respectively, all borrowings are in RMB.
- (b) The bank loans denominated in RMB bore interest at a range from 4.6% to 5.3% (2014: 5.6% to 7.5%) per annum.
- (c) The bank loans denominated in US\$ bore interest at LIBOR plus a range from 1.5% to 3.7% (2014: LIBOR plus a range from 1.9% to 3.7%) per annum. The bank loans denominated in HK\$ bore interest at HIBOR plus 3.7% per annum (2014: HIBOR plus 3.7% per annum).
- (d) Certain of the Group’s interest-bearing bank borrowings were guaranteed/secured by:
 - (i) corporate guarantee of RMB35,000,000 (2014: RMB35,000,000) from Fujian Centron;
 - (ii) corporate guarantee of US\$60,000,000 (2014: US\$60,000,000) jointly from Nice Group, Centron Asia and Centron HK;
 - (iii) personal guarantee of RMB85,000,000 (2014: Nil) collectively from Mr. Dai Guoliang, a director of the Company, and Mrs. Chen Shuru, spouse of Mr. Dai Guoliang;
 - (iv) share mortgage over the entire issued share capital of Nice Group;
 - (v) pledge of Nice Group’s equity interest in Fujian Centron;
 - (vi) assignment of an amount due from Fujian Centron of RMB237,426,000 (2014: RMB328,687,000) as at 31 December 2015 to Nice Group; and
 - (vii) pledged deposits of RMB43,345,000 (2014: RMB46,500,000).
- (e) During the year ended 31 December 2015, the Group was technically in breach of a covenant under a loan agreement with certain banks, as the ratio of the consolidated profits before interest, taxes, depreciation and amortisation to the consolidated finance charges (the “Financial Ratio”) was less than the required ratio by these banks. Subsequent to the technical breach, the Group has successfully obtained a written consent from these banks, to waive the rights entitling them to declare the relevant outstanding loan balance immediately due and payable due to the breach of the loan covenant on the Financial Ratio. Accordingly, there was no impact on the classification of these loans as at 31 December 2015.

22. DEFERRED TAX

The movements in deferred tax assets and deferred tax liabilities during the year are as follows:

Deferred tax assets

Unrealised profit of inventories RMB'000

2015

At 1 January 2015

3,540

Deferred tax charged to the income statement during the year (note 10)

(1,152)

At 31 December 2015

2,388

2014

At 1 January 2014

2,513

Deferred tax credited to the income statement during the year (note 10)

1,027

At 31 December 2014

3,540

Deferred tax liabilities

Withholding tax RMB'000

2015

At 1 January 2015

(12,600)

Deferred tax charged to the income statement during the year (note 10)

(1,600)

At 31 December 2015

(14,200)

2014

At 1 January 2014

(10,600)

Deferred tax charged to the income statement during the year (note 10)

(2,000)

At 31 December 2014

(12,600)

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22. DEFERRED TAX (continued)

The Group has tax losses arising in Hong Kong of RMB42,518,000 (2014: RMB42,518,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of RMB54,061,000 (2014: RMB48,559,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time and/or the future income stream to recoup such losses is unpredictable.

Pursuant to the PRC Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 10%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future. The aggregated amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB887,929,000 at 31 December 2015 (2014: RMB839,805,000).

23. SHARE CAPITAL

| | 2015 | | 2014 | |
|---|----------------|---------------|----------|---------|
| | HK\$'000 | RMB'000 | HK\$'000 | RMB'000 |
| Authorised: | | | | |
| 1,000,000,000 (2014: 1,000,000,000) ordinary shares of HK\$0.1 (2014: HK\$0.1) each | <u>100,000</u> | <u>97,337</u> | 100,000 | 97,337 |
| Issued and fully paid: | | | | |
| 779,134,831 (2014: 779,134,831) ordinary shares of HK\$0.1 (2014: HK\$0.1) each | <u>77,913</u> | <u>74,977</u> | 77,913 | 74,977 |

24. SHARE OPTION SCHEME

The Company adopted a share option scheme on 3 June 2007 (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group. Eligible participants of the Scheme include (i) any employee (whether full-time or part-time, including directors) of the Company, its subsidiaries or invested entity; (ii) any directors or proposed directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any advisor (professional or otherwise), consultant, individual or entity who, in the opinion of the directors of the Company, has contributed or will contribute to the growth and development of the Group and the listing of the shares of the Company on the Stock Exchange; and (iv) any company wholly owned by one or more eligible participants as referred to in (i) to (iii) above.

The Scheme became effective on 3 June 2007, and unless otherwise cancelled or amended, will remain in force for 10 years from that day (the “Scheme Period”). The board of directors may from time to time during the Scheme Period offer to grant to eligible participants a right to subscribe for shares of the Company (the “Share Options”). The offer of grant of share options may be accepted not later than 21 days from the date of offer.

Upon the subscription of the Share Options, the grantee can exercise the option within the period of not less than one year and not exceeding 10 years from the date of grant. The exercise price shall be determined as the highest of the following:

- (i) the closing price of each share on the Stock Exchange as stated in the Stock Exchange’s daily quotation sheets on the date of grant;
- (ii) the average closing price of the shares on the Stock Exchange as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a share of the Company (HK\$0.1).

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not, in the absence of shareholders’ approval, in aggregate exceed 70,000,000, being 10% in nominal amount of the aggregate of shares in issue on 5 July 2007, the date of the Company’s listing on the Main Board of the Stock Exchange.

The Company may renew the maximum number of options limit at any time subject to the prior shareholders’ approval but in any event, the total number of shares which may be issued upon exercise of all options to be granted under the Scheme, must not exceed 10% of the shares in issue as at the date of shareholders’ approval of the renewed limit. In addition, any options granted in a 12-month period shall not exceed 1% of the shares in issue for the time being.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

No share options were granted and no outstanding share options under the Scheme during the years ended 31 December 2015 and 2014.

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25. RESERVES

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

The capital reserve of the Group represents the difference between the aggregate of (i) the nominal value of the shares of the subsidiaries acquired after deducting the distribution to the original existing shareholders of Nice Group and (ii) the nominal value of the convertible bonds issued by Cathay Mobile Communications Limited (a substantial shareholder of the Company) which was transferred as equity in Nice Group when the repayment obligation of the convertible bonds was terminated on 9 March 2007, over the nominal value of the Company's shares issued pursuant to the group reorganisation.

In accordance with the relevant regulations applicable in the PRC, subsidiaries of the Company established in the PRC are required to transfer a certain percentage of their profit after tax, if any, to the enterprise expansion and statutory reserve funds which are non-distributable, before profit distributions to shareholders. These transfers continue until the amount of the reserve funds equals 50% of the registered capital of the subsidiaries. The amounts of transfers are subject to the approval of the boards of directors of the subsidiaries.

26. DISPOSAL OF A SUBSIDIARY

During the year, the Group disposed of its 56.985% equity interests in ZHT, a then non-wholly-owned subsidiary of the Group, to certain non-controlling shareholders and management of ZHT at an aggregate cash consideration of RMB9,117,000 (2014: Nil). Thereafter, ZHT ceased to be a subsidiary of the Group and became an available-for-sale investment of the Group.

| | Notes | 2015 RMB'000 |
|---|-------|-----------------|
| Net assets disposed of: | | |
| Property, plant and equipment | | 854 |
| Cash and cash equivalents | | 1,001 |
| Inventories | | 10,944 |
| Trade and bills receivables | | 28,260 |
| Prepayments, deposits and other receivables | | 8,385 |
| Trade and bills payables | | (2,285) |
| Other payables and accruals | | (21,328) |
| Bank and other advances for discounted bills | | (9,358) |
| Tax payable | | (714) |
| Non-controlling interests | | (2,808) |
| | | <u>12,951</u> |
| Residual interest reclassified as available-for-sale investment | 14 | (1,600) |
| Loss on disposal of a subsidiary | 6 | (2,234) |
| | | <u>9,117</u> |
| Satisfied by: | | |
| Cash | | <u>9,117</u> |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

| | 2015 RMB'000 |
|--|-----------------|
| Cash consideration (note 30) | 9,117 |
| Cash and bank balances disposed of | (1,001) |
| | <u>8,116</u> |
| Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary | <u>8,116</u> |

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27. LITIGATION

During the year, a subsidiary of the Group was a defendant of a lawsuit brought by a bank in the PRC (the “Bank”), which alleged that the subsidiary was involved in defaulting bank loans granted by the Bank to a supplier of the Group. The amount of the bank loans involved was RMB15,200,000. Having considered the advice from the Group’s legal counsel, the directors believe that the allegation is unfounded and, accordingly, the Group has not provided for any claim arising from the litigation.

28. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises, warehouses and staff quarters under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years (2014: one to five years).

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2015 | 2014 |
|---|---------------------|--------------|
| | RMB’000 | RMB’000 |
| Within one year | 1,029 | 1,660 |
| In the second to fifth years, inclusive | 927 | 2,021 |
| | <u>1,956</u> | <u>3,681</u> |

29. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, details of compensation of key management personnel of the Group have been included in note 8 to the financial statements.

The directors are of the opinion that the above transactions were conducted in the ordinary course of business of the Group.

30. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

During the year, the Group disposed of its 56.985% equity interests in ZHT, a then non-wholly-owned subsidiary of the Group, to certain non-controlling shareholders and management of ZHT at an aggregate cash consideration of RMB9,117,000 (2014: Nil), of which RMB888,000 and RMB8,229,000 were included in “other receivables” and “prepayments, deposits and other receivables” respectively, in the consolidated statement of financial position.

As at 31 December 2015, RMB1,776,000 out of these RMB9,117,000 consideration receivables were pledged by certain equity interests in ZHT of these non-controlling shareholders and management of ZHT.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

| | 2015 | 2014 |
|--|------------------|------------------|
| | RMB'000 | RMB'000 |
| Available-for-sale investments | <u>4,600</u> | <u>—</u> |
| Loans and receivables: | | |
| Trade and bills receivables | 1,459,415 | 1,537,997 |
| Financial assets included in prepayments, deposits and other receivables | 10,819 | 2,149 |
| Restricted bank deposits | 3,113 | 2,098 |
| Pledged deposits | 56,516 | 73,873 |
| Cash and cash equivalents | <u>329,431</u> | <u>201,015</u> |
| | <u>1,859,294</u> | <u>1,817,132</u> |
| Total | <u>1,863,894</u> | <u>1,817,132</u> |

Financial liabilities

Financial liabilities at amortised cost

| | 2015 | 2014 |
|---|----------------|----------------|
| | RMB'000 | RMB'000 |
| Trade and bills payables | 173,468 | 289,806 |
| Financial liabilities included in other payables and accruals | 23,874 | 31,532 |
| Bank and other advances for discounted bills | — | 2,860 |
| Interest-bearing bank borrowings | <u>789,632</u> | <u>574,270</u> |
| | <u>986,974</u> | <u>898,468</u> |

NOTES TO FINANCIAL STATEMENTS

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32. TRANSFERRED FINANCIAL ASSETS

Transferred financial assets that are not derecognised in their entirety

The following table provides a summary of financial assets that have been transferred in such a way that part of the transferred financial assets do not qualify for derecognition, together with the associated liabilities:

| | Notes | Bills receivables | |
|--|-------|-------------------|---------------|
| | | 2015 | 2014 |
| | | RMB'000 | RMB'000 |
| Carrying amount of assets that continued to be recognised: | | | |
| Discounting of bills receivables | (i) | — | 2,860 |
| Bills endorsement | (ii) | <u>16,255</u> | <u>52,528</u> |
| | | <u>16,255</u> | <u>55,388</u> |
| Carrying amount of associated liabilities: | | | |
| Discounting of bills receivables | (i) | — | 2,860 |
| Bills endorsement | (ii) | <u>16,255</u> | <u>52,528</u> |
| | | <u>16,255</u> | <u>55,388</u> |

Notes:

(i) Discounting of bills receivables

At 31 December 2014, the Group discounted certain bills receivables (the "Discounted Bills") with a total carrying amount of RMB2,860,000 to certain companies in the PRC for cash. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills and the respective bank and other advances. Subsequent to the discounting, the Group did not retain any rights on the use of the Discounted Bills, including sale, transfer or pledge of the Discounted Bills to any other third parties. The aggregate carrying amount of the bank and other advances recognised due to the Discounted Bills was RMB2,860,000 as at 31 December 2014.

(ii) Bills endorsement

At 31 December 2015, the Group endorsed certain bills receivables accepted by certain local banks in the PRC (the "Endorsed Bills") with a total carrying amount of RMB16,255,000 (2014: RMB52,528,000) to certain of its suppliers in order to settle the trade payables due to those suppliers. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including sale, transfer or pledge of the Endorsed Bills to any other third parties. The aggregate carrying amount of the trade payables settled by the Endorsed Bills during the year to which the suppliers have recourse was RMB16,255,000 (2014: RMB52,528,000) as at 31 December 2015.

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, restricted bank deposits, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, current portion of available-for-sale investment, trade and bills payables, financial liabilities included in other payables and accruals, bank and other advances for discounted bills and current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments. For the Group's current portion of unlisted available-for-sale investment, it was stated at cost less impairment because it was an unlisted investment fund that does not have a quoted market price in an active market and whose fair value cannot be measured reliably.

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2015 was assessed to be insignificant. For the fair value of the Group's non-current unlisted available-for-sale investment, it is determined with reference to the net asset value of the underlying investment and taking into account the transaction price between the Group and willing parties conducted subsequent to the end of the reporting period.

Fair value hierarchy

As at 31 December 2015, the non-current unlisted available-for-sale investment measured at fair value held by the Group was classified as Level 2 (2014: Nil). During the year ended 31 December 2015, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2014: Nil).

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances, time deposits and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as available-for-sale investments, trade and bills receivables, trade and bills payables, other receivables and financial liabilities included in other payables and accruals, which arise directly from its operations.

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

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to certain of the Group's bank loans with floating interest rates. The management considers there is no significant interest rate risk for the Group. The Group currently does not have an interest rate hedging policy. However, the management monitors the Group's interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

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31 December 2015

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group mainly operates in Mainland China with most of its transactions settled in RMB. The Group's assets and liabilities, and transactions arising from its operations are mainly denominated in RMB. The Group's exposure arises from a substantial portion of the Group's interest-bearing bank and other borrowings denominated in US\$ and HK\$.

Management closely monitors foreign exchange exposure in transactions denominated in US\$ and HK\$ and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in US\$ and HK\$ exchange rates, with all other variables held constant, of the Group's equity.

| | Increase/ (decrease) in foreign currency rate (%) | Increase/ (decrease) in equity RMB'000 |
|--------------------------------------|--|---|
| 2015 | | |
| If RMB weakens against US\$/HK\$ | (5) | (24,882) |
| If RMB strengthens against US\$/HK\$ | 5 | 24,882 |
| 2014 | | |
| If RMB weakens against US\$/HK\$ | (5) | (23,213) |
| If RMB strengthens against US\$/HK\$ | 5 | 23,213 |

Credit risk

The Group trades only with recognised and creditworthy customers. In addition, trade and bills receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise available-for-sale investments, other receivables, time deposits and cash and bank balances, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings to meet its working capital requirements.

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

| | Less than 12 months RMB'000 | 1 to 5 years RMB'000 | Total RMB'000 |
|---|--|---------------------------------|--------------------------|
| 2015 | | | |
| Trade and bills payables | 173,468 | — | 173,468 |
| Financial liabilities included in other payables and accruals | 23,874 | — | 23,874 |
| Interest-bearing bank borrowings | 598,721 | 227,909 | 826,630 |
| | <u>796,063</u> | <u>227,909</u> | <u>1,023,972</u> |
| 2014 | | | |
| Trade and bills payables | 289,806 | — | 289,806 |
| Financial liabilities included in other payables and accruals | 31,532 | — | 31,532 |
| Bank and other advances for discounted bills | 2,860 | — | 2,860 |
| Interest-bearing bank borrowings | 231,304 | 389,945 | 621,249 |
| | <u>555,502</u> | <u>389,945</u> | <u>945,447</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2015

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders or issue new shares. No changes were made to the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 2014.

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital plus total debt. Total debt includes trade and bills payables, other payables and accruals, bank and other advances for discounted bills and interest-bearing bank borrowings. Total capital includes equity attributable to ordinary equity holders of the Company.

The Group's gearing ratios as at the end of the reporting periods were as follows:

| | 2015 | 2014 |
|---|------------------|-----------|
| | RMB'000 | RMB'000 |
| Trade and bills payables | 173,468 | 289,806 |
| Other payables and accruals | 57,437 | 64,461 |
| Bank and other advances for discounted bills | — | 2,860 |
| Interest-bearing bank borrowings | 789,632 | 574,270 |
| Total debt | 1,020,537 | 931,397 |
| Equity attributable to ordinary equity holders of the Company | 1,617,781 | 1,587,836 |
| Total capital plus total debt | 2,638,318 | 2,519,233 |
| Gearing ratio | 38.7% | 37.0% |

NOTES TO FINANCIAL STATEMENTS

31 December 2015

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2015 | 2014 |
|---------------------------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | <u>483,374</u> | <u>470,618</u> |
| CURRENT ASSETS | | |
| Prepayments | 102 | 37 |
| Due from subsidiaries | 346,850 | 319,891 |
| Cash and cash equivalents | <u>1,757</u> | <u>34,396</u> |
| Total current assets | <u>348,709</u> | <u>354,324</u> |
| CURRENT LIABILITIES | | |
| Other payables and accruals | 2,847 | 3,201 |
| Due to a subsidiary | — | 780 |
| Interest-bearing bank borrowings | <u>263,365</u> | <u>100,627</u> |
| Total current liabilities | <u>266,212</u> | <u>104,608</u> |
| NET CURRENT ASSETS | <u>82,497</u> | <u>249,716</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>565,871</u> | <u>720,334</u> |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank borrowings | <u>222,346</u> | <u>363,643</u> |
| Net assets | <u>343,525</u> | <u>356,691</u> |
| EQUITY | | |
| Share capital | 74,977 | 74,977 |
| Reserves (note) | <u>268,548</u> | <u>281,714</u> |
| Total equity | <u>343,525</u> | <u>356,691</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2015

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

| | Share premium account RMB'000 | Capital reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|--|-------------------------------|---|----------------------------------|------------------|
| At 1 January 2014 | 499,014 | 158,930 | (144,241) | (216,153) | 297,550 |
| Loss for the year | — | — | — | (20,762) | (20,762) |
| Exchange realignment | — | — | 4,926 | — | 4,926 |
| Total comprehensive income/(expense) for the year | — | — | 4,926 | (20,762) | (15,836) |
| At 31 December 2014 and at 1 January 2015 | 499,014 | 158,930 | (139,315) | (236,915) | 281,714 |
| Loss for the year | — | — | — | (28,519) | (28,519) |
| Exchange realignment | — | — | 15,353 | — | 15,353 |
| Total comprehensive income/(expense) for the year | — | — | 15,353 | (28,519) | (13,166) |
| At 31 December 2015 | 499,014 | 158,930 | (123,962) | (265,434) | 268,548 |

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2016.



星辰通信国际控股有限公司
Centron Telecom International Holding Limited