



TIANLI
HOLDINGS GROUP LIMITED

TIANLI HOLDINGS GROUP LIMITED

天利控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(formerly known as EYANG HOLDINGS (GROUP) CO., LIMITED 宇陽控股(集團)有限公司)

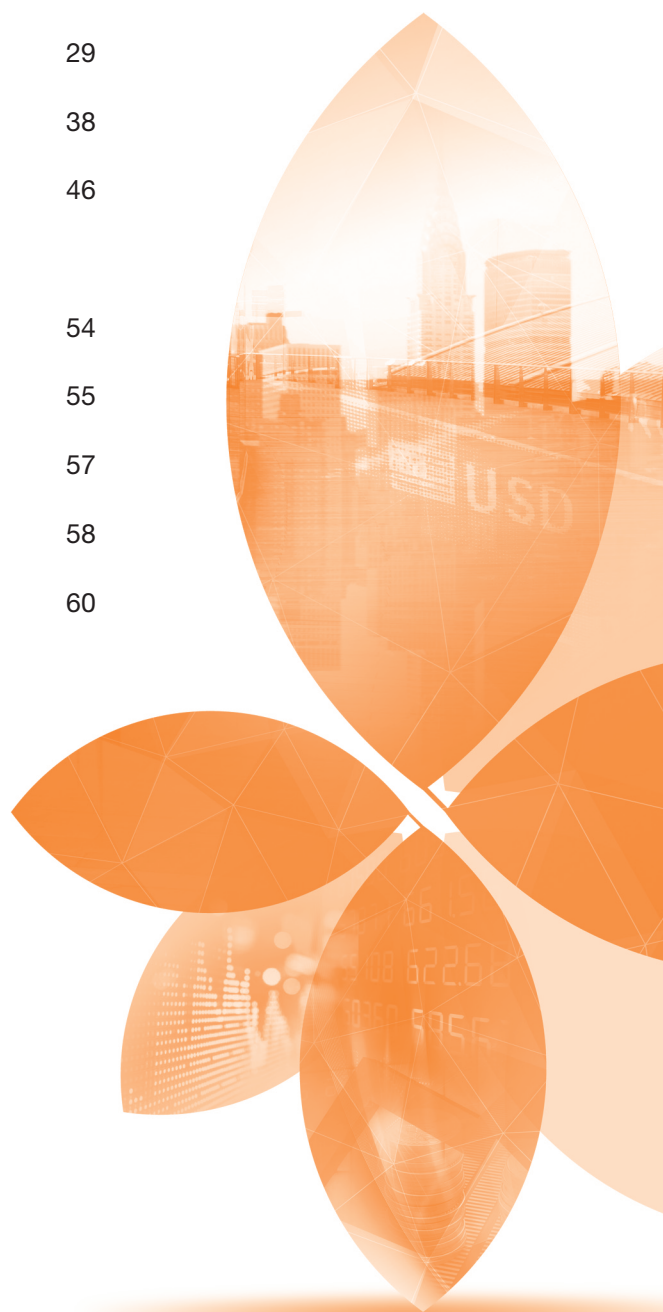
(Stock Code: 117)

Annual Report 2016



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ABBREVIATIONS

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

“Articles of Association”	articles of association of the Company
“Audit Committee”	the Audit Committee of the Company
“Board”	the Board of Directors of the Company
“CG Code”	the Corporate Governance Code in Appendix 14 to the Listing Rules
“Company”	Tianli Holdings Group Limited
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MLCC”	multi-layer ceramic chips
“Nomination Committee”	the Nomination Committee of the Company
“PRC”, “China” or “Mainland China”	the People’s Republic of China
“Remuneration Committee”	the Remuneration Committee of the Company
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars
“RMB”	Renminbi
“US” or “United States”	The United States of America
“US\$”	US dollars
“%”	per cent.



FINANCIAL HIGHLIGHTS

The following tables are summaries of the Group's results, assets, liabilities and equity for the past five financial years:

Results	2016 RMB'000	Year ended 31 December			
		2015 RMB'000 (Restated)	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue comprising:	904,168	517,887	466,584	551,762	538,335
MLCC business	585,833	517,887	466,584	513,150	414,143
Investment and financial services	31,752	–	–	–	–
Other general trading	286,583	–	–	–	–
Trading of mobile phones (Note 1)	–	–	–	–	112,993
Battery business (Note 2)	–	–	–	38,612	11,199
Cost of sales	(794,668)	(450,934)	(431,230)	(466,139)	(473,998)
Gross profit	109,500	66,953	35,354	85,623	64,337
(Loss)/profit for the year attributable to owners of the Company	(68,874)	(32,976)	(46,889)	(5,373)	(8,159)
Basic loss per share	(12.8) cents	(7.0) cents	(11.6) cents	(1.3) cents	(2.0) cents
		As at 31 December			
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Assets and liabilities					
Total assets	1,344,495	1,062,915	631,066	808,942	792,177
Total liabilities	954,729	620,125	237,432	366,971	346,487
Total equity attributable to owners of the Company	376,165	442,790	393,634	441,971	445,690

Notes:

1. In August 2011, the Company set up the mobile phones trading business which was engaged in purchase of mobile phones from third party suppliers and sale to overseas customers. The Company discontinued the mobile phones trading business in June 2013.
2. In November 2012, the Company acquired the battery business. The Company discontinued the battery business by the end of December 2013.



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Huang Mingxiang
(*Chairman and Chief Executive Officer*)
Mr. Jing Wenping
Mr. Kwok Oi Lung Roy
Mr. Xue Hongjian
Mr. Zhou Chunhua
Mr. Zhu Xiaodong

Non-executive Director

Mr. Sue Ka Lok

Independent Non-executive Directors

Mr. Chan Chi On, Derek
Mr. Chu Kin Wang, Peleus
Mr. To Yan Ming, Edmond
Mr. Xu Xuechuan

AUDIT COMMITTEE

Mr. Chu Kin Wang, Peleus (*Chairman*)
Mr. Chan Chi On, Derek
Mr. To Yan Ming, Edmond
Mr. Xu Xuechuan

REMUNERATION COMMITTEE

Mr. Xu Xuechuan (*Chairman*)
Mr. Chan Chi On, Derek
Mr. Chu Kin Wang, Peleus
Mr. Huang Mingxiang
Mr. To Yan Ming, Edmond

NOMINATION COMMITTEE

Mr. Chu Kin Wang, Peleus (*Chairman*)
Mr. Chan Chi On, Derek
Mr. Huang Mingxiang
Mr. To Yan Ming, Edmond
Mr. Xu Xuechuan

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 907-909, 9th Floor
Three Pacific Place
1 Queen's Road East
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

EYANG Building
No. 3 Qimin Street
No. 2 Langshan Road, North Area
Hi-tech Industrial Park
Nanshan District
Shenzhen, the PRC

AUTHORISED REPRESENTATIVES

Mr. Leung Wai Chung
Mr. Zhou Chunhua

COMPANY SECRETARY

Mr. Leung Wai Chung CPA

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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



CORPORATE INFORMATION

PRINCIPAL BANKERS

Chong Hing Bank
Wing Lung Bank
Industrial and Commercial Bank
of China (Asia) Limited
Industrial and Commercial Bank
of China (Macau)
China Construction Bank
Agricultural Bank of China Limited
Citibank (Hong Kong)
Shenzhen Ping An Bank

LEGAL ADVISOR AS TO HONG KONG LAW

Lu, Lai & Li Solicitors & Notaries

LEGAL ADVISOR AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman

AUDITOR

Crowe Horwath (HK) CPA Limited
Certified Public Accountants

STOCK CODE

117

COMPANY WEBSITE

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



CHAIRMAN'S STATEMENT

In 2016, the Group's MLCC business recorded growth both in sales volume and revenue on the back of the rise of domestic smartphone brands. However, due to a decline in product price resulted from keen competition, coupled with the negative impact of the depreciation of Renminbi, the profitability of the product has been squeezed, and the prospect of development remained uncertain. In response to the continuous market challenges, the Group has been gradually attracting professional talents and establishing new businesses including investment and financial services as well as general trading since the first half of 2016. In addition, with the approval by the shareholders at the extraordinary general meeting held on 14 June 2016, the Company changed its name to "Tianli Holdings Group Limited" and "天利控股集團有限公司" with effect from June last year, marking the commencement of the Group's business transformation.

ANNUAL RESULTS FOR 2016

On behalf of the Board of Directors, I would like to announce that the Group's revenue for the year 2016 was RMB904.2 million, representing an increase of approximately 74.6% as compared with last year. Despite the improvement in the consolidated operating results as compared with last year, the MLCC business incurred considerable impairment losses during the year. The consolidated operating loss after the impairment was RMB44.1 million, expanding by approximately 109.2% as compared with last year. The loss attributable to the owners of the Company increased from RMB33.0 million in 2015 to RMB68.9 million for the year 2016, expanding by 108.9%.

MARKET TREND

The year 2016 has seen a fast resurgence of populism and protectionism around the globe, which will have a profound impact on the world in the next few years. Looking into 2017, the whole market is filled with political risks as the general elections in European countries will test the unity of Europe while the trade and military policies of the United States following the election of President Trump are also subject to uncertainty. Along with the political uncertainties is the gradual recovery of the global economy. On the one hand, the outlook plagued by low inflation and sluggish growth is improving as recovering labour market and rising energy prices have lifted inflation from low levels. On the other hand, developed economies will shift from monetary easing to fiscal easing gradually, thereby driving economic growth and increasing the earnings of companies.

Against the broad backdrop of co-existence of opportunities and risks, investors, particularly those from PRC, are in a strong need for global asset allocation in order to derive profit from various asset classes on the premise of diversification of risks. This presents great market opportunities to the investment and asset management teams. Meanwhile, with the rapid development of artificial intelligence and big data technologies, the structure and processes of the traditional financial industry are facing fierce attack. The fusion of technology and finance plus its rapid iteration will shape the industry profoundly.



DEVELOPMENT STRATEGY

In order to improve the performance of the Company and adapt to market trends, the Group began to develop and implement the transformation strategy to diversify its businesses in 2016. In addition to its existing operations, the Group brought in professional teams to build up the investment and financial services business with an emphasis on SFC regulated activities, laying the foundation for the transformation and development.

In respect of investment and financial services, based on its insight into the prospect and changes of the market, the Group will formulate and execute its transformation strategy around three major trends including the globalisation of asset allocation, the diversification of investment portfolios and the intellectualization of financial technologies, with an aim to create a comprehensive financial services platform encompassing asset management, strategic investment, corporate finance, mergers and acquisitions, trade finance and financial technologies.

- In respect of globalisation, in addition to the PRC market, the Group had tapped the Australian market in 2016, investing in loan projects related to residential development. In the first quarter of 2017, the Group further expanded into more markets including the United States, Europe and South Korea, pursuing quality investment opportunities worldwide;
- In respect of diversification, the Group obtained relevant licenses issued by the SFC in November 2016 before formally launched the asset management business. Currently, the Group's established and upcoming funds employ a broad spectrum of investment strategies including real estate, private debt, mergers and acquisitions, healthcare and public markets. When setting up fund structures, the Group adopted the structure of fund of funds (FOF) and sub-funds, providing investors of the FOF with the opportunity to further diversify risks and investments while ensuring sub-funds benefits from dedicated management teams;
- In respect of intellectualization, the Group set up a subsidiary in September 2016 to carry out the financial technology business. Currently, its major products including Xiwei (希為) Smart Marketing Engine, Xiwei (希為) Quantitative Credit Engine and blockchain-based Xiangna (香納) Supply Chain Finance Platform are all under development, with their design ideas and solutions well recognized among potential investors and clients.

In respect of the MLCC business, with further consolidation in the downstream market, the Group plans to strengthen its marketing by finetuning product portfolio and seeking breakthroughs on key customers. The Group is also committed to improving production by enhancing basic management, stabilizing production and increasing yield.

In respect of the general trading business, the Group will seek to increase efficiency on top of the results achieved in 2016, while improving the return of the general trading business by measures such as expanding sales channel, optimizing product structure and changing settlement method.



CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

I would like to take the opportunity to thank all our Directors and employees for their strenuous efforts to carry through the past year. Also, I would like to express my gratitude to all shareholders, investors and customers for their constant trust and support. They are our reason to push on.

Huang Mingxiang

Chairman

Hong Kong, 27 March 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2016 was a milestone year which witnessed the dedicated effort of the Group in progressively devising and implementing new business plans while proactively responding to the continuous challenges in the MLCC business. With effect from 15 June 2016, following the shareholders' approval at the extraordinary general meeting, the English name of the Company was changed from "EYANG Holdings (Group) Co., Limited" to "Tianli Holdings Group Limited" and the dual foreign name in Chinese of the Company was changed to "天利控股集團有限公司" to more accurately reflect the ongoing business development direction of the Company. The principal place of business of the Group has also been changed to Unit 907-909, 9/F., Three Pacific Place, 1 Queen's Road East, Hong Kong in August 2016. Meanwhile, along with the gradual formation of its new business teams, the Group has seized suitable opportunities and expanded into new operations, including, among others, investment and financial services, as well as other general trading.

INVESTMENT AND FINANCIAL SERVICES

Investment

Since March 2016, the Group has established certain wholly-owned subsidiaries in Hong Kong and overseas and commenced the business of financial investment, which includes direct investments in debt and equity assets. As at 31 December 2016, the Group completed in aggregate, equity investment of RMB28.2 million and debt investment of RMB229.1 million and interest in joint ventures of RMB268.8 million and some of the key projects included:

- i. In April 2016, the Group made available to an independent borrower a secured loan of up to HK\$120 million, for a term of nine months. The borrower holds part of the shareholding interests in the project company of an integrated property development project in Beijing, PRC.
- ii. In the second half of the year 2016, the Group participated in and provided loan facilities for two residential property development projects located in Melbourne and Queensland, Australia, respectively, totalling A\$22.5 million (equivalent to approximately RMB118.7 million).
- iii. In June 2016, the Group and an independent joint venture partner formed Universal Blossom Limited (普華有限公司), in which each of them held 50% of the equity interest. As at 31 December 2016, the Group funded this joint venture with HK\$300 million (equivalent to approximately RMB268.8 million) in the form of shareholder's loan, to be used to invest primarily in properties and mezzanine loans.

Financial Services

In November 2016, the Group was granted licences in respect of Type 4 (advising on securities) and Type 9 (asset management) regulated activities by the SFC as well as a money lenders licence in Hong Kong. Meanwhile, the Group was also in the process of filing for registration as a fund manager in Mainland China, which was completed in January 2017. The grant of these licences laid the foundation for the targeted diversification of businesses of the Group and enables the Group to expand into these specific areas in the financial services segment.



MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition, the management believes that the financial industry is undergoing an unprecedented wave of shock from the Internet and new technologies, while conventional financial institutions are forced to seek for substantial transformation under growing operational pressure. Against this backdrop and in the anticipation that the market is going to respond with a rapid growth in its demand for financial technologies, the Group invested RMB70.0 million to establish a subsidiary in September 2016, which will be committed to developing and providing market leading products and solutions centred around financial technologies for the financial industry. Based on artificial intelligence and big data technologies, these will include, among others, intelligent marketing solutions, online credit products and smart investment advisory services.

During the year, the investment and financial services business contributed a segment profit of approximately RMB8.4 million (2015: nil) to the Group.

OTHER GENERAL TRADING

The Group expanded into other general trading businesses in the second half of the year 2016, involving products including but not limited to commodities such as metals, minerals and petroleum products.

Relatively low oil price and its upward trend have supported the Group's commencement of fuel oil trading business, given a continuing rebound of global oil price in 2016 from the historical low over recent years. During 2016, the Group recorded an aggregate of approximately 150,000 tonnes of fuel oil sold to downstream supply chains for the use of ocean-going vessel refuelling. In the second half of 2016, the commodity price of chrome ore hit the highest level since 2014. The continuous increase in the ore price was expected to accelerate the procurement of metal smelting plants and boost the demand for trade of chrome ore. In the second half of 2016, the Group supplied a total of approximately 10,600 tonnes of high-grade chrome ore to smelting plants for extraction of chromium.

During the year, the other general trading contributed a segment profit of approximately RMB0.3 million (2015: nil) to the Group.

MLCC

In 2016, the Group has seen recovery in the market of smart phones, which is the principal market of the Group's MLCC business. The advantage of seizing a rather large market share in the domestic brand customers market in 2015 has been maintained during the year, during which the sales volume and revenue of the MLCC business recorded growths of 19.5% and 13.1% over 2015, respectively.

However, on the one hand, the Group's cost of imported materials and foreign exchange loss rose sharply under the impact arising from the nearly 7% depreciation of Renminbi during the year; on the other hand, the frequent price cuts of products for end consumers, such as mobile phones and TVs, coupled with the price war waged by other players in the industry for the purpose of capturing market share, the price of the Group's products recorded a moderate decline.



MANAGEMENT'S DISCUSSION AND ANALYSIS

As part of our overall strategy and vision for long-term development, during the year, the Group moved an additional MLCC production line from Dongguan, Guangdong Province to the production base in Anhui Province. As the products involved were more sophisticated, the relocation was more challenging than the previous one. As a result, the unit cost of those products involved increased while gross profit margin decreased as a result of the relocation.

During the year of 2016, the MLCC business record a segment loss of approximately RMB41.4 million (2015: approximately RMB23.1 million) mainly due to recognition of impairment loss on its property, plant and equipment amounted to approximately RMB50.7 million despite the increase of its revenue.

FINANCIAL REVIEW

Revenue

The Group's revenue included revenue from three distinct business segments: manufacturing and sale of MLCC, investment and financial services, and other general trading. The total revenue of the Group for 2016 was approximately RMB904.2 million, representing a 74.6% increase as compared to 2015. The revenue from the MLCC segment amounted to RMB585.8 million, representing an increase of 13.1% from that of 2015, as a result of the Group's continued expansion in market share since the second half of 2015. The investment and financial services segment commenced in the first half of 2016 and generated a revenue of approximately RMB31.8 million mainly through providing loans to external clients. The other general trading segment commenced in the second half of 2016 and generated a revenue of approximately RMB286.6 million.

Gross Profit Margin

The Group's gross profit margin decreased to 12.1% in 2016 from 12.9% in 2015. The decrease was mainly due to the low gross profit of the newly commenced other general trading business in 2016.

The gross profit margin of the Group's MLCC business in 2016 was 13.2%, representing a minor improvement from 12.9% in 2015. The increase was mainly due to the increased production and sales of the Super-miniature 0201 capacitors which has higher profit margin.

During the year, the gross profit margin of other general trading business was approximately 0.01% (2015: nil).

Other Income

The Group's other income totaled RMB10.3 million in 2016, representing a decrease of RMB2.2 million from that of 2015. The decrease was mainly due to the rental income during the year which was down by RMB2.2 million as a result of the decline in property floor area for lease in 2016.

Selling and Distribution Costs

The Group's selling and distribution costs amounted to RMB22.8 million in 2016, remained at a similar level to that of 2015.

Administrative Expenses

The Group's administrative expenses were RMB65.3 million in 2016, increased by RMB35.6 million compared to that of 2015. The increase was mainly due to RMB9.7 million of the share award payment and approximately RMB19.6 million of staff costs (including Directors' emoluments) associated with those newly recruited in Hong Kong during the year.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Research and Development Costs

The Group's research and development costs were RMB20.8 million in 2016, representing a 39.8% decrease from that of 2015. The decrease was mainly due to the current research and development focus on improvement, upgrading and development of existing MLCC products, with no considerable research and development input for major projects.

Other Expenses

The Group's other expenses were RMB4.4 million in 2016, representing an increase of RMB4.2 million from that of 2015. This was mainly due to higher amount of provision for trade receivables compared to the corresponding period of last year.

Finance Costs

The Group's finance costs were RMB37.0 million in 2016, representing an increase of RMB23.1 million from that of 2015. The increase was mainly due to the full-year interest expenses recognized relating to the corporate bond of HK\$400 million (equivalent to approximately RMB329.6 million) issued in August 2015 and the interest expenses on a new loan of HK\$300 million (equivalent to approximately RMB268.8 million) obtained in September 2016.

Property, Plant and Equipment

The net carrying amount of the Group's property, plant and equipment as at 31 December 2016 was RMB144.9 million, representing a decrease of RMB44.5 million from that of 2015. The decrease was mainly due to the impairment loss of RMB50.7 million and depreciation of RMB34.1 million after being partly offset by the Group's new MLCC production equipments and construction in progress of RMB34.7 million.

Investment Properties

The Group's investment properties amounted to RMB18.5 million at the year end, representing a decrease of RMB6.3 million from that of 2015 and this was mainly due to the decline in property floor area for lease in 2016.

Other Intangible Assets

The Group's other intangible assets amounted to RMB1.0 million at the year end, representing a decrease of RMB0.5 million from that of 2015, the decrease represented the amortization of intangible assets associated with the SAP management software.

Trade and Bills Receivables and Interest Receivables

As at 31 December 2016, the Group's trade and bills receivables and interest receivables amounted to RMB341.1 million, representing an increase of RMB113.0 million from that of 2015. The increase was mainly associated with the trading activities within the other general trading segment and the interest receivable generated from investment and financial services business.

Prepayments, Deposits and Other Receivables

As at 31 December 2016, prepayments, deposits and other receivables classified as current assets of the Group amounted to RMB9.8 million, representing an increase of RMB1.3 million from that of 2015, which was primarily due to the increase in prepayments to suppliers.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Cash and Bank Balances and Pledged Bank Deposits

As at 31 December 2016, the Group's cash and bank balances and pledged bank deposits totaled RMB147.9 million, representing a decrease of RMB324.3 million from that of 2015. The decrease was mainly due to its funding of RMB257.3 million for the Group's investment and financial services business involving loans and an investment in independent third party, and RMB68.7 million used for other general trading business remaining outstanding as at 31 December 2016.

Trade and Bills Payables

As at 31 December 2016, the Group's trade and bills payables amounted to RMB113.0 million, representing a decreased of RMB8.2 million compared with that of 2015 after the Group curtailed its procurement around the end of the year.

Deferred Income, Accruals and Other Payables

As at 31 December 2016, the Group's deferred income, accruals and other payables amounted to RMB84.1 million, representing an increase of RMB23.1 million from that of 2015. This was mainly due to the increase in government grants and salary payables.

Bank Loans

As at 31 December 2016, the Group had outstanding bank loans of RMB60.0 million, representing a decrease of RMB10.0 million from that of 2015. All the bank loans were repayable within one year and bore floating interest rates and all the banks loans were also secured.

Bond Payable

As at 31 December 2016, the Group had bond payable of approximately RMB397.8 million, representing an increase of RMB52.1 million as compared to that of 31 December 2015. The increase was mainly due to the interest accrued and the depreciation of Renminbi during the period. During the year ended 31 December 2016, The proceeds raised have been applied to (i) approximately HK\$278.6 million (approximately RMB249.4 million) of the bond proceeds has been invested in the Company's investment and financial services business involving loans and an investment in independent third party and approximately HK\$89.0 million (approximately RMB79.7 million) is reserved for the Company's other general trading business and (ii) the remaining for general working capital of the Group.

Contingent Liabilities

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

Capital Commitments

As at 31 December 2016, the Group had capital commitments of RMB3.3 million, representing an decrease of RMB10.9 million from that of 2015, which was mainly because the decrease of the number of the outstanding contracts for purchasing equipment at the year end.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net Current Assets

As at 31 December 2016, the Group had net current assets of approximately RMB70.4 million (2015: RMB562.2 million), including current assets of RMB716.2 million (2015: RMB809.9 million) and current liabilities of RMB645.8 million (2015: RMB247.7 million). The Group's current ratio was 1.11 as at 31 December 2016, representing a decrease of 2.16 from that of 2015. The decrease was mainly due to the bond payable of approximately RMB397.8 million, which will be payable in August 2017, and subsequently increased the current liabilities at 31 December 2016.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Banking Facilities

As at 31 December 2016, the Group had aggregate banking facilities of approximately RMB340.0 million, of which approximately RMB262.3 million had not been utilised.

Gearing Ratio

The Group monitors its capital structure through gearing ratio, which is net debt divided by capital plus net debt. Net debt is calculated at the sum of bank and other loans, bond payable, obligations under finance lease, dividend payable, trade and bills payables and accruals and other payables (excluding deferred income) less cash and cash equivalent. Capital represents equity attributable to the owners of the Company (excluding share capital). As at 31 December 2016 and 2015, the gearing ratio of the Group was approximately 66.8% and 18.8% respectively. The increase in gearing ratio in 2016 was mainly due to increase in external investment loans and increase in borrowings by the Group during the year.

Financial Resources

With the amount of liquid assets on hand as well as credit facilities granted by banks, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

FOREIGN CURRENCY RISK

In 2016, the Group's revenue were mainly denominated in Renminbi, US dollars, Hong Kong dollars and Australian dollars, whilst its purchases were mainly denominated in Renminbi, US dollars, Hong Kong dollars and Japanese Yen. The trade receivables denominated in US dollars were greater than the trade payables denominated in US dollars, and the trade receivables denominated in Hong Kong dollars were greater than the trade payables denominated in Hong Kong dollars. Meanwhile, the Group is exposed to risks in respect of trade payables denominated in Japanese Yen, but is basically not exposed to risks in respect of trade receivables denominated in Japanese Yen. In addition, the Group is exposed to risks in respect of the loan receivable and interest receivable denominated in Australian dollars. In the event of vigorous fluctuation of exchange rates, foreign currencies risk will exist to a certain extent. During the year, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CHARGES ON ASSETS

As at 31 December 2016, certain buildings, prepaid land lease payments, investment properties and trade and bills receivables of the Group with carrying amounts of approximately RMB58.9 million, RMB12.7 million, RMB15.5 million and RMB222.6 million respectively (2015: RMB47.6 million, RMB11.1 million, RMB21.8 million and RMB195.60 million respectively) have been pledged as securities for bank borrowings.

As of 31 December 2016, the Group's bond payable is secured by all equity interests in two wholly-owned subsidiaries of the company.

As of 31 December 2016, the carrying amount of motor vehicle held under finance lease was RMB0.5 million (2015: RMB nil).

EMPLOYEES

As at 31 December 2016, the Group had a total of 1,284 (2015: 1,250) employees. In 2016, the aggregate staff costs of the Group (including Directors' emoluments) were RMB120.5 million (2015: RMB81.8 million). The remunerations and benefits of employees are determined based on prevailing market conditions, state policies and individual performance.



MANAGEMENT'S DISCUSSION AND ANALYSIS

BUSINESS PROSPECTS

In response to the MLCC business continuing to incur losses following similar performance in the previous years, the Group has initiated the transformation to diversified operation in 2016. To this end, the Group has introduced a number of professional teams, and is focused on investment and financial services through concentrated efforts in developing SFC regulated licensed business, the objective of which is to deliver reasonable growths in revenue from its original business, while laying the foundation for the Group's business transformation and development. Since the end of the reporting period, the Group has already made new progress in its asset management business.

In January 2017, the Group sponsored Tianli Private Debt Fund L.P., a fund that focuses on investing in a wide range of private debt instruments in the real estate industry, primarily in developed countries and PRC. The fund will not exceed US\$400.0 million in size, and the capital commitment of the Group is US\$35.0 million.

In January 2017, the Group also sponsored a real estate fund, namely Tianli Real Estate Investment L.P., to hold minority equity interests in a Beijing-based integrated property development project. As at the date of this annual report, the total commitment thereof accounted for approximately US\$116 million (equivalent to approximately RMB798 million) in which the Group committed US\$17.5 millions (equivalent to approximately RMB120.4 million). As part of the Group's plan to set up its portfolio of real estate funds, this is the first of a series of funds that will mainly focus on seizing opportunities across the global real estate market, with a view to generating stable returns over the long term.

Following the establishment of Tianli Private Debt Fund L.P. and in view of its investment focus, the Group disposed of the entire issued shares of and shareholder's loan to its then indirect wholly owned subsidiary, namely Noble Sky Investments Limited, to Tianli Private Debt Fund L.P. in February 2017 at a total consideration of approximately US\$18,481,000 (equivalent to approximately HK\$143,412,000 or approximately RMB127,148,000). Noble Sky Investments Limited was a party to certain agreements pursuant to which it has provided partial funding to the relevant mezzanine financiers for two respective residential property projects in Australia.

The Group has sponsored a number of other funds in March 2017, including:

- i. Tianli Private Debt Capital L.P., which seeks to make investments predominantly across a wide range of private debt instruments globally. The total current capital commitment of the fund is US\$175.0 million (equivalent to approximately HK\$1,358.0 million or approximately RMB1,204.0 million), and the capital commitment of the Group is US\$9.8 million (equivalent to approximately HK\$76.0 million or approximately RMB67.4 million);
- ii. Tianli Real Estate Capital L.P., which seeks to make investments in global real estate sector and distressed assets. The total current capital commitment of the fund is US\$175.0 million (equivalent to approximately HK\$1,358.0 million or approximately RMB1,204.0 million), and the capital commitment of the Group is US\$9.8 million (equivalent to approximately HK\$76.0 million or approximately RMB67.4 million);
- iii. Tianli Special Situations Capital L.P., which seeks to make investments predominantly in global mergers and acquisitions, private equity or other transactions related to corporate finance. The total current capital commitment of the fund is US\$175.0 million (equivalent to approximately HK\$1,358.0 million or approximately RMB1,204.0 million), and the capital commitment of the Group is US\$9.8 million (equivalent to approximately HK\$76.0 million or approximately RMB67.4 million); and



MANAGEMENT'S DISCUSSION AND ANALYSIS

- iv. Tianli Public Markets Capital L.P., which seeks to make investments predominantly in the secondary market across a wide range of publicly traded securities globally. The total current capital commitment of the fund is US\$100.0 million (equivalent to approximately HK\$776.0 million or approximately RMB688.0 million), and the capital commitment of the Group is US\$5.6 million (equivalent to approximately HK\$43.5 million or RMB38.5 million).

In addition to the above funds, the Group also sponsored Tianli M&A Investment L.P. in March 2017, which seeks to make investments predominantly in global merger and acquisitions (including private equity) or other corporate finance related investment projects and/or funds. The total current capital commitment of the fund is US\$310.0 million (equivalent to approximately HK\$3,405.6 million or approximately RMB2,070.8 million). With its participation in the various funds each with a distinct investment focus, the management believes that the Group is well positioned in further developing its investment business.

The Group remains vigilant about assessing and navigating the significant uncertainties in the global economy, financial markets and regulatory environment, and the corresponding impacts which may have on our investment business.

For the purpose of developing into a comprehensive financial services platform encompassing asset management, strategic investment, corporate finance, mergers and acquisitions, trade finance and financial technologies, the Group completed an open offer in February 2017 and raised approximately HK\$372.4 million (equivalent to approximately RMB331.4 million) (before deducting expenses), thus securing sufficient resources for the development of the Group in the targeted new business segments.

As at the date of this annual report, a total of nine funds are sponsored and/or advised by the Group through its wholly owned subsidiaries. Since January 2017, the Group has already started generating revenue from the assets management business and with the potential growth of the assets under its management, it is expected that this new income stream to the Group will further contribute to the revenue of the Group.

In terms of the Group's MLCC business, driven by the overall deceleration in market demand for downstream end consumer electronics and the growing concentration of smart phone brands, the upstream supply chain will also become increasingly concentrated. The performance of the MLCC business will largely rely on taking a steady hold in the market for end-users, which in turn, depends on whether the Group can make timely adjustment and sharp response to constant changing market trends on the Group's customer groups for MLCC products in the future. Meanwhile, any innovation in the end market of consumer electronics requires the delivery of MLCC products with higher performance, which also imposes higher demands for the Group's research, development and production capabilities.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

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. During the year ended 31 December 2016, there were no significant dispute between the Group and its employees, customers and suppliers.



MANAGEMENT'S DISCUSSION AND ANALYSIS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long-term sustainability of the environment and communities in which it operates. In order to reduce the degree of environmental damage when developing business or running production, the Group strictly complies with the local law, rules and guidance in relation to environmental protection.



DIRECTORS' PROFILE

The biographical details of Directors as at 27 March 2017, the date of this annual report, are set out below:

Mr. Huang Mingxiang, aged 58, joined the Company as an Executive Director, the Chairman and Chief Executive Officer in May 2016. Mr. Huang is also a member of the Nomination Committee and the Remuneration Committee. Mr. Huang has over 35 years of experience in commercial banking, investment management and corporate finance through holding various executive positions in one of the largest banks in China and an international financial institution. Mr. Huang holds a Master in Management Science and Engineering degree from Hunan University and a Master of Business Administration degree from China Europe International Business School.

Mr. Jing Wenping, aged 35, was appointed as an Executive Director of the Company in May 2013. Mr. Jing is the deputy general manager of MLCC division of the Group. He is in charge of the Group's MLCC product management, including development, quality and production. Following his graduation from 電子科技大學 (University of Electronic Science and Technology China*) in 2005, Mr. Jing started his career in the Group and was promoted to the deputy factory director of the MLCC Production Centre in February 2008. He left the Group in April 2009, but rejoined later on in January 2012.

Mr. Kwok Oi Lung Roy, aged 41, joined the Company as an Executive Director in February 2016 and is a director of various subsidiaries of the Company. Mr. Kwok has many years of experience in investment management and corporate finance through holding various executive positions in various international financial institutions from 1998 to 2015. Mr. Kwok obtained a Bachelor of Science in Engineering from the School of Engineering and Applied Science at the University of Pennsylvania and a Bachelor of Science in Economics from the Wharton School at the University of Pennsylvania, both in May 1998.

Mr. Xue Hongjian, aged 53, joined the Company as an Executive Director in July 2016 and is a director of various subsidiaries of the Company. Mr. Xue graduated with major in mechanical engineering from Hubei University of Automotive Technology in the PRC and holds a doctor's degree of Engineering majoring in Mechanical Manufacturing from Huazhong University of Science & Technology in the PRC. Mr. Xue has over 20 years' experience in banking industry, specializing in information technology and product development.

Mr. Zhou Chunhua, aged 40, joined the Company as an Executive Director in January 2016 and is a director of various subsidiaries of the Company. Mr. Zhou holds a Master of Business Administration degree in Finance from Kellogg School of Management at Northwestern University, a Master of Philosophy degree in System Dynamics from University of Bergen and a Bachelor of Science degree in Management Information Systems from Fudan University. Mr. Zhou had held various executive positions in a reputable investment bank and had worked for various international financial institutions and business organizations. Mr. Zhou has extensive experience in financial management, investment and corporate finance.

Mr. Zhu Xiaodong, aged 28, joined the Company as an Executive Director in January 2016. Mr. Zhu holds a Master of Science in Finance degree from University of Sheffield. Mr. Zhu had held managerial position in a trust company and has extensive experience in trust management.



DIRECTORS' PROFILE

Mr. Sue Ka Lok, aged 51, joined the Company as an Executive Director in July 2015 and was re-designated as a Non-executive Director in November 2016. He is also a director of various subsidiaries of the Company. Mr. Sue holds a Bachelor of Economics degree from The University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the CPA Australia and a fellow of The Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administrators and the Hong Kong Securities and Investment Institute. He has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is an executive director and the company secretary of China Strategic Holdings Limited (stock code: 235) and has been appointed as an executive director and the chief executive officer of EPI (Holdings) Limited (stock code: 689) since 18 October 2016 and 19 October 2016 respectively, an executive director of Birmingham International Holdings Limited (stock code: 2309) since 15 October 2016 and an executive director of ITC Corporation Limited (stock code: 372) since 8 March 2017. All the above companies are listed in Hong Kong. Mr. Sue is also an executive director and the chairman of Courage Marine Group Limited, the shares of which are primarily listed on the Main Board of the Stock Exchange (stock code: 1145) and secondarily listed on the Singapore Exchange Securities Trading Limited (Singapore stock code: ATL.SI).

Mr. Chan Chi On, Derek, aged 53, was appointed as an Independent Non-executive Director of the Company in July 2016. Mr. Derek Chan is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. Derek Chan has over 25 years of experience in the financial services industry and is a co-author of a book on listing procedures and securities rules and regulation in Hong Kong. Mr. Derek Chan is also currently an adjunct professor in the School of Accounting and Finance of the Hong Kong Polytechnic University. Mr. Derek Chan is currently the chairman of Halcyon Capital Limited and Halcyon Securities Limited, which are engaged in corporate finance and securities businesses in Hong Kong respectively. He worked for the Stock Exchange from 1989 to 1996 and had been an executive director of Haitong International Securities Group Limited (stock code: 665) (formerly known as Taifook Securities Group Limited), a company listed on the Main Board of the Stock Exchange and has been the head of its corporate finance division for 16 years until the end of 2012. Mr. Derek Chan is also currently an independent non-executive director of Yuexiu REIT Asset Management Limited (stock code: 405), Longfor Properties Co. Ltd. (stock code: 960) and China Conch Venture Holdings Limited (stock code: 586), all of which are companies listed on the Main Board of the Stock Exchange. Until his resignation in March 2016, Mr. Derek Chan was an independent non-executive director of Global International Credit Group Limited (stock code: 1669), which is also a company listed on the Main Board of the Stock Exchange. Mr. Derek Chan graduated from the Hong Kong University of Science and Technology with a Master's degree in Business Administration in 1994 and from the University of Hong Kong with a Bachelor's degree in Social Sciences (majoring in Economics) in 1985.



DIRECTORS' PROFILE

Mr. Chu Kin Wang, Peleus, aged 52, joined the Company as an Independent Non-executive Director in April 2007. Mr. Chu is also the Chairman of the Audit Committee and the Nomination Committee and a member of the Remuneration Committee. Mr. Chu holds a Master of Business Administration degree from The University of Hong Kong. Mr. Chu is a fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Chu is also an associate of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. He has extensive experience in corporate finance, audit, accounting and taxation. Mr. Chu was appointed as an independent non-executive director of Mingfa Group (International) Company Limited (stock code: 846) and ITC Corporation Limited (stock code: 372) on 1 November 2016 and 8 March 2017 respectively and is a deputy chairman and executive director of Chinese People Holdings Company Limited (stock code: 681), and an independent non-executive director of China First Capital Group Limited (stock code: 1269), Huayu Expressway Group Limited (stock code: 1823), Flyke International Holdings Ltd. (stock code: 1998), Madison Wine Holdings Limited (stock code: 8057), SkyNet Group Limited (stock code: 8176) and Telecom Service One Holdings Limited (stock code: 8145) and was a non-executive director of Perfect Group International Holdings Limited (stock code: 3326) until 1 March 2017. All of the above companies are listed in Hong Kong.

Mr. To Yan Ming, Edmond, aged 45, was appointed as an Independent Non-executive Director of the Company in July 2016. Mr. To is also a member of the Audit Committee, the Nomination Committee and the Remuneration Committee. Mr. To holds a Bachelor of Commerce (Accounting) degree from Curtin University of Technology in Western Australia. Mr. To is a Certified Public Accountant (Practising) in Hong Kong, and a member of both the CPA Australia and the Hong Kong Institute of Certified Public Accountants. He had worked for Deloitte Touche Tohmatsu, an international accounting firm, and has extensive experience in auditing, accounting, public offerings and taxation matters. Mr. To is also a director of Edmond To CPA Limited, R.C.W. (HK) CPA Limited and Asian Alliance (HK) CPA Limited (formerly known as Zhonglei (HK) CPA Company Limited). Mr. To is an independent non-executive director of Courage Marine Group Limited (stock code: 1145), China Vanguard Group Limited (stock code: 8156), Wai Chun Group Holdings Limited (stock code: 1013), Wai Chun Mining Industry Group Company Limited (stock code: 660), Birmingham International Holdings Limited (stock code: 2309) and EPI (Holdings) Limited (stock code: 689). Mr. To was appointed as an independent non-executive director of SH Group (Holdings) Limited (stock code: 1637) and Asia Grocery Distribution Limited (stock code: 8413) on 6 December 2016 and 27 March 2017 respectively. He was an independent non-executive director of China Household Holdings Limited (stock code: 692) and Theme International Holdings Limited (stock code: 990) until 10 December 2015 and 31 May 2015 respectively. All of the above companies are listed in Hong Kong.

Mr. Xu Xuechuan, aged 54, joined the Company as an Independent Non-executive Director in July 2015. Mr. Xu is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. Mr. Xu holds a bachelor's degree in economics from Peking University in the PRC, a Master of Arts in Economics degree and a Master of Science degree in Marketing Research from University of Guelph, Canada. Mr. Xu has extensive experience in direct investment and corporate finance. Mr. Xu has held senior management and consulting positions in various international enterprises in Canada, Hong Kong and the PRC.

* *Unofficial English translation of the Chinese name*



CORPORATE GOVERNANCE REPORT

Throughout the process of formulating business strategy and devising procedures to implement both operation and execution plans to achieve the business goals, the Board has always been embarking on attaining a high standard of corporate governance on the basis of the code provisions as stipulated in the CG Code. The Board from time to time reviews the Company's corporate governance practice and make necessary changes, if necessary, for the purpose of reaching the required standards of the CG Code and beyond. During the year ended 31 December 2016, the Company has complied with all the CG Code provisions except for the provision as stated and explained below:

- Code provision A.2.1 of the CG Code states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. In May 2016, Mr. Huang Mingxiang was appointed as the executive director, chairman and chief executive officer of the Company. The Board opined that vesting the roles of both chairman and chief executive officer in the same person could provide the Group with strong and consistent leadership in the time the Group was revising its business strategy and implementing new plans. The arrangement also allowed for more effective planning and execution of long term business strategies and enhances the efficiency of decision making process.

THE BOARD OF DIRECTORS

Composition of the Board

The Board is responsible for setting the Group's business objectives, devising strategic plans and operation policies and overseeing the Group's performance. As at the date of this annual report, there are 11 members in the Board comprising 6 Executive Directors, 1 Non-executive Director and 4 Independent non-executive Directors.

The Executive Directors of the Board participate in the Group's daily operation and management and convey a clear picture of the direction, business objectives and goals of the Company to the staff. They keep track of the performance of the senior management with reference to the goals and objectives set by the Board.

The biographical details of the directors are set out on pages 18 to 20 of this annual report. The composition of the Board and the committees of the Board as at the date of this annual report is set out below:

Executive Directors

Mr. Huang Mingxiang (*Chairman and Chief Executive Officer of the Company, member of the Nomination Committee and the Remuneration Committee*)

Mr. Jing Wenping

Mr. Kwok Oi Lung Roy

Mr. Xue Hongjian

Mr. Zhou Chunhua

Mr. Zhu Xiaodong



CORPORATE GOVERNANCE REPORT

Non-executive Director

Mr. Sue Ka Lok

Independent Non-executive Directors

Mr. Chan Chi On, Derek (*member of the Audit Committee, the Nomination Committee and the Remuneration Committee*)

Mr. Chu Kin Wang, Peleus (*Chairman of the Audit Committee and the Nomination Committee and member of the Remuneration Committee*)

Mr. To Yan Ming, Edmond (*member of the Audit Committee, the Nomination Committee and the Remuneration Committee*)

Mr. Xu Xuechuan (*Chairman of the Remuneration Committee and member of the Audit Committee and the Nomination Committee*)

Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code requires the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the appointment of Mr. Huang Mingxiang as an executive director of the Company on 3 May 2016, Mr. Huang also holds the office of chairman of the Board and chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person could ensure effective planning and execution of long term business strategies and enhances the efficiency of decision making process amid the development of new business which requires strong and consistent leadership with advice of all independent non-executive directors. The Board believes that the balance of power and authority is adequately ensured and the Board will from time to time review adequacy of such arrangement for the best interest of the Group.

Relationship between Board Members and Independence of Independent Non-executive Directors

There is no financial, business, family or material or relevant relationship among the Directors. The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Nomination Committee has assessed the independence of all the Independent Non-executive Directors and the Board is satisfied with their independence.

Responsibilities

The directors of the Board, appointed by either the shareholders of the Company in the general meeting or the Board, are entrusted with the duties including setting the business objectives of the Group, devising strategic plans for the development of the Group's business, monitoring the execution of plans and assessing effectiveness and efficiency of the Company's operation in attaining the goals. The Board believes that clear and coherent corporate values and standards can facilitate the management's fiduciary duties of safeguarding the interests of the Company's stakeholders and creating values for the Company. Therefore the Board has put considerable effort on ensuring that the management as well as the staff share the same values and standards. The Board is also responsible for business activities like acquisition and disposal transactions, connected transactions, investments and capital expenditures and discusses the related issues thoroughly.

The Board delegates the duties of daily operation and execution of business plans to the senior management under the Board's close supervision and constant monitoring. The Board also carries out periodic appraisal of the achievements and performance of the management.



CORPORATE GOVERNANCE REPORT

Continuous Professional Development

To keep all Directors abreast of the latest developments of the Company and the regulatory requirements so that they can carry out their duties diligently, the Company arranges suitable training and materials for the directors to enhance their skills and knowledge.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

According to the CG Code, the Non-executive Directors should be appointed for a specific term and subject to re-election. All Non-executive Directors are appointed for a term of one year and the appointment automatically renews for a twelve-month period unless terminated by either party in writing. All Non-executive Directors including Independent Non-executive Directors are subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company as governed by the Articles of Association.

BOARD COMMITTEES

The Board establishes three Board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee for overseeing specific aspects of the Company's operation. All Board committees are established with defined written terms of reference which are available on the websites of the Stock Exchange and the Company for public information.

Audit Committee

As at the date of this annual report, the Audit Committee comprised four Independent Non-executive Directors, namely, Mr. Chu Kin Wang, Peleus (Chairman of the Audit Committee), Mr. Chan Chi On, Derek, Mr. To Yan Ming, Edmond and Mr. Xu Xuechuan.

The principal duties of the Audit Committee are to (i) review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function or external auditor before submission to the Board; (ii) review the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor; and (iii) review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year ended 31 December 2016 the Audit Committee met three times and reviewed the financial results and reports, financial reporting and compliance procedures, the Company's internal control and risk management as well as the re-appointment of the external auditors. The Audit Committee has reviewed and approved the Group's interim results for the six months ended 30 June 2016 and annual results for the year ended 31 December 2016.



CORPORATE GOVERNANCE REPORT

Remuneration Committee

As at the date of this annual report, the Remuneration Committee comprised five members, namely, Mr. Xu Xuechuan (Chairman of the Remuneration Committee), Mr. Chan Chi On, Derek, Mr. Chu Kin Wang, Peleus and Mr. To Yan Ming, Edmond, being Independent Non-executive Directors, and Mr. Huang Mingxiang, an Executive Director.

The principal objectives of the Remuneration Committee include making recommendations on and approving the remuneration policies and structure and remuneration packages of the directors and senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure that no director or any of his/her associates will participate in deciding his/her own remuneration packages.

The Remuneration Committee adopts the approach of making recommendation to the Board on the compensation packages of the directors and senior management with reference to the skill, knowledge, experience and the tasks assigned and individuals' performance and overall results of the Company. In determining the remuneration package, the Remuneration Committee also obtains reports, surveys and relevant information from external sources for the competitive level of remuneration and market trend for the directors and senior management. The Remuneration Committee forms an opinion that the current directors' fees for the directors and remuneration for the senior management for their duties and responsibilities undertaken are commensurate with the market level.

Nomination Committee

As at the date of this annual report, the Nomination Committee comprised five members, namely, Mr. Chu Kin Wang, Peleus (Chairman of the Nomination Committee), Mr. Chan Chi On, Derek, Mr. To Yan Ming, Edmond and Mr. Xu Xuechuan, being Independent Non-executive Directors and Mr. Huang Mingxiang, an Executive Director. The principal duties of the Nomination Committee are to make recommendations to the Board on the appointment or reappointment of directors according to the Articles of Association. The Nomination Committee reviews the composition of the Board whenever necessary to meet the business demands and challenges and to comply with the related laws and regulations.

The Nomination Committee will look into individuals' education background, experience and history of posts held when carrying out the process of selecting and recommending candidates for directorships. The Nomination Committee believes that a board comprising members with wide spectrum of skills, experience, education and cultural backgrounds could provide the Company with a more balanced view in devising business strategy and corporate planning.



CORPORATE GOVERNANCE REPORT

Board and Committee Meetings

Regular Board and committee meetings are held for Directors to discuss and determine the strategies of the Group, monitor the execution of plans, review the Group's business performance and financial reporting as well as all other material matters. The Company Secretary is responsible for preparing and keeping minutes of all Board and committee meetings. All Directors have full access to the advice and services of the company secretary to ensure that the Board procedures and all applicable rules and regulations are followed. Details of Directors' attendance at the meetings of Board and committees during the year ended 31 December 2016 are set out below:

Name of directors	Attendance/Number of meetings for the year ended 31 December 2016			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Mr. Huang Mingxiang	4/4 ^(note 1)	N/A	2/2 ^(note 2)	2/2 ^(note 2)
Mr. Jing Wenping	8/11	N/A	N/A	N/A
Mr. Kwok Oi Lung Roy	9/9 ^(note 3)	N/A	N/A	N/A
Mr. Xue Hongjian	3/3 ^(note 4)	N/A	N/A	N/A
Mr. Zhou Chunhua	10/10 ^(note 5)	N/A	N/A	N/A
Mr. Zhu Xiaodong	8/10 ^(note 5)	N/A	N/A	N/A
Mr. Sue Ka Lok	8/11	N/A	3/3	3/3
Mr. Liang Rong	7/7 ^(note 6)	1/1 ^(note 6)	2/2 ^(note 6)	2/2 ^(note 6)
Mr. Chan Chi On, Derek	3/3 ^(note 7)	2/2 ^(note 7)	1/1 ^(note 7)	1/1 ^(note 7)
Mr. Chu Kin Wang, Peleus	10/11	3/3	3/3	3/3
Mr. To Yan Ming, Edmond	3/3 ^(note 7)	2/2 ^(note 7)	1/1 ^(note 7)	1/1 ^(note 7)
Mr. Xu Xuechuan	9/11	3/3	2/2 ^(note 8)	2/2 ^(note 8)

Note 1: appointed as the executive director of the Company on 3 May 2016

Note 2: appointed as a member of the Nomination Committee and the Remuneration Committee on 14 July 2016

Note 3: appointed as the executive director of the Company on 24 February 2016

Note 4: appointed as the executive director of the Company on 14 July 2016

Note 5: appointed as the executive director of the Company on 29 January 2016

Note 6: retired from the Board of the Company and the Nomination Committee and the Remuneration Committee on 14 June 2016

Note 7: appointed as the independent non-executive director of the Company and a member of the Audit Committee, the Nomination Committee and the Remuneration Committee on 14 July 2016

Note 8: appointed as a member of the Nomination Committee and the Remuneration Committee on 14 July 2016

Model Code for Dealing in Securities by Directors

The CG Code stipulates that directors must comply with their obligations under the model code set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has established guidelines on no less exacting terms than the Model Code (the "Guidelines") for governing the securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company or its securities.

Specific enquiry has been made of each director of the Board, and all directors confirm that they have fully complied with the Model Code and the Company noticed no incident of non-compliance of the Guidelines throughout the year ended 31 December 2016.



CORPORATE GOVERNANCE REPORT

Company Secretary

Mr. Leung Wai Chung, a fulltime employee of the Company, is the Company Secretary of the Company, responsible for arranging all Board procedures and activities. All members of the Board have direct access to the services and advice of the Company Secretary. During the financial year, Mr. Leung has complied with relevant professional training requirement pursuant to Rule 3.29 of the Listing Rules.

FINANCIAL REPORTING AND AUDIT

Financial reporting

The Board, with the assistance by the Group's senior staff of the Finance Department, is responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards and the Board reviews those accounting policies as selected and applied to ensure that appropriate judgment and estimates be made in a prudent and reasonable manner. The Board has received from the senior management of the Company the management accounts and such accompanying explanation and information as are necessary to enable the Board to make an informed assessment for approving the financial statements.

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016.

Auditors' Remuneration

Crowe Horwath (HK) CPA Limited ("Crowe Horwath") is primarily responsible for providing audit services in connection with the annual consolidated financial statements of the Company. The statement of Crowe Horwath about their responsibilities on the Company's consolidated financial statements for the year ended 31 December 2016 is set out in the "Independent Auditor's Report" on pages 46 to 53 of this annual report. During the year, the total remuneration payable to the Company's external auditor amounted to RMB1,181,000, with breakdown as follows:

Services rendered	Fee paid/payable RMB'000
Audit services	1,083
Non-audit services	98
Total	<u>1,181</u>

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

1. to develop and review the Group's policies and practices on corporate governance and make recommendations;
2. to review and monitor the training and continuous professional development of directors and senior management;



CORPORATE GOVERNANCE REPORT

3. to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual applicable to the employees and directors of the Group; and
5. to review the Group's compliance with the CG Code and disclosure requirements in the corporate governance report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for devising and maintaining a sound and effective internal control system to safeguard the values and assets of the Company and identify material risks which may cause damage to the Company as a whole. In designing and implementing the internal control system, the Board realises that additional control always come with incremental costs. Hence the Board has to balance the benefits of a good control against the costs while adopting a system that can provide assurance to the Company that it lives up to the expectation of the Board, the shareholders as well as the regulatory bodies.

The Company did not have an internal audit department and the related functions had been fulfilled by the internal audit works conducted by an external consultant in assessing the effectiveness and adequacy of the Group's internal control and risk management system. During the year, the external consultant reviewed and evaluated the effectiveness of the Group's financial, operational, compliance controls and risk management with the objective to improve the Group's risk management and internal control mechanism. The scope of audit by the external consultant covered the existing MLCC business, with a focus on the investment and financial service business which the Company has developed during its business transformation. The method of audit included carrying out walk-through tests and field reviews on relevant internal control systems of the Company, conducting tests on the activities of internal control on a sample basis, and interviewing the staff and officers in charge of relevant businesses. After the audit by the external consultant, the Company has formulated an overall risk management structure system, and improved its internal control system and compliance mechanism. The external consultant completed a report containing their findings and recommendations with respect to the internal control and risk management of the Group and presented the report before the Audit Committee. After reviewing the report, the Audit Committee opined that there was no major defect in the Group's internal control and that the current internal control and risk management systems were effective and adequate. The Audit Committee, Executive Directors and management of the Company considered the relevant recommendations proposed in the report to be reasonable and adequate. Implementation of the recommendations had been in progress under a close supervision of the Board.

The Board constantly reviews the need for establishing an internal audit function in the Company's management structure by weighing the costs of such internal function against the related benefits in the context of the latest development of the Group's new business segments to ensure that the internal control and risk management systems are properly in place and satisfactory compliance with the required procedures are achieved for the purpose of providing the Board and the shareholders with sufficient assurance of sound internal control and risk management systems.



CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene an extraordinary general meeting and putting proposals at general meetings

Pursuant to Article 58 of the Articles of Association, extraordinary general meetings shall also be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitioner(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(s) by the Company.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Company Secretary of the Company at the Company's principal place of business in Hong Kong at Unit 907-909, 9th Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong.

COMMUNICATION WITH SHAREHOLDERS

The Company's website remains the major communication platform to provide its shareholders and potential investors with its up-to-date information on the Company's business activities and development. The Company endeavours to abide by the practice of timely disclosure of useful information with high degree of integrity so that stakeholders of the Company can assess the performance of the Company when making their business decisions. The practice of timely disclosures of information with high degree of integrity allows shareholders and any other parties concerned to make judgment.

The annual general meeting of the Company provides an important channel for shareholders to exchange ideas with the Board. Notices and circulars regarding the annual general meeting and other general meetings are given in well advance to ensure that shareholders have sufficient time and information to prepare for the meetings. During the general meetings, the directors of the Company will answer questions and queries raised by the attending shareholders and the Board believes that such face to face interaction with shareholders can promote mutual understanding between the Company and shareholders.

CONSTITUTIONAL DOCUMENTS

There had been no change in the Company's constitutional documents during the year ended 31 December 2016. A copy of the Company's latest constitutional documents is publicly available on the websites of the Stock Exchange and the Company, respectively.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ABOUT THIS REPORT

Reporting Profile

This is the first environmental, social and governance (hereinafter called “ESG”) report prepared by Tianli Holdings Group Limited (referred to in this report as “the Group” or “we”) for the financial year ended 31 December 2016. The three major businesses of the Group include manufacture and sale of MLCC, provision of investment and financial services and other general trading (trading of goods other than MLCC). Since provision of investment and financial services business accounted for less than 4% of the Group’s revenue, this report does not cover this business.

Guidelines on the ESG Report of The Stock Exchange of Hong Kong Limited

In order to comply with the disclosure requirements and guidelines of the Listing Rules and in particular, the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules, the Group started to disclose relevant information of ESG for the financial year beginning on 1 January 2016.

The management of the Group has introduced advanced technology and environmental protection management system in product design and manufacturing since commencement. To comply with the international environmental requirements and the global restriction of hazardous substances, environmental-friendly materials such as lead-free and cadmium-free materials are used in processing. We also pay close attention to the regulatory updates relating to hazardous substances in the international environmental protection standards and requirements and arranged testing and verifications from inspection organizations. As always, we stick to environmental-friendly production models for green products so as to protect our environment.

B. ENVIRONMENTAL PROTECTION

In order to consistently follow the environmental policies of the local government, we focus on strengthening environmental protection measures and complying with relevant laws and regulations. Guided by a philosophy centred on “Leading in Technology and Customer First”, we strive to deliver on the goal of “Sustainable Development and Social Contribution”. Therefore, we have undertaken to address customer needs with well-developed products and outstanding services, to build a top enterprise of international competitiveness, to comply with relevant laws and regulations, to produce environmental-friendly products with a view to protecting our environment, to ensure the health and safety of our employees and related parties and to adopt a people-oriented approach in performing our social responsibilities. We introduced advanced facilities to improve waste treatment, to minimize release of pollutants and exhaust air, to efficiently utilize and conserve natural resources and to increase re-use and recycling whenever applicable. Environmental protection activities are organized regularly to raise the awareness of employees and to encourage them to participate. We have established formal policies and procedures in managing pollutants, solid wastes and energy utilization. Through this report, we are dedicated to creating economic value, and at the same time, to avoiding and reducing pollutants during the manufacturing process. We hope more industrial and commercial enterprises, social organizations and general public to take part in protecting the environment, and we can see the clear water and blue sky again.

During the reporting period, the Group did not have any significant impact on the environment and natural resources.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our policies and practices in environmental protection were as follows:

Management of Emissions

We have set up a pollutant management process and established an Office of Environmental Management to monitor and control the discharge of sewage. The Facility Department is responsible for repair, alteration and installation of facilities relating to emissions of exhaust air, sewage and noise. In order to implement the national and the Group's environmental protection policies and regulations, all environmental protection work are appropriately monitored, coordinated, checked and executed, and operation records of facilities are maintained and reported to the management regularly. We also prepare environmental impact report, detecting and evaluating occupational hazards in relation to new construction projects. We have formulated energy and resources management process to establish practical targets to protect the environment continuously.

Each Production Department manages its own facilities relating to emissions of exhaust air, sewage and noise, performs technical analysis on source of pollutants and proposes improvement plan. The Office of Environmental Management monitors the work and progress in this area. Wastes from production are managed and stored by the Finished Goods Department and subsequently handled by the Administration Department. Any emergencies leading to pollution should be reported to management timely and immediate action is taken to avoid deterioration.

1. Management of air emissions

In order to meet the local government's emission standards on air pollutants, we have established a pollutant management process to monitor emissions. Our exhaust air treatment system is equipped with sprinkler and carbon filter to remove oil, smoke and smell. The dust is collected after being filtered by the system and handled by qualified environmental contractors.

We have obtained air pollutant emission permit from the local government, and engaged authorized inspection organization to test exhaust air from production annually. The test scope includes benzene, toluene, xylene, catering fumes, volatile phenols and particulates concentration. All test results are up to the local government standards. We maintain and manage the industrial exhaust air treatment facilities periodically and provide training to the operators so that they can respond speedily at times of anomalies.

Various volatile organic solvents and anhydrous ethanol are emitted through dedicated pipe and exhaust fan. Production departments propose measures to prevent, reduce and treat exhaust air from manufacturing through improvement of techniques and facilities, actively explore and suggest substitutes in production which can minimize pollutants, perform feasibility studies and get approval from the Office of the Environmental Management.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2. Management of sewage

Sewage mainly comes from the cleaning and maintenance of air compressor, central air conditioning, plant and production facilities. Sewage is drained to sewage treatment station for centralized treatment. Certain fixed amounts of substances (such as sodium hydroxide, poly-aluminum chloride, activated carbon, etc.) are added into the treatment process daily, water quality is monitored and record is maintained. We engaged qualified units to handle the waste after sewage treatment.

In order to implement the local government's increasingly stringent laws and regulations, we have formulated a pollutant management process, enhancing and improving the sewage treatment facilities. Checkup and maintenance works are performed daily and operation records are maintained. We have obtained sewage emission permit from the local government and have engaged authorized inspection organization to test sewage from production process annually. Test scope includes acidity, suspended solids, chemical oxygen demand, biochemical oxygen demand, ammonia nitrogen, nickel, color, phosphate, etc. All test results are up to the local government standards. We are striving for developing techniques in recycling water, conserving water and minimizing the sewage with an aim of eliminating sewage completely.

3. Management of disposal of solid waste

To comply with the relevant local laws and regulations, we have established a solid waste management process. Solid wastes produced in manufacturing mainly include recyclable wastes, non-recyclable wastes and hazardous wastes. We recycle as much waste as we can, and non-recyclable wastes are handled by qualified environmental authorities. The hazardous wastes are treated in accordance with the requirements.

Hazardous wastes

In order to ensure the effective management and disposal of wastes, and reduce its impact on the environment, we have established a solid waste management process. Temporary hazardous waste collection stations are set up and different collection barrels are placed in each department. Toxic solution, waste liquid and oil are put into designated collection barrels with clear labels. Designated department is responsible for categorizing the wastes and moving them to waste collection field which is sun screened and rain proofed. We commissioned qualified environmental units to recycle the hazardous wastes.

Non-hazardous wastes

Non-hazardous wastes include recyclable wastes and non-recyclable wastes. Recyclable wastes are mainly papers, boxes, tapes, plastic wastes, glass and metal scraps, etc., which are stored in the waste collection field. We focus on recycling and reduction, and encourage and support the development of different recycling and reusing technologies, as well as relevant studies. Non-recyclable wastes including dust soil, plant waste and general garbage are put inside the waste collection field, appropriately categorized and labelled, and handled by qualified units to prevent environmental pollution.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. Management of noise

We strictly control the noise emitted from machinery and equipment running. Before introducing new equipment, the application department is required to evaluate the noise level against our sound pressure level. Silencing measures are applied to noisy equipment in order to meet the national standards. We commissioned authorized inspection organization to measure the noise level of our factories annually, all test results are up to the standards of local government.

Compliance

During the reporting period, there were no confirmed non-compliance incidents in relation to environmental protection that have a significant impact on the Group.

Management of Resources Utilization

To comply with the relevant laws, regulations and policies on resource conservation, the production departments and offices (including manufacture and sale of MLCC, other general trading and investment holding companies in Hong Kong) have set up various resource saving measures to raise the awareness of our employees to understand the importance of resource conservation. They are encouraged to make full use of resources in an effective way to avoid wastage.

1. Management of Electricity Utilization

We promote the use of effective energy-saving lamps and lanterns, and use of daylight as long as it is bright enough for work. Use of lights is restricted when only few staff work in the office, and should be switched off when they are not attended for a long time. We encourage employees to use air conditioning reasonably. Temperature and time for use are strictly controlled. Doors and windows should be closed when air conditioners are switched on. Air conditioning at the conference rooms should be used reasonably according to the number of participants and length of meeting. Electronic equipment, such as water dispensers and computers should be switched off after work. We hope energy conservation start from everyone.

2. Management of Water Utilization

Water conservation starts from changing daily habits. Various measures are set up to raise the awareness of staff in water conservation. Drinking water cannot be used in other way. Water flow from tap is controlled at low level. Water tap should be turned off when not in use. Water facilities are regularly inspected to keep them in good condition and to avoid leakage resulting in wastage of water. If problem is found, they are repaired or replaced immediately. Complete inspection records are maintained.

3. Management of Paper Utilization

We require our people to make good use of our online workflow and administrative system and use less paper. Issuance of notices and data transfer should be done through the computer network, papers are acquired through unified purchasing and photocopying, printing and faxing should be minimized. Besides, we encourage print jobs in double-sides, reuse single-sided papers (for internal documents printing), recycle double-sided printed papers, etc. Qualified units are commissioned to recycle the collected waste papers.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

C. EMPLOYMENT AND LABOUR PRACTICES

We believe that recruitment and selection of talent should be done systematically and form the basis of the Group's sustainable development. We are devoted to providing our people a comfortable workplace and establishing a comprehensive management system. We refer to the Group's long term development plan and corporate culture to formulate our human resources strategies. We select employees by following the principles of fairness, equality and impartiality as our standard selection and promotion criteria. Employees are valuable to us, we promote work-life balance by organizing regular training and cultural activities, thereby promoting team cohesion. We encourage employees to maintain harmonious interpersonal relationships, promote team spirit of cooperation and unity, bravely face difficulties, and overcome challenges.

1. Talent Selection

We follow the principles of fairness, equality, impartiality, and non-discrimination to select talents, and are devoted to protecting human right and privacy of employees. During staff recruitment, knowledge, ability, morality, physical fitness, and job requirements are used as the selection standards, and they are not discriminated against because of their age, sex, sexual orientation, race, disability, marital status, pregnancy, religion, political factions and referrer. We provide equal opportunities to employees in providing benefits, promotion, performance appraisal, training, and career development and we only consider their morality, knowledge, physical fitness, ability and technical skills, etc. We work with our employees together to create a win-win situation. We observe and strictly comply with the relevant labour laws and regulations, and unethical hiring like child labour and forced labour is prohibited.

2. Compensation and Welfare

We have established an encouraging remuneration system, and make ongoing improvement. Considering the actual situation, staff compensation varies among factories and offices in different locations. Basic remuneration of staff includes salary, overtime subsidies, discretionary/year-end bonuses and so on. Employees are entitled to retirement protection scheme with reference to the local laws and regulations. Staff in Mainland China participate in the social security scheme, five insurances (五險) and housing provident fund, and Hong Kong staff participate in mandatory provident fund scheme. Working hours follow the local labour laws and regulations and employees working overtime are compensated. Our people are entitled to rest day and statutory holidays, such as paid annual leave, sick leave, marriage leave, maternity leave, funeral leave, etc. The Group terminates and compensates staff in accordance with local laws and regulations.

For the purpose of enhancing the communication among staff, ensuring their physical and mental health, and fulfilling their growing cultural and entertainment needs, the Group organizes various regular and irregular recreation activities. We organized basketball competition, athletic meet, karaoke competition, tour and Lunar New Year party and so on. Employees can play badminton, table tennis and billiards, and go to library during leisure time.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. Development and Training

In order to align the staff career development with our long-term corporate business plan, we have established a comprehensive training programme for staff to create an excellent, professional, well-trained and responsible corporate team. We can raise the staff skill and ability, and at the same time, enhance team cohesion and increase work efficiency. New hires have to participate in pre-employment training and pass the assessment. The training topics include company profile, corporate culture, rules and regulations, quality awareness, production workflow and skills, use of systems, safety knowledge, and environmental protection, etc. Certain staff positions might require additional professional qualifications and the related employees must pass the relevant assessments before putting to work (please refer to the “Health and Safety” section below).

The annual staff training plan is prepared with reference to the corporate annual business plan, various performance indicators, and the staff/departmental own training needs, and approved by each department head. The monthly training plan is prepared based on the approved annual plan according to the actual situation and needs. We provide both internal and external training to staffs. Internal training covers professional knowledge and skills relevant to different staff roles within the corporate, industry information, management skills, and other aspects of the employees’ interests. Training is conducted in the form of seminar or conference. External training can be divided into three categories: (1) regular practical training (involving professional technical knowledge, selling skills, management measures, leadership skills, corporate mission); (2) training for senior management (including corporate strategies and development); and (3) personal learning (such as professional certification). In order to develop our people with outstanding performance, we design tailored and other professional trainings to them. We also arrange specific training to technical staff and site management staff in accordance with local labour regulations to enhance their professional knowledge and skills, help them pass the assessment and obtain the required license for work.

4. Health and Safety

We have established policies and procedures to ensure safe production which is monitored by the production safety committee and safety management team. Supervisors and employees at all levels must clearly understand their own safety responsibilities and sign the respective declaration statement, and strictly perform in accordance with the requirement as stated on the declarations. New hires must join the practical trainings, understand the workflow, equipment operation and guidelines of the production department, and receive safety education conducted by the team and production department. We also provide routine training to our staff regarding safety awareness, knowledge and techniques. We carry out role-based technical training periodically, arrange safety assessment and team activities to ensure that our people are prepared mentally and have adequate knowledge and skills to meet the safety standards and to fulfill their job duties.

Staff of special work types must possess valid licenses and pass examinations recognized by the nation, and have operation certificates approved by department head before they are allowed to operate the facilities. Production department is responsible for the safety checkup of facilities, and employ qualified external maintenance companies to conduct regular checkup. In addition, we provide guidance to our employees to use other production facilities, to install the equipment, to use the fire facilities, protective equipment and first aids correctly. Our production department is responsible for conducting safety checks regularly, rectifying potential safety hazards, and ensuring the production equipment can function properly. We also provide employees with necessary protective supplies in accordance with the national requirements so that they can work under safe and hygienic conditions, and the chance of accidents can be reduced.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In order to minimize the existence of harmful substances in workplace and to protect the health of our production staff, we install exhaust fans in factories, require the staff to wear masks and earplugs. We provide free health check every year to employees who have completed at least one year of service with us. For special positions, we provide employees with occupational health check in accordance with the requirements of the local government. We appoint external qualified inspection company to assess the occupational hazards of the workplace, including testing of benzene, toluene, xylene, hydrogen chloride and hydrochloric acid, noise level and so on. All test results met national hygiene standards.

Compliance

During the reporting period, there were no identified violations that were related to labour practices with a significant impact on the Group.

D. OPERATIONAL PRACTICES

1. Supply Chain Management

We have established policies and procedures in supply chain management and provided various reporting channels to employees, suppliers, customers and other business parties in case they are aware of any violations of laws or regulations. During the reporting period, the Group did not have significant issues relating to violations in this respect.

Our supply chain management system covers initial acceptance, alternatives selection and renewal evaluation for suppliers and materials. Before engaging a new supplier, we have to obtain their background, fact sheets, qualifications and appraisals, at the same time, we request samples from suppliers for trial over certain period of time. If the new supplier is able to pass all tests and fulfill our requirements, we will assign a grade to that supplier and record in our approved supplier list. To ensure that suppliers are competitive and that the goods and services provided to us are of high quality, we have a strict division of labour from contract signing to inspecting of goods received. We require the suppliers of goods and services to possess recognized qualifications and a good internal control system, deliver on-time, comply with laws and regulations and have the required professional skills and quality. We will keep reviewing our supply chain monitoring and management process from time to time with an aim to be efficient and maintain high standard in raw materials selection, logistics, production and waste treatment, product quality, safety and satisfy the requirements in ESG, including business ethics and product standards. The Group signs agreement with all suppliers and avoids acts that may harm the legal interests of each party.

2. Product Responsibility

We uphold our operational guideline of “Leading in Technology and Customer First”, for which, we are committed to providing customers with competitive products and superior services and protecting the environment by producing green products in compliance with relevant laws and regulations. We have invested a lot in technology research and development, using advanced equipment, hiring and developing technical personnel and engaging in technical cooperation at an international level with an aim to provide high quality, safe and environmental-friendly products and services to our customers. Not only are consumer needs fulfilled, our objectives for achieving efficient production and quality control are also met.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our environmental management system starts from the research and development stage. We pay close attention to the regulatory updates relating to hazardous substances, observe the international environmental protection requirements, select environmental-friendly raw materials and use environmental technologies. This is to ensure that the goods produced are able to fulfill the global environmental requirements. As verified by qualified inspection organizations, our products meet the RoHs (Restriction of Hazardous Substance) order and the REACH requirements. RoHs is the order issued by the European Union (“EU”) to impose restriction on use of certain hazardous substances in electrical and electronic equipment. In particular, it restricts the concentration of four hazardous substances including lead, cadmium, mercury and hexavalent chromium, and two flame retardants including polybrominated biphenyls and polybrominated diphenyl ethers in the electrical and electronic products. REACH is EU regulation protecting human health and the environment from the risks posed by chemicals, and at the same time, enhancing the competitiveness of the European chemical industry. The Group insisted on manufacturing environmental-friendly products to protect the global environment.

With technological advancement and improved living standards, consumers paid more attention to product quality. Therefore, we keep on producing better quality products and implement an effective quality management system. Employees accumulated valuable experience in their positions and are able to provide valid suggestions in this area.

We follow the requirements of ISO/TS16949:2009 and ISO9001:2008 quality control system. The product quality control covers the inspection of raw materials before the assembly process starts, close monitoring of the production process, product quality assurance by contractors, and quality control checks for finished goods inspection. If consumers find any product quality problem or the products fail to satisfy their requirement, they can provide feedback via our after-sales services. During the reporting period, there were no reported violations or litigation regarding our products.

3. Anti-corruption

To uphold our core values, we are committed to a high standard of business conduct and ethics, and to complying with all applicable laws and regulations governing the relationships between the Group and its stakeholders, including, among others, directors, staff and suppliers.

Our policy is to encourage fair dealings, none of the employees can accept bribes, rebates or undisclosed commissions. We prohibit, in any form, obtaining, requesting or accepting any gift from suppliers, and/or their representatives or potential representatives. Employees must strictly comply with this requirement. Violation of the policy may result in disciplinary action and even termination of employment. Besides, employees must act in accordance with the Group’s Code of Conduct and Business Ethics, and beware of the conflict of interest circumstances. We have established channels for receiving reports of suspected personal interests in carrying out one’s job duties, briberies, extortion, frauds, money laundering and other illegal acts. We handle such reports in absolute confidence. We shall keep on improving our whistle-blowing system and are determinant in combating corruption and contributing to a clean society.

During the reporting period, the Group and our employees were not involved in any litigation cases of corruptions.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

E. COMMUNITY INVESTMENT AND HONOURS

We believe that people-oriented management philosophy and active participation and engagement in social contribution activities can ultimately build a sustainable and harmonious society. We organize charitable fund-raising activities and encourage employees to participate in voluntary blood donation, join volunteer group, participate in volunteer work regularly such as street clean-up campaign, educate pedestrians of the importance of observing traffic regulations, and organize library books and so on.

We are a responsible tax payer, and spare no effort in easing local employment pressure. We have established retirement plan for staff, paid the five insurances (五險) and housing provident fund for staff in Mainland China and mandatory provident fund for staff in Hong Kong. We run our business by following good practices and actively promote green energy-saving and environmental-friendly concepts. We believe we have set up a role model for the industry and, to some certain extent, contributed to social stability and building a harmonious community.

In 2016, the Group were awarded “Excellent Components of Its Own Brand” (優秀元件自主品牌獎) and “Excellent Enterprise in Resistive Product” (阻容產品卓越企業獎).

F. SUSTAINABILITY TARGETS AND ACTIONS FOR 2017

For the year 2017, the Group has the following objectives and action plans to strengthen our ESG performance:

Target/Action Plan	Focus
To optimize existing ESG policies and procedures	<ul style="list-style-type: none">• To review the existing procedures, the completeness and accuracy of ESG data collection• To set up key performance indicators (KPIs) for environment protection, determine their priorities and prepare a timetable for those of other ESG aspects• To keep dialogue with our stakeholders (including investors/shareholders, suppliers, customers and society) in order to collect their concern, and analyze those issues thoroughly
To identify suitable targets in enhancing well-being of the community	<ul style="list-style-type: none">• To offer helping hands to those people in need• To organize activities relating to environmental protection



REPORT OF THE DIRECTORS

The Directors are pleased to present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 39 to the consolidated financial statements.

Further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of likely future developments in the Group's business, can be found in the Management's Discussion and Analysis section set out on pages 9 to 17 of this annual report. This discussion forms part of this report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 54.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on page 3. This summary does not form part of the audited consolidated financial statements.

RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 57 and note 36 to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution as at 31 December 2016 amounted to approximately RMB382,812,000 (2015: RMB434,870,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in note 36 to the consolidated financial statements.



REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors

Mr. Huang Mingxiang (*appointed on 3 May 2016*)
Mr. Jing Wenping
Mr. Kwok Oi Lung Roy (*appointed on 24 February 2016*)
Mr. Xue Hongjian (*appointed on 14 July 2016*)
Mr. Zhou Chunhua (*appointed on 29 January 2016*)
Mr. Zhu Xiaodong (*appointed on 29 January 2016*)

Non-executive Director

Mr. Sue Ka Lok (*redesignated on 8 November 2016*)

Independent Non-executive Directors

Mr. Liang Rong (*retired on 14 June 2016*)
Mr. Chan Chi On, Derek (*appointed on 14 July 2016*)
Mr. Chu Kin Wang, Peleus
Mr. To Yan Ming, Edmond (*appointed on 14 July 2016*)
Mr. Xu Xuechuan

In accordance with Article 87 of the Articles of Association, Mr. Jing Wenping will retire by rotation at the forthcoming annual general meeting (the “AGM”) and, being eligible, offer himself for re-election at the AGM.

In accordance with Article 86(3) of the Articles of Association, Mr. Chan Chi On, Derek, Mr. To Yan Ming, Edmond, and Mr. Xue Hongjian will hold office until the AGM and, being eligible, will offer themselves for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.



REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, subject to the statutes, every director shall be indemnified out of the assets of the Company against all losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto. The Company has arranged appropriate director and officer liability insurance coverage for the directors and other officers of the Company during the year.

DIRECTORS' REMUNERATION

The remuneration paid to the Company's directors is determined based on their respective terms of service agreement (if any). The directors' fee is reviewed annually by the Remuneration Committee and the Board is authorized by the shareholders at the annual general meeting to approve the remuneration of the directors. Details of remuneration paid and to be paid to the Company's directors for the financial year ended 31 December 2016 are set out in note 10 to the consolidated financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the sections headed "Continuing Connected Transactions" and "Related Party Transactions" below, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company and the director's connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

BIOGRAPHIES OF DIRECTORS

The biographies of the Directors are set out on pages 18 to 20 in this annual report.



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the Directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) Long position in the shares of the Company

Name of director	Capacity and nature of interest	Total number of ordinary shares	Approximate percentage of the Company's issued share capital
Mr. Huang Mingxiang	Beneficial owner	49,600,350 (Note)	9.99%
("Mr. Huang")	Interest under section 317 of the SFO	93,443,650 (Note)	18.82%

Note: Pursuant to a share purchase agreement entered into between Mr. Huang and Cosmic Riches Investments Limited ("Cosmic Riches") dated 29 April 2016 (the "SP Agreement"), Mr. Huang acquired 49,600,350 shares of the Company from Cosmic Riches subject to a lock-up undertaking. Pursuant to section 317 of the SFO, Mr. Huang is also deemed to be interested in the 93,443,650 shares of the Company held by Cosmic Riches.

(b) Short position in the shares of the Company

Name of director	Capacity and nature of interest	Total number of ordinary shares	Approximate percentage of the Company's issued share capital
Mr. Huang	Beneficial owner	49,600,350 (Note)	9.99%

Note: Pursuant to the SP Agreement, the 49,600,350 shares of the Company (the "Interested Shares") that Mr. Huang acquired from Cosmic Riches are subject to a put option granted to Cosmic Riches. Therefore Mr. Huang has a short position in the Interested Shares.

Save as disclosed above, as at 31 December 2016, none of the Directors and the chief executive of the Company had registered an interest or short position in the shares, underlying shares and debentures of the Company, or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



REPORT OF THE DIRECTORS

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2016, so far as is known to the Directors of the Company, the following person or corporation (other than a Director or chief executives of the Company) had, or were deemed to have 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:

Name of shareholder	Capacity and nature of interest	Number of ordinary shares held	Approximate percentage of the Company's issued share capital
Cosmic Riches	Beneficial owner	93,443,650	18.82%
	Interest under section 317 of the SFO	49,600,350 (Note)	9.99%
Ms. Du Weilin	Interest of controlled corporation	93,443,650	18.82%
	Interest under section 317 of the SFO	49,600,350 (Note)	9.99%

Note: Pursuant to the SP Agreement, Mr. Huang acquired 49,600,350 shares of the Company from Cosmic Riches subject to a lock-up undertaking. Cosmic Riches is solely owned by Ms. Du Weilin ("Ms. Du"). Under section 317 of the SFO, Ms. Du and Cosmic Riches are also deemed to be interested in the 49,600,350 shares held by Mr. Huang.

Save as disclosed above, the Company had not been notified of any other person or corporation who had an interest or short position in the Company's shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange and as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted on 30 November 2007 (the "Share Option Scheme"), the Board granted a total number of 40,000,000 share options (the "Granted Options") to the eligible persons as defined in the Share Option Scheme in January 2008. Since then the Board of the Company had not granted any additional share options. All Granted Options had either been exercised or cancelled in 2015.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

On 29 April 2016, Mr. Huang Mingxiang, who was appointed as the Executive Director, Chairman and Chief Executive Officer of the Company on 3 May 2016, entered into the SP Agreement with Cosmics Riches to acquire 49,600,350 shares of the Company from Cosmics Riches subject to a five years lock-up period. Other than the SP Agreement, at no time during the year was the Company or any of its subsidiaries or the holding companies of the Company or any subsidiaries of its holdings companies a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Company's directors had no interests in any business that may compete with the Group's business.

EQUITY-LINKED AGREEMENTS

Save for the SP Agreement and the Share Option Scheme of the Company, no equity-linked agreements were entered into by the Group, or existed during the year.

MANAGEMENT CONTRACTS

During the year, the Company had not entered into any contract in respect of the management or administration of any business of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases from the major suppliers of the Group to total purchases of the Group is as follow:

Percentage of purchases from the largest supplier of the Group to total purchases: 42%

Percentage of purchases from top five suppliers of the Group to total purchases: 70%

None of the Directors, nor their associates or any shareholders (which to the best knowledge of the Directors, holding more than 5% of the share capital of the Company) has an interest in the above suppliers.

During the year, the percentage of sales from the major customers of the Group to the total sales of goods of the Group is as follows:

Percentage of sales from the largest customer of the Group to total sales of goods: 18%

Percentage of goods sold by the Group to its top five customers to total sales of goods: 43%

None of the Directors, nor their associates or any shareholders (which to the best knowledge of the Directors, holding more than 5% of the share capital of the Company) has an interest in the above customers.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into the following continuing connected transactions and the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules:

Material Purchase Agreement with DG Guangtong

On 23 May 2014, 深圳市宇陽科技發展有限公司 ("SZ Eyang"), an indirect wholly-owned subsidiary of the Company, entered into a material purchase agreement ("Material Purchase Agreement") with 東莞市光通實業有限公司 ("DG Guangtong") for a term valid to 31 December 2016. Pursuant to the agreement, SZ Eyang purchased material from DG Guangtong on a normal commercial term. The maximum annual cap during the year 2016 under the Material Purchase Agreement is RMB4,000,000.

New Leasing Agreements with SZ Eycom and its subsidiary

On 1 January 2015, SZ Eyang, 東莞市宇陽科技發展有限公司 ("DG Eyang") and 安徽金宇陽電子科技有限公司 ("Anhui Jineyang"), both of which are indirect wholly-owned subsidiaries of the Company, entered into new leasing agreements ("New Leasing Agreements") with 深圳市億通科技有限公司 ("SZ Eycom") and its wholly-owned subsidiary 安徽世紀億通數碼科技有限公司 ("Anhui Eycom") for terms valid to 31 December 2016. Under the New Leasing Agreements the maximum annual cap for the year 2016 is RMB2,625,000.



REPORT OF THE DIRECTORS

New MLCC Purchase Agreement with SZ Eycom

On 1 January 2015, SZ Eyang entered into a new MLCC purchase agreement (“New MLCC Purchase Agreement”) with SZ Eycom for a term valid to 31 December 2016. Under the New MLCC Purchase Agreement, SZ Eycom can purchase MLCC products from SZ Eyang with an annual cap of RMB12,000,000 for the year 2016.

The Material Purchase Agreement, New Leasing Agreements and New MLCC Purchase Agreement fall under the definition of continuing connected transaction pursuant to the Listing Rules, and the respective aggregated annual caps under the agreements with DG Guangtong and SZ Eycom and its subsidiary are less than 5% of the applicable ratios and therefore subject to reporting and announcement requirements only in accordance with Rule 14A.76(2) of the Listing Rules.

For the year ended 31 December 2016, (1) no material was purchased by SZ Eyang under the Material Purchase Agreement (2015: RMB1,318,000); (2) the total rental receipt from SZ Eycom under the New Leasing Agreements and total purchase by SZ Eycom under the new MLCC Purchase Agreement were approximately RMB174,000 and RMB54,000 respectively (2015: RMB1,736,000 and RMB2,761,000 respectively); and (3) the total rental receipt from Auhui Eycom under the New Leasing Agreements was approximately RMB19,000 (2015: RMB205,000).

The Company’s auditor has confirmed that:

- (i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company’s Board of Directors;
- (ii) for transactions involving purchase of materials from DG Guangtong, sale of MLCC to SZ Eycom, leasing premises to SZ Eycom and leasing premises to Anhui Eycom, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- (iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (iv) with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum annual cap as set by the Company.

The Independent Non-executive Directors namely, Mr Chan Chi On, Derek, Mr. Chu Kin Wang, Peleus, Mr. To Yan Ming, Edmond and Mr. Xu Xuechuan, had reviewed these transactions and confirmed that the continuing connected transactions had been entered into:

- (i) in the ordinary and usual course of business of the Company;
- (ii) normal commercial terms or better; and
- (iii) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole.



REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

The related party transactions are set out in note 38 to the consolidated financial statements. Apart from the continuing connected transactions disclosed above, the other related party transactions as disclosed in note 38 fall under the scope of connected transactions under Chapter 14A of the Listing Rules but are exempted from reporting, annual review, announcement or independent shareholders' approval requirements.

REMUNERATION POLICY

The Group remunerates its employees based on their competence, performance, experience and prevailing market terms. Other employee benefits included provident fund scheme, medical insurance, share option scheme as well as discretionary bonuses.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has confirmed that it has maintained a sufficient public float in the market as at the date of this report.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed the listed shares of the Company during the year ended 31 December 2016.

CORPORATE GOVERNANCE

The principles and practices of corporate governance of the Company are set out under the section of "Corporate Governance Report" on pages 21 to 28 of this annual report.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2016 have been reviewed and recommended to the Board by the Audit Committee before they are duly approved by the Board.

AUDITOR

The consolidated financial statements for the year are audited by Crowe Horwath (HK) CPA Limited ("Crowe Horwath"). Crowe Horwath was re-appointed as an independent auditor of the Company at the annual general meeting held on 14 June 2016. Crowe Horwath will retire and, being eligible, offer themselves for reappointment at the forthcoming AGM.

On behalf of the Board

Huang Mingxiang

Chairman

Hong Kong, 27 March, 2017



INDEPENDENT AUDITOR'S REPORT



國富浩華 (香港) 會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F, Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TIANLI HOLDINGS GROUP LIMITED

(FORMERLY KNOWN AS "EYANG HOLDINGS (GROUP) CO., LIMITED")

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Tianli Holdings Group Limited (formerly known as "EYANG Holdings (Group) Co., Limited") (the "Company") and its subsidiaries (together the "Group") set out on pages 54 to 152, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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



INDEPENDENT AUDITOR'S REPORT

Impairment of property, plant and equipment

Refer to notes 2(f), 2(k)(ii), and 14 to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
<p>Manufacture and sale of multi-layer ceramic chips (“MLCC”) in Mainland China are facing increasing competition, particularly from the increase in costs of production including labour and raw materials, which has negatively impacted the profit of the Company.</p> <p>There is a risk that the carrying value of property, plant and equipment of the MLCC segment may not be recoverable in full through the future cash flows to be generated.</p> <p>Management reviews the performance of the MLCC segment at the end of each reporting period to identify if the Company meets certain negative performance criteria (“indicators”) which could indicate impairment. Such indicators include:</p> <ul style="list-style-type: none"> — decrease in gross cash flow from operations for consecutive years; or — revenue being significantly lower than the project forecast. <p>Where indicators of impairment are identified, the recoverable amount of the property, plant and equipment is determined by management at the high of the value in use and the fair value less cost of disposal of these assets</p> <p>In determining the value in use of the cash generating units where property, plant and equipment belongs to, a discounted cash flow forecast was prepared by management where indicators of impairment were identified.</p>	<p>Our audit procedures to assess potential impairment of property, plant and equipment included the following:</p> <ul style="list-style-type: none"> • challenging the Company’s impairment assessment model by assessing the impairment indicators identified by management and by considering whether the discounted cash flow forecasts supported the carrying value of the relevant assets; • using our internal valuation specialists to assist us in evaluating the methodology used by management in the preparation of its discounted cash flow forecast and the valuations performed by independent professional valuers with reference to the requirements of the prevailing accounting standards; • comparing the most significant inputs used in the discounted cash flow forecasts, including future revenue growth rates, future margins and future costs, with the historical performance of the Company, budgets approved by management and agreements signed subsequent to the reporting date; • assessing the discount rates used in the discounted cash flow forecasts by benchmarking against other similar companies; • obtaining sensitivity analysis of the significant inputs, including future revenue growth rates, future margins and the discount rates used in the cash flow forecasts prepared by management and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias;



INDEPENDENT AUDITOR'S REPORT

Impairment of property, plant and equipment (continued)

The Key Audit Matter	How the matter was addressed in our audit
<p>Where an indicator of impairment was identified, a valuation was carried out by independent professional valuers to determine the value in use of the property, plant and equipment.</p> <p>In preparing the discounted cash flow forecasts, key inputs, including future revenue growth rates, future margins and future costs of the Company are determined by management taking into consideration factors which include changes in product mix and changes in expected customers numbers, all of which involve the exercise of significant management judgement.</p> <p>We identified potential impairment of property, plant and equipment as a key audit matter because identifying impairment indicators and determining the level of impairment, if any, involves a significant degree of management judgement, particularly in forecasting future cash flows and estimating the recoverable amounts of these assets, both of which are inherently uncertain and could be subject to management bias.</p>	<ul style="list-style-type: none"> • evaluate the experience, competence, capabilities and objectivity of independent professional valuers engaged by management to carry out the valuations of property, plant and equipment and to understand the methodologies adopted and key inputs used in the valuation of property, plant and equipment; and • considering the disclosures in the consolidated financial statements in respect of impairment testing of property, plant and equipment including the key assumptions and sensitivities to changes in such assumptions, with reference to the requirements of the prevailing accounting standards.



INDEPENDENT AUDITOR'S REPORT

Impairment of loan receivables

Refer to notes 2(k)(i) and 23 to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group has commenced the investment and financial service business during 2016. Loans were advanced to various independent third parties and the outstanding balances for the loan receivables and interest receivables as at 31 December 2016 were approximately RMB229,117,000 and approximately RMB27,261,000 respectively.</p> <p>The impairment assessment on the loans receivable and interest receivables require estimates and significant judgements to be applied by the management such that changes to key inputs to the estimates and/or the judgements made can result, either on an individual loan or in aggregate, in a material change to the valuation.</p> <p>Identified as a significant audit matter because of its significance to the consolidated financial statements and the estimation of their recoverability requires the use of significant management judgments.</p>	<p>Our audit procedures to assess potential impairment of loan receivables included the following:</p> <ul style="list-style-type: none"> • obtaining and reviewing the loan agreements and agreeing to the principal amount, interest rates, maturity dates and other information to the Group's accounting records; • testing of controls designed and applied in the process of approving and granting of loans, subsequent monitoring of repayment status and loan extension, if any; • recalculation of loan interest income recognised on a sample basis; • obtaining direct confirmation of loan balances from the borrowers; and • reviewing subsequent settlement records and corroborating enquiring with the management about the reasons for not considering a provision against any unsettled past-due balances.



INDEPENDENT AUDITOR'S REPORT

Valuation of equity-settled share-based payment

Refer to notes 2(r)(ii) and 33(b) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
<p>During the year, the Group has a share-award transaction with the Chairman and Chief Executive Officer, Mr. Huang Mingxiang ("Mr. Huang"), pursuant to which Mr. Huang acquired 49,600,350 shares of the Company from a substantial shareholder, Cosmic Riches Investments Limited ("Cosmic Riches"), at a consideration of approximately HK\$101,681,000 (equivalent to approximately RMB86,690,000) which is payable by Mr. Huang by five yearly installments of approximately HK\$20,336,000 (equivalent to approximately RMB17,338,000) each, which the whole amount is equal to the yearly sign-on bonus for 5 years granted by Cosmic Riches to Mr. Huang as incentive to join the Company.</p> <p>The shares entitled by Mr. Huang are subject to lock-up for 5 years and a maximum of 20% of the shares may be disposed of in each year thereafter.</p> <p>Identified as a significant audit matter because of its significance to the consolidated financial statements and the estimation of the fair value requires the use of significant management judgments.</p>	<p>Our audit procedures to assess the valuation of equity-settled share-based payment included the following:</p> <ul style="list-style-type: none">• We challenged the assumptions and critical judgments used by management and independent professional valuer for the valuation methodology and used our in-house valuation experts to assist our works;• evaluated the independent valuer's competence, capabilities and objectivity;• checked, on a sample basis, the accuracy and relevance of the input data used; and• checked the appropriateness of the accounting policy adopted by the Group and the disclosure is in accordance with the relevant accounting standards.



INDEPENDENT AUDITOR'S REPORT

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.



INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement director on the audit resulting in this independent auditor's report is Ms. Sze Chor Chun, Yvonne.

Crowe Horwath (HK) CPA Limited

Certified Public Accountants
Hong Kong, 27 March 2017

Sze Chor Chun, Yvonne

Practising Certificate Number P05049



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	6	904,168	517,887
Cost of sales		(794,668)	(450,934)
Gross profit		109,500	66,953
Other income	7	10,322	12,481
Selling and distribution costs		(22,847)	(21,616)
Administrative expenses		(65,285)	(29,678)
Other expenses		(4,358)	(162)
Research and development costs	8(c)	(20,762)	(34,489)
Impairment of property, plant and equipment	8(c)	(50,696)	(14,587)
Loss from operations		(44,126)	(21,098)
Finance costs	8(a)	(36,993)	(13,863)
Share of loss of joint ventures		(33)	–
Loss before taxation	8	(81,152)	(34,961)
Income tax credit	9(a)	11,989	1,985
Loss for the year		(69,163)	(32,976)
Other comprehensive loss for the year, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(7,951)	(950)
Other comprehensive loss for the year, net of income tax		(7,951)	(950)
Total comprehensive loss for the year, net of income tax		(77,114)	(33,926)
Loss attributable to:			
Owners of the Company		(68,874)	(32,976)
Non-controlling interests		(289)	–
		(69,163)	(32,976)
Total comprehensive loss for the year attributable to:			
Owners of the Company		(76,811)	(33,926)
Non-controlling interests		(303)	–
		(77,114)	(33,926)
		RMB cents	RMB cents (restated)
Loss per share	13		
Basic and diluted		(12.8)	(7.0)

The notes on pages 60 to 152 form part of these financial statements.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	14	144,858	189,385
Investment properties	15	18,542	24,881
Prepaid land lease payments	16	18,387	18,877
Deposits paid for acquisition of property, plant and equipment and other non-current rental deposit	24	2,949	6,097
Loan receivables	23	115,641	–
Interest receivables	22	4,241	–
Investments in joint ventures	18	268,758	–
Available-for-sale investment	19	28,225	–
Other intangible assets	20	957	1,496
Deferred tax assets	32(a)	25,753	12,264
Total non-current assets		628,311	253,000
Current assets			
Inventories	21	107,605	101,131
Trade and bills receivables and interest receivables	22	336,871	228,119
Loan receivables	23	113,476	–
Prepayments, deposits and other receivables	24	9,755	8,497
Amounts due from joint ventures	18	588	–
Pledged bank deposits	25	18,186	7,525
Cash and bank balances	25	129,703	464,643
Total current assets		716,184	809,915
Current liabilities			
Trade and bills payables	26	113,035	121,240
Deferred income, accruals and other payables	27	52,074	37,456
Tax payable		20,194	18,937
Bank and other loans	29	62,526	70,002
Bond payable	30	397,762	–
Obligations under finance lease	31	115	–
Dividends payable		88	88
Total current liabilities		645,794	247,723
Net current assets		70,390	562,192
Total assets less current liabilities		698,701	815,192



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Bond payable	30	–	345,693
Obligations under finance lease	31	417	–
Deferred income	28	32,057	23,529
Deferred tax liabilities	32(b)	3,462	3,180
Other loans	29	272,999	–
Total non-current liabilities		308,935	372,402
NET ASSETS			
		389,766	442,790
CAPITAL AND RESERVES			
Share capital	36(a)	4,571	4,571
Reserves		371,594	438,219
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		376,165	442,790
Non-controlling interests		13,601	–
TOTAL EQUITY		389,766	442,790

Approved and authorised for issue by the Board of Directors on 27 March 2017.

Zhou Chunhua
Director

Jing Wenping
Director

The notes on pages 60 to 152 form part of these financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Statutory reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	3,824	104,657	207,757	3,923	3,804	40,768	28,901	393,634	-	393,634
Loss for the year	-	-	-	-	-	-	(32,976)	(32,976)	-	(32,976)
Exchange differences on translation of foreign operations	-	-	-	-	(950)	-	-	(950)	-	(950)
Total comprehensive loss for the year	-	-	-	-	(950)	-	(32,976)	(33,926)	-	(33,926)
Shares issued upon placing of shares (note 36(a)(iii))	667	74,061	-	-	-	-	-	74,728	-	74,728
Shares issued under share option scheme (note 36(a)(ii))	80	11,109	-	(2,835)	-	-	-	8,354	-	8,354
Transfer to retained profits upon forfeiture of share options	-	-	-	(1,088)	-	-	1,088	-	-	-
At 31 December 2015 and 1 January 2016	4,571	189,827	207,757	-	2,854	40,768	(2,987)	442,790	-	442,790
Loss for the year	-	-	-	-	-	-	(68,874)	(68,874)	(289)	(69,163)
Exchange differences on translation of foreign operations	-	-	-	-	(7,937)	-	-	(7,937)	(14)	(7,951)
Total comprehensive loss for the year	-	-	-	-	(7,937)	-	(68,874)	(76,811)	(303)	(77,114)
Capital contribution from non-controlling interest	-	-	-	-	-	-	-	-	13,904	13,904
Deemed contribution from owner for the share award transaction (note 33(b))	-	-	10,186	-	-	-	-	10,186	-	10,186
At 31 December 2016	4,571	189,827	217,943	-	(5,083)	40,768	(71,861)	376,165	13,601	389,766

The notes on pages 60 to 152 form part of these financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Operating activities			
Loss before taxation:		(81,152)	(34,961)
Adjustments for:			
Finance costs	8(a)	36,993	13,863
Interest income	7	(1,964)	(1,122)
Depreciation	8(c)	34,642	38,727
Amortisation of prepaid land lease payments	8(c)	488	488
Amortisation of other intangible assets	8(c)	539	539
Reversal of impairment loss of trade receivables	8(c)	–	(256)
Reversal of write down of inventories	8(c)	(242)	(711)
Impairment loss of property, plant and equipment	8(c)	50,696	14,587
Impairment loss of other intangible assets	8(c)	–	116
Impairment loss of trade receivables	8(c)	1,984	379
Impairment loss of other receivables	8(c)	980	–
Write-down of inventories	8(c)	1,300	366
Long-outstanding trade payable written off	7	–	(1,318)
Release of government grant as income	7	(957)	(829)
Loss on disposal of property, plant and equipment	8(c)	341	1,788
Fair value gain on derivative financial instruments	7	(1,043)	–
Share of loss of joint ventures		33	–
Equity-settled share-based payment expense	8(b)	9,694	–
Foreign exchange loss		6,413	–
		58,745	31,656
Changes in working capital			
Increase in inventories		(7,532)	(12,746)
Increase in trade and bills receivables and interest receivables		(109,252)	(40,014)
Increase in loan receivables		(223,192)	–
(Increase)/decrease in prepayments, deposits and other receivables		(3,055)	6,957
Decrease in amounts due from related parties		–	5,410
(Decrease)/increase in trade and bills payables		(9,836)	29,487
Increase in deferred income, accruals and other payables		22,114	5,729
		(272,008)	26,479
Cash (used in)/generated from operations			
Interest received		1,964	1,122
PRC tax paid		(372)	(158)
		(270,416)	27,443
Net cash (used in)/generated from operating activities			



CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Investing activities			
Deposit paid for acquisition of property, plant and equipment		(732)	(6,097)
Payment for purchase of available-for-sale investment		(28,225)	–
Payment for the purchase of property, plant and equipment		(26,625)	(18,557)
Proceeds from disposal of property, plant and equipment		30	25
Capital contribution to joint ventures		(33)	–
Advance to subsidiaries of joint ventures		(588)	–
Net cash used in investing activities		(56,173)	(24,629)
Financing activities			
Capital element of finance lease rentals paid		(62)	–
Interest element of finance lease rentals paid		(8)	–
Proceeds from new bank loans		81,138	180,962
Proceeds from issuance of bond		–	329,620
Proceeds from new other loans		12,500	–
Proceeds from shares issued under share option scheme		–	8,354
Net proceeds from placing of shares		–	74,728
Repayment of bank loans		(91,140)	(179,085)
Repayment of other loans		(10,000)	–
Interest paid		(5,641)	(4,259)
Increase in pledged bank deposits with original maturity of over three months when acquired		(12,764)	–
Capital contribution from non-controlling interest		13,904	–
Advance from a non-controlling party		205	–
Net cash (used in)/generated from financing activities		(11,868)	410,320
Net (decrease)/increase in cash and cash equivalents		(338,457)	413,134
Cash and cash equivalents at 1 January		472,168	52,437
Effect of foreign exchange rate changes, net		1,414	6,597
Cash and cash equivalents at 31 December		135,125	472,168
Analysis of balances of cash and cash equivalents			
Cash and bank balances	25	129,703	464,643
Pledged bank deposits with original maturity of less than three months when acquired	25	5,422	7,525
Cash and cash equivalents as stated in the consolidated statement of cash flows		135,125	472,168

The notes on pages 60 to 152 form part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

Tianli Holdings Group Limited (the “Company”) (formerly known as “EYANG Holdings (Group) Co., Limited”) 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). The Company’s registered office address is the office of Codon Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and the head office and the principal place of business of the Company in Hong Kong is located at Unit 907–909, 9/F., Three Pacific Place, 1 Queen’s Road East, Hong Kong.

Pursuant to a special resolution passed at the extraordinary general meeting on 14 June 2016, the English name of the Company was changed from “EYANG Holdings (Group) Co., Limited” to “Tianli Holdings Group Limited” and the dual foreign name in Chinese of the Company was change from “宇陽控股(集團)有限公司” to “天利控股集團有限公司” with effect from 15 June 2016.

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 39 to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs which are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in joint ventures.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Renminbi (“RMB”) which is the Company’s functional currency and the Group’s presentation currency, and all value are rounded to the nearest thousand RMB except where otherwise indicated.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements (Continued)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as available-for-sale investment (see note 2(h)); and
- derivative financial instruments (see note 2(e)).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

(c) Subsidiaries and non-controlling interest

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries and non-controlling interest (Continued)

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss (see note 2(k)).

(d) Joint ventures and an associate

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Joint ventures and an associate (Continued)

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

If an investment in a joint venture becomes an investment in an associate or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

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

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on the remeasurement of fair value is recognised immediately in profit or loss.

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses (see note 2(k)). 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss 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 depreciation.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment (Continued)

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 principal estimated useful lives and residual values used for this purpose are as follows:

	Estimated useful lives	Residual values
Buildings	40 years or over the remaining term of the lease, if shorter	10%
Leasehold improvements	3 years or over the remaining term of the lease, if shorter	0%
Plant and machinery	5-10 years	10%
Office and other equipment	3-10 years	0%-10%
Motor vehicles	4-10 years	0%-10%

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 the end of each reporting period.

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 profit or loss in the period the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for its intended use.

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation. Such properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on the straight-line basis over the estimated useful lives of 40 years.

Any gains or losses from the retirement or disposal of an investment property are recognised in the profit or loss. Rental income from investment properties is accounted for as described in note 2(a) (iii).



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Investment properties (Continued)

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its carrying amount at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment” up to the date of change in use.

(h) Other investments in debt and equity securities

The Group’s and the Company’s policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(u)(iv) and 2(u)(v).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 2(k)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale investments. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in consolidated equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the consolidated statement of financial position at cost less impairment losses (see note 2(k)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 2(u)(iv) and 2(u)(v), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impairment (see note 2(k)), the cumulative gain or loss recognised in consolidated equity is reclassified to profit or loss. Investments are recognised/ derecognised on the date the Group commits to purchase/sell the investments or they expire.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Intangible assets

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 as 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 the end of each reporting period.

The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— computer software 10 years straight-line

(j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset or, if lower, the present value of the minimum lease payments of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each reporting period.

(iii) Operating lease charges

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



2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Leased assets (Continued)

(iv) Leasehold land and building

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

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

(k) Impairment of assets

(i) Impairment of investment in an equity instrument, trade and other receivables and loan receivables

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its costs.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(i) Impairment of investment in an equity instrument, trade and other receivables and loan receivables (Continued)

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

- For investments in joint ventures and an associate accounted for under the equity method in the consolidated financial statements (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).
- For trade and other current receivables, loan receivables and other financial assets carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

- For available-for-sale investment which are stated at fair value, when a decline in the fair value has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from consolidated equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

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



2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(i) Impairment of investment in an equity instrument, trade and other receivables and loan receivables (Continued)

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

(ii) Impairment of other assets

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

- property, plant and equipment;
- investment properties;
- prepaid land lease payments;
- interest in an associate;
- investments in joint ventures;
- deposits and prepayments;
- other intangible assets; and
- investments in subsidiaries in the Company's statement of financial position.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (that is, a cash-generating unit).

— *Recognition of impairment losses*

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

— *Reversal of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(l) Research and development costs

All research costs are charged to profit or loss 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.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the 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 estimated selling prices less any estimated costs to be incurred to completion and disposal.

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

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(o) Interest-bearing borrowings

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

(p) Trade and other payables

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

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee benefits

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

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

(ii) Share-based payment transactions

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

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 lattice model or Black-Scholes Option Pricing Model, if applicable.

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

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not 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/loss per share.



2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax

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

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

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

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income tax (Continued)

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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



2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Financial guarantees issued, provisions and contingent liabilities (Continued)

(i) Financial guarantees issued (Continued)

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, that is, the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

(u) 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:

- (i) from the sale of goods, 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, and is after allowances for returns and trade discounts;
- (ii) advisory income and management fee income is recognised when services are rendered;
- (iii) rental income, on a time proportion basis over the lease terms;
- (iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and
- (v) dividend income, when the shareholders' right to receive payment has been established.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Translation of foreign currencies

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

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

Non-monetary assets and liabilities denominated in foreign currencies stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value is measured.

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

On the disposal of a foreign operation, all of the exchange differences accumulated in consolidated equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

(w) Borrowing costs

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

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

(x) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

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



2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(z) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's board of directors (the chief operating decision maker) for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

3. APPLICATION OF NEW AND REVISED IFRSs

In the current year, the Group has applied the following new and revised IFRSs issued by the IASB.

Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle

The Group has not applied any new IFRS that is not yet effective for the current accounting period. Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The Group has applied the amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception for the first time in the current year. The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity.



3. APPLICATION OF NEW AND REVISED IFRSs (Continued)

Amendments to IAS 1 Disclosure Initiative

The Group has applied the amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The Group has applied the amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation for the first time in the current year. The amendments to HKAS 16 Property, Plant and Equipment prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- (a) when the intangible asset is expressed as a measure of revenue; or
- (b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

In addition, the amendments also clarify that in choosing an appropriate amortisation method an entity could determine the predominant limiting factor that is inherent in the intangible asset.

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

3. APPLICATION OF NEW AND REVISED IFRSs (Continued)

Annual Improvements to IFRSs 2012–2014 Cycle

The Group has applied the Annual Improvements to IFRSs 2012–2014 Cycle for the first time in the current year which include a number of amendments to various HKFRSs as summarised below.

The amendments to IFRS 5 clarify when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract constitutes continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (that is, the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Group's consolidated financial statements.

The Group has not applied any new standard or interpretation (note 41) that is not yet effective for the current accounting period.



4. SIGNIFICANT ACCOUNTING JUDGEMENTS 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 at the end of the reporting period. However, 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.

(a) Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i) Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(ii) Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independent of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

(iii) Impairment of available-for-sale investment

The Group classifies certain assets as available-for-sale and recognises movements of their fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the consolidated statement of profit or loss and other comprehensive income.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

(b) Estimation uncertainty

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

(i) **Useful lives and residual values of property, plant and equipment and investment properties (Carrying amount: RMB163,400,000 (2015: RMB214,266,000))**

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

(ii) **Deferred tax assets (Carrying amount: RMB25,753,000 (2015:RMB12,264,000))**

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(iii) **Impairment assessment of non-financial assets (Carrying amount: RMB192,230,000 (2015: RMB248,644,000))**

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(iv) **Write-down of inventories to net realisable value (Carrying amount: RMB107,605,000 (2015: RMB101,131,000))**

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 difference will have an impact on the carrying amounts of inventories and the write-down charge/write-back amount in the period in which such estimate has been changed.



4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(b) Estimation uncertainty (Continued)

(v) **Impairment of trade and bills receivables and interest receivables, loan receivables, other receivables and amounts due from related parties (Carrying amount: RMB841,395,000 (2015: RMB228,708,000))**

The Group estimates the provisions for impairment of trade and bills receivables and interest receivables, loan receivables, other receivables and amounts due from related parties by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Provisions are applied to trade receivables, interest receivables, loan receivables, other receivables and amounts due from related parties where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade receivables, interest receivables, loan receivables, other receivables and amounts due from related parties and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the provisions at the end of the reporting period.

(vi) **Fair value of available-for-sale investment (Carrying amount: RMB28,225,000 (2015: nil))**

The available-for-sale investment has been valued based on the expected cash flow discounted of current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimate about expected future cash flow, credit risk, volatility and discount rates, and hence they are subject to uncertainty. Further details are included in note 19 to consolidated financial statements.

(vii) **Tax payable (Carrying amount: RMB20,194,000 (2015: RMB18,937,000))**

The subsidiaries of the Company are subject to income tax in the PRC and Hong Kong. Significant judgement is required in determining the provision for income tax. There are many transactions for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions in the financial period in which such determination is made.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

5. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Board (the chief operating decision maker) for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- (a) MLCC: manufacture and sale of MLCC;
- (b) Investment and financial services: including but not limited to (i) direct investments in debt, equity and/or any other assets; (ii) asset management; (iii) provision of financial advisory services; and (iv) financial technologies; and
- (c) Other general trading: trading of goods other than MLCC, including but not limited to commodities such as metals, minerals and petroleum products.

In order to diversify the existing business of the Group and to explore new markets with significant growth potential, the Group commenced and developed the business of investment and financial services and other general trading during the year ended 31 December 2016 and thus two new segments are resulted and included in the segment reporting and no comparative information for these new segments for the year ended 31 December 2015 is presented.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Board monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets, deferred tax assets and current assets with the exception of corporate assets. Segment liabilities include all payables, deferred income and deferred tax liabilities attributable to the activities of the individual segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit/(loss) is earnings and loss of each segment without allocation of corporate interest income, central administration expenses, central finance costs, share of loss of joint ventures and income tax.

In addition to receiving segment information concerning segment profit/(loss), the Board is provided with segment information concerning revenue, interest income, depreciation, amortisation, impairment losses, reversal of impairment losses, finance costs, share of loss of joint ventures and associates, income tax/credit and additions to non-current segment assets used by the segments in their operations.

The accounting policies of the operating segments are the same as the Group's accounting policies.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

5. SEGMENT REPORTING (Continued)

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

Information regarding the Group's reportable segments as provided to the Board for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below:

	Year ended 31 December 2016			
	MLCC RMB'000	Investment and financial services RMB'000	Other general trading RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	585,833	31,752	286,583	904,168
Segment (loss)/profit	(41,443)	8,352	263	(32,828)
Corporate interest income				917
Central administration expenses				(21,926)
Central finance costs				(27,282)
Share of loss of joint ventures				(33)
Consolidated loss before tax				(81,152)
Segment assets	605,944	643,733	91,979	1,341,656
Unallocated corporate assets				2,839
Consolidated total assets				1,344,495
Segment liabilities	264,605	279,060	11,592	555,257
Bond payable				397,762
Other unallocated corporate liabilities				1,710
Consolidated total liabilities				954,729
Other segment information				
Additions to non-current assets	32,728	4,876	65	37,669
Unallocated				35
				37,704
Depreciation and amortisation	(35,340)	(328)	-	(35,668)
Unallocated				(1)
				(35,669)
Interest income	1,033	26,474	3	27,510
Unallocated corporate interest income				917
				28,427
Finance costs	(5,366)	(4,345)	-	(9,711)
Unallocated				(27,282)
				(36,993)
Income tax credit	11,989	-	-	11,989
Impairment loss recognised:				
Property, plant and equipment	(50,696)	-	-	(50,696)
Trade receivables	(1,984)	-	-	(1,984)
Other receivables	(980)	-	-	(980)



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

5. SEGMENT REPORTING (Continued) (a) Segment results, assets and liabilities (Continued)

	Year ended 31 December 2015	
	MLCC	Total
	RMB'000	RMB'000
Segment revenue:		
Sales to external customers	517,887	517,887
Segment loss	(23,093)	(23,093)
Corporate interest income		694
Central administration expenses		(2,958)
Central finance costs		(9,604)
Consolidated loss before tax		(34,961)
Segment assets	647,490	647,490
Cash and bank balance		415,262
Other unallocated corporate assets		163
Consolidated total assets		1,062,915
Segment liabilities	273,616	273,616
Bond payable		345,693
Other unallocated corporate liabilities		816
Consolidated total liabilities		620,125
Other segment information		
Additions to non-current assets	24,654	24,654
Unallocated		-
		24,654
Depreciation and amortisation	(39,752)	(39,752)
Unallocated		(2)
		(39,754)
Interest income	428	428
Unallocated corporate interest income		694
		1,122
Finance costs	(4,259)	(4,259)
Unallocated		(9,604)
		(13,863)
Income tax credit	1,985	1,985
Impairment loss recognised:		
Property, plant and equipment	(14,587)	(14,587)
Other intangible assets	(116)	(116)
Trade receivables	(379)	(379)

There are no inter-segment sales for the years ended 31 December 2016 and 2015.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

5. SEGMENT REPORTING (Continued)

(b) Geographical information

(i) Revenue from external customers

The geographical analysis of the Group's revenue from external customers by geographical location based on where the goods are delivered or the services were provided is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Mainland China (place of domicile)	794,790	399,175
Hong Kong	78,440	86,772
Other countries	30,938	31,940
	904,168	517,887

(ii) Non-current assets

No non-current assets information is presented for the Group's geographical location, as over 90% of the Group's non-current assets (excluding financial instruments and deferred tax assets) are located in Mainland China.

(c) Information about major customers

Revenue from customers contributing 10% or more of the Group's revenue are as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Other general trading		
– Customer A	163,011	–
– Customer B	103,323	–
	266,334	–

(d) Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Sale of MLCC	585,833	517,887
Trading of heavy sulphur fuel oil	266,334	–
Trading of chrome ore	20,249	–
Interest income from financial investment	26,463	–
Advisory service income	5,289	–
	904,168	517,887



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

6. REVENUE

The principal activities of the Group are the manufacture and sale of MLCC, investment and financial services and other general trading.

The amount of each significant category of revenue is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Sale of MLCC	585,833	517,887
Other general trading	286,583	–
Investment interest income (note)	26,463	–
Advisory service income	5,289	–
Revenue from investment and financial services	31,752	–
	904,168	517,887

Note: For the year ended 31 December 2016, total amount of interest income on financial assets not at fair value through profit or loss, including bank interest income (note 7), was RMB28,427,000 (2015: RMB1,122,000).

7. OTHER INCOME

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Bank interest income	1,964	1,122
Rental income	4,366	6,539
Government grants (note)	665	2,117
Release of government grants as income	957	829
Sale of materials	21	289
Management fee income	91	313
Sundry income	981	1,524
Fair value gain on derivative financial instruments	1,043	–
Net foreign exchange gain/(loss)	234	(1,915)
Long-outstanding trade payable written off	–	1,318
Net reversal of write down of inventories	–	345
	10,322	12,481

Note: Government grants represented the subsidy to the Group by the government of the PRC as incentive primarily to encourage the development of the Group and the contribution to the local economic development.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

8. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting) the following:

(a) Finance costs

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans	5,366	4,259
Interest on other loans	4,337	–
Interest on bond payable	27,282	9,604
Finance charges on obligations under finance lease	8	–
	<hr/> 36,993	<hr/> 13,863

(b) Staff costs (including Directors' emoluments)

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Contributions to defined contribution retirement plans	11,561	9,258
Equity-settled share-based payment expenses	9,694	–
Salaries, wages and other benefits (notes i and ii)	99,287	72,501
	<hr/> 120,542	<hr/> 81,759



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

8. LOSS BEFORE TAXATION (Continued)

(c) Other items

	Notes	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold		794,668	450,934
Write-down of inventories*		1,300	366
Reversal of write-down of inventories* (note iii)		(242)	(711)
Cost of inventories (note i)		795,726	450,589
Depreciation (notes i and ii)		34,642	38,727
Amortisation of prepaid land lease payments		488	488
Amortisation of other intangible assets		539	539
Research and development costs:			
Current year expenditure (note ii)		20,762	34,489
Minimum lease payments under operating leases in respect of buildings		2,723	690
Auditor's remuneration		1,181	680
Net foreign exchange (gain)/loss	7	(234)	1,915
Reversal of impairment loss for trade receivables		–	(256)
Impairment loss of trade receivables*		1,984	379
Impairment loss of other receivables*		980	–
Loss on disposal of property, plant and equipment		341	1,788
Impairment loss of property, plant and equipment		50,696	14,587
Impairment loss of other intangible assets [#]		–	116
Rental income on investment properties less direct outgoings of RMB308,000 (2015: RMB739,000)	7	(4,058)	(5,800)

[#] Included in administrative expenses of the consolidated statement of profit or loss and other comprehensive income.

* The write-down of inventories to net realisable value and impairment loss for trade receivables and other receivables are included in "other expenses" of the consolidated statement of profit or loss and other comprehensive income.

Notes:

- (i) Cost of inventories includes depreciation of RMB32,211,000 (2015: RMB36,863,000) and staff costs of RMB55,551,000 (2015: RMB44,971,000), which are also included in the respective total amounts disclosed separately above.
- (ii) Included in research and development costs are depreciation of RMB414,000 (2015: RMB116,000) and staff costs of RMB7,056,000 (2015: RMB7,666,000), which are also included in the respective total amounts disclosed separately above.
- (iii) During the year, there was a reversal of write down of inventories due to subsequent sale of obsolete inventories. As a result, a reversal of write down of finished goods of approximately RMB242,000 (2015: RMB711,000) has been recognised.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

9. INCOME TAX CREDIT

- (a) Income tax recognised in the consolidated statement of profit or loss and other comprehensive income represents:

	2016	2015
	RMB'000	RMB'000
Current tax		
– PRC Enterprise Income Tax (“EIT”) for the year	1,218	1,588
Deferred taxation		
– Origination and reversal of temporary differences (note 32)	(13,207)	(3,573)
	<hr/>	<hr/>
Income tax credit for the year	(11,989)	(1,985)
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (i) The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.
- (ii) No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits derived from or earned in Hong Kong during the years ended 31 December 2016 and 2015.
- (iii) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (“BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI respectively.
- (iv) For the year ended 31 December 2016, all PRC subsidiaries were subject to EIT at the standard rate of 25% (2015: 25%) on their respective taxable profit during the year.
- (b) Reconciliation between tax credit and accounting loss at applicable tax rate:

	2016	2015
	RMB'000	RMB'000
Loss before taxation	(81,152)	(34,961)
	<hr/>	<hr/>
Tax at the statutory tax rate	(20,288)	(8,740)
Tax effect of:		
– Lower tax rates for specific districts or countries	2,583	1,123
– Share of loss of joint ventures	8	–
– Income not subject to tax	(11,592)	(1,381)
– Expenses not deductible for tax	13,315	11,548
– Tax losses not recognised	3,702	233
– Utilisation of tax losses not previously recognised	–	(3,379)
Effect of withholding tax on the distributable profits of the Group’s PRC subsidiaries	283	(455)
Others	–	(934)
	<hr/>	<hr/>
Income tax credit for the year	(11,989)	(1,985)
	<hr/> <hr/>	<hr/> <hr/>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2016

	Notes	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefit contributions RMB'000	Discretionary bonus RMB'000	Sub-total RMB'000	Share-based payments RMB'000	Total emoluments RMB'000
Executive directors:								
Mr. Huang Mingxaing ("Mr. Huang") (Chairman and Chief Executive Officer)	(iv)	-	2,742	8	-	2,750	9,694	12,444
Mr. Kwok Oi Lung Roy	(iii)	-	2,176	14	-	2,190	-	2,190
Mr. Xue Hongjian	(v)	-	1,148	-	-	1,148	-	1,148
Mr. Zhou Chunhua	(ii)	-	2,227	14	-	2,241	-	2,241
Mr. Zhu Xiaodong	(ii)	-	938	-	-	938	-	938
Mr. Jing Wenping		-	256	15	54	325	-	325
Mr. Sue Ka Lok	(i)	-	349	13	-	362	-	362
Non-executive director:								
Mr. Sue Ka Lok	(i)	45	-	-	-	45	-	45
Independent non-executive directors:								
Mr. Chan Chi On, Derek	(v)	71	-	-	-	71	-	71
Mr. To Yan Ming, Edmond	(v)	71	-	-	-	71	-	71
Mr. Chu Kin Wang, Peleus		124	-	-	-	124	-	124
Mr. Liang Rong	(vii)	36	-	-	-	36	-	36
Mr. Xu Xuechuan	(vi)	124	-	-	-	124	-	124
		471	9,836	64	54	10,425	9,694	20,119



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10. DIRECTORS' EMOLUMENTS (Continued)

Year ended 31 December 2015

	Notes	Fees RMB'000	Salaries and allowances RMB'000	Retirement benefit contributions RMB'000	Discretionary bonus RMB'000	Sub-total RMB'000	Share-based payments RMB'000	Total emoluments RMB'000
Executive directors:								
Mr. Chen Weirong ("Mr. Chen") (Chairman and Chief Executive Officer)	(xii)	-	390	15	-	405	-	405
Mr. Jing Wenping		-	312	12	-	324	-	324
Mr. Wang Ye	(viii)	-	121	7	-	128	-	128
Mr. Sue Ka Lok	(i)	206	-	6	-	212	-	212
Non-executive directors:								
Mr. Cheng Wusheng	(xi)	-	-	-	-	-	-	-
Mr. Zhang Zhilin	(x)	-	-	-	-	-	-	-
Mr. Chen Hao	(x)	-	-	-	-	-	-	-
Independent non-executive directors:								
Mr. Liu Huanbin	(viii)	34	-	-	39	73	-	73
Mr. Pan Wei	(xi)	39	-	-	39	78	-	78
Mr. Chu Kin Wang, Peleus		160	-	-	-	160	-	160
Mr. Liang Rong	(vii)	67	-	-	-	67	-	67
Mr. Mak Ka Wing, Patrick	(viii)	56	-	-	16	72	-	72
Mr. Xu Xuechuan	(vi)	48	-	-	-	48	-	48
		610	823	40	94	1,567	-	1,567

Notes:

- (i) Appointed as "Executive director" on 3 July 2015 and re-designated as "Non-executive director" on 8 November 2016
- (ii) Appointed on 29 January 2016
- (iii) Appointed on 24 February 2016
- (iv) Appointed on 3 May 2016
- (v) Appointed on 14 July 2016
- (vi) Appointed on 3 July 2015
- (vii) Retired on 14 June 2016
- (viii) Resigned on 3 July 2015
- (ix) Resigned on 15 July 2015
- (x) Resigned on 27 July 2015
- (xi) Resigned on 4 August 2015
- (xii) Resigned on 5 November 2015



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10. DIRECTORS' EMOLUMENTS (Continued)

Mr. Huang has been appointed as an Executive Director of the Company, the Chairman of the Board and the Chief Executive Officer of the Company with effect from 3 May 2016.

A share award arrangement was entered into by Mr. Huang and Cosmic Riches Investments Limited ("Cosmic Riches"), a shareholder of the Company, on 29 April 2016, pursuant to which Mr. Huang acquired 49,600,350 shares of the Company ("Interested Shares") from Cosmic Riches at a consideration of HK\$101,681,000 (equivalent to approximately RMB86,690,000), which is payable by five yearly instalments and is offset by the yearly sign-on bonus of the same amount for five years granted by Cosmic Riches to Mr. Huang as an incentive to join the Company. Further details of the share award transaction is set out in note 33(b) to the financial statements. During the year ended 31 December 2016, equity-settled share-based payment expenses of RMB9,694,000 were recognized (2015: nil).

Mr. Chen was the Chief Executive Officer of the Company and his emolument disclosed above include those for services rendered by him as the Chief Executive Officer up to his resignation on 5 November 2015.

Certain directors were granted share options in prior years in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 33(a) to the financial statements. The fair value of such options which was recognised in profit or loss over the vesting period in prior years was determined as at the date of grant. During the years ended 31 December 2016 and 2015, no equity-settled share option expenses were recognised.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid employees during the year included three directors (2015: one director), details of whose emoluments are set out in note 10 above. Details of the emoluments of the remaining two (2015: four) non-director and non-chief executive and highest paid employees for the year are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries and allowances	2,824	1,684
Retirement benefit contributions	18	61
	2,842	1,745

The number of non-director and non-chief executive and highest paid employees whose emoluments fell within the following bands are as follows:

	2016	2015
	Number of	Number of
	individuals	individuals
HK\$1,500,001 to HK\$2,000,000 (2016: RMB1,275,001 to RMB1,700,000; 2015: RMB1,200,001 to RMB1,600,000)	2	0
HK\$1,000,001 to HK\$1,500,000 (2016: RMB850,001 to RMB1,275,000; 2015: RMB800,001 to RMB1,200,000)	0	0
Nil to HK\$1,000,000 (2016: nil to RMB850,000; 2015: nil to RMB800,000)	0	4

During the year ended 31 December 2016, except for the share-based payments set out in note 10 above, no emolument was paid by the Group to the directors 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. None of the directors or any of the five highest paid individuals has waived or agreed to waive any emolument for the years ended 31 December 2016 and 2015.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

12. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

13. LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share is based on the loss attributable to the owners of the Company of RMB68,874,000 (2015: RMB32,976,000) and the weighted average number of 537,875,000 ordinary shares (2015 (restated): 472,898,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2016 '000	2015 '000 (restated)
Issued ordinary shares at 1 January	496,500	405,500
Effect of shares issued upon exercise of share options	–	3,804
Effect of shares issued upon placing of shares	–	22,219
Effect of completion of open offer on 14 February 2017 (note)	41,375	41,375
	<hr/>	<hr/>
Weighted average number of ordinary shares at 31 December	537,875	472,898

Note: The number of ordinary shares for both years for the purposes of calculating basic loss per share has been adjusted for the completion of open offer on 14 February 2017, which the Company raised gross proceeds of HK\$372,375,000 (equivalent to approximately RMB330,356,000) by way of an open offer of 248,250,000 offer shares at the subscription price of HK\$1.5 per offer share on the basis of one offer share for every two shares. As a consequence, the amount of basic loss per share for the year ended 31 December 2015 has been restated from HK7.6 cents to HK7.0 cents.

(b) Diluted loss per share

Diluted loss per share for the year ended 31 December 2016 is the same as the basic loss per share as there were no potential ordinary shares outstanding during the year.

Diluted loss per share for the year ended 31 December 2015 was the same as the basic loss per share because the share options outstanding during the year had an anti-dilutive effect.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress ("CIP") RMB'000	Leasehold improvements RMB'000	Total RMB'000
At 1 January 2015:							
Cost	80,220	383,335	14,036	1,583	4,060	-	483,234
Accumulated depreciation and impairment	(13,554)	(233,190)	(8,979)	(999)	-	-	(256,722)
Carrying amount	66,666	150,145	5,057	584	4,060	-	226,512
At 1 January 2015, net of accumulated depreciation and impairment	66,666	150,145	5,057	584	4,060	-	226,512
Additions	-	15,016	1,746	474	-	-	17,236
Construction expenditure capitalised	-	-	-	-	1,321	-	1,321
Disposals	-	(108)	(433)	(31)	(1,241)	-	(1,813)
Transfer to investment properties (note 15)	(1,469)	-	-	-	-	-	(1,469)
Transfer from investment properties (note 15)	247	-	-	-	-	-	247
Transfer from CIP to other property, plant and equipment	199	865	451	-	(1,515)	-	-
Depreciation provided during the year	(2,243)	(34,580)	(1,094)	(145)	-	-	(38,062)
Impairment losses recognise in profit or loss	-	(13,629)	(594)	(91)	(273)	-	(14,587)
At 31 December 2015, net of accumulated depreciation and impairment	63,400	117,709	5,133	791	2,352	-	189,385
At 31 December 2015 and at 1 January 2016:							
Cost	79,074	387,619	14,850	1,746	2,625	-	485,914
Accumulated depreciation and impairment	(15,674)	(269,910)	(9,717)	(955)	(273)	-	(296,529)
Carrying amount	63,400	117,709	5,133	791	2,352	-	189,385
At 1 January 2016, net of accumulated depreciation and impairment	63,400	117,709	5,133	791	2,352	-	189,385
Additions	58	26,089	5,248	570	-	1,565	33,530
Construction expenditure capitalised	-	-	-	-	1,190	-	1,190
Disposals	-	(360)	(11)	-	-	-	(371)
Transfer to investment properties (note 15)	(10,676)	-	-	-	-	-	(10,676)
Transfer from investment properties (note 15)	16,461	-	-	-	-	-	16,461
Transfer from CIP to other property, plant and equipment	487	-	-	-	(487)	-	-
Depreciation provided during the year	(2,365)	(29,727)	(1,584)	(188)	-	(224)	(34,088)
Impairment losses recognised in profit or loss	-	(45,872)	(3,339)	(253)	(1,232)	-	(50,696)
Effect of foreign currency exchange differences	-	-	26	29	-	68	123
At 31 December 2016, net of accumulated depreciation and impairment	67,365	67,839	5,473	949	1,823	1,409	144,858
At 31 December 2016:							
Cost	83,382	411,823	20,112	2,345	3,328	1,644	522,634
Accumulated depreciation and impairment	(16,017)	(343,984)	(14,639)	(1,396)	(1,505)	(235)	(377,776)
Carrying amount	67,365	67,839	5,473	949	1,823	1,409	144,858



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

- (a) The Group's buildings are held under medium term leases in Mainland China.
- (b) Details of the Group's building pledged to secure the Group's bank loans are set out in note 29.
- (c) Certificates of ownership in respect of certain buildings of the Group located in Dongguan with a net carrying amount of approximately RMB8,112,000 as at 31 December 2016 (RMB8,528,000 as at 31 December 2015) have not yet been issued by the relevant PRC authorities.
- (d) At 31 December 2016 and 2015, impairment reviews on the machinery and equipment under the MLCC segment are performed by the directors. For the purpose of the review, the recoverable amounts of the related assets are determined based on value in use calculations. These calculations use cash flow projections based on the financial budget estimated by Board of Directors covering a five-year period. Cash flows beyond the five-year period are extrapolated according to a constant 3% growth assumption for terminal value.

The key assumptions used for value in use calculations are as follows:

	2016	2015
Gross margin	14%	15% to 16%
Growth rate	3% to 8%	3% to 23%
Discount rate (pre-tax)	24%	22%

The budgeted gross margin was determined by the directors based on past performance and their expectation of the market development. The annual discount rates are before tax and reflect market assessments of the time value of money and the specific risks relating to the relevant segment. Judgment is required to determine the key assumptions adopted in the cash flow projections and the changes to key assumptions can significantly affect these cash flow projections. According to the assessments, the recoverable amount of the related assets was approximately RMB352,000,000 (2015: RMB370,000,000), the Group made an impairment loss of approximately RMB50,696,000 (2015: RMB14,587,000) and RMB nil (2015: RMB116,000) on the property, plant and equipment and the other intangible assets respectively (notes 14 and 20).

The above value in use calculations were contained in a report based on a valuation carried out by an independent professional valuer, Roma Appraisal Limited with recent experience for this type of valuations in the manufacturing industry in PRC.

- (e) During the year, additions to motor vehicle financed by new finance lease was RMB570,000 (2015: nil). At the end of the reporting period, the carrying amount of motor vehicle held under finance lease was RMB573,000 (2015: nil).



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

15. INVESTMENT PROPERTIES

	<i>RMB'000</i>
At 1 January 2015:	
Cost	26,399
Accumulated depreciation	(2,075)
	<hr/>
Carrying amount	24,324
	<hr/> <hr/>
Cost at 1 January 2015, net of accumulated depreciation	24,324
Transfer from property, plant and equipment (note 14)	1,469
Transfer to owner-occupied property (note 14)	(247)
Depreciation provided during the year	(665)
	<hr/>
At 31 December 2015	24,881
	<hr/> <hr/>
At 31 December 2015 and at 1 January 2016:	
Cost	27,710
Accumulated depreciation	(2,829)
	<hr/>
Carrying amount	24,881
	<hr/> <hr/>
Cost at 1 January 2016, net of accumulated depreciation	24,881
Transfer from property, plant and equipment (note 14)	10,676
Transfer to owner-occupied property (note 14)	(16,461)
Depreciation provided during the year	(554)
	<hr/>
At 31 December 2016	18,542
	<hr/> <hr/>
At 31 December 2016:	
Cost	19,688
Accumulated depreciation	(1,146)
	<hr/>
Carrying amount	18,542
	<hr/> <hr/>

(a) The Group's investment properties are held under medium term leases and are situated in Mainland China.

(b) Certain investment properties were pledged to secure the Group's bank loans as set out in note 29.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

15. INVESTMENT PROPERTIES (Continued)

(c) Fair value hierarchy

The following table presents the details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016, categorised into the three-level fair value hierarchy as defined in IFRS 13 Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

At 31 December 2016 and 31 December 2015, the fair value of the Group's investment properties was approximately RMB53,119,000 (prepaid land lease payment: RMB32,005,000; and buildings: RMB21,114,000) and RMB81,426,000 (prepaid land lease payment: RMB46,679,000; and buildings: RMB34,747,000) respectively, based on the valuations performed by Roma Appraisals Limited, independent professionally qualified valuer.

The details of fair value of the investment properties as at 31 December 2016 and 2015 determined by the external valuer is as below:

Description	Fair value measurements at 31 December 2016 using		
	Quoted prices in active markets for identical assets (Level 1) <i>RMB'000</i>	Significant other observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>
Investment properties	–	–	53,119
	Fair value measurements at 31 December 2015 using		
Description	Quoted prices in active markets for identical assets (Level 1) <i>RMB'000</i>	Significant other observable inputs (Level 2) <i>RMB'000</i>	Significant unobservable inputs (Level 3) <i>RMB'000</i>
Investment properties	–	–	81,426



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

15. INVESTMENT PROPERTIES (Continued)

(c) Fair value hierarchy (Continued)

For the years ended 31 December 2016 and 2015, the valuation for the investment properties located in Anhui was based on their depreciated replacement costs ("DRC"). DRC is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the existing structures less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

For the years ended 31 December 2016 and 2015, the valuation for the investment properties located in Dongguan and Shenzhen was based on income capitalisation approach (term and reversionary method) which use unobservable inputs (Level 3) at 31 December 2016 and 2015 respectively. The key inputs are term yield, reversionary yield and market unit rent.

16. PREPAID LAND LEASE PAYMENTS

	2016	2015
	RMB'000	RMB'000
Carrying amount at 1 January	19,365	19,853
Amortisation provided during the year	(488)	(488)
Carrying amount at 31 December	18,877	19,365
Current portion included in prepayments, deposits and other receivables (note 24)	(490)	(488)
Non-current portion	18,387	18,877

- (a) The Group's leasehold lands are held under medium-term leases and are situated in Mainland China.
- (b) Certain prepaid land lease payments were pledged to secure bank loans as set out in note 29.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

17. INTEREST IN AN ASSOCIATE

	2016 RMB'000	2015 RMB'000
Unlisted investment:		
Share of net assets	-	-

Details of the Group's interest in an associate, which is unlisted limited partnership whose quoted market price is not available and accounted for using the equity method in the consolidated financial statements, are as follows:

Name of company	Place of establishment/ operation	Issued and paid up registered capital	Proportion of ownership interest			
			Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
深圳市農什投資合夥企業 (有限合夥)	PRC/PRC	Paid-up capital of RMB nil out of registered capital of RMB10,000,000	1% (note 2)	-	1%	Inactive (note 1)

Note 1: 深圳市農什投資合夥企業(有限合夥) was established by the Group, Mr. Xue Hongjian ("Mr. Xue"), an executive director of the Company, and an independent third party investor, during the year ended 31 December 2016, to engage in investment holding in PRC.

Note 2: Pursuant to the Articles of Association of the associate, each of the Group, Mr. Xue and the independent third party investor has one vote over the associate, accordingly the Group has significant influence in the associate.

As the associate is newly established and has not yet commenced any business, no financial information of the associate is disclosed.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

18. INVESTMENTS IN JOINT VENTURES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Loan receivables from a joint venture	268,758	–
Unlisted investments: Share of net assets	–	–
	268,758	–

The loan receivable from a joint venture is unsecured, interest-bearing at the rate of 6% per annum and repayable on 27 September 2018, with a repayment on demand clause which can be exercised at the Group's sole discretion. The directors of the Company are in the opinion that the amounts will not be recovered within one year from the end of the reporting period.

Details of the Group's joint ventures, which are unlisted corporate entities whose quoted market price is not available and are accounted for using the equity method in the consolidated financial statements, are as follows:

Name of company	Place of incorporation/ operation	Issued and fully paid-up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Universal Blossom Limited	BVI/Macau	10,000 ordinary shares of US\$1 each	50%	–	50%	Investment holding (Note)
Wasen-Tianli Investment Management Limited	BVI	2 ordinary shares of US\$1 each	50%	–	50%	Inactive

Note: Universal Blossom Limited ("UBL") was established by the Group and an independent third party investor, during the year ended 31 December 2016, to engage in property investment and financial investment business in PRC and Macau.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

18. INVESTMENTS IN JOINT VENTURES (Continued)

Summarised financial information of the joint ventures, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	Wasen-Tianli <i>RMB'000</i>	2016 UBL <i>RMB'000</i>	Total <i>RMB'000</i>
Gross amounts			
Current assets	23	542,998	543,021
Non-current assets	–	518,194	518,194
Current liabilities	(48)	(28,583)	(28,631)
Non-current liabilities	–	(1,039,666)	(1,039,666)
Equity	(25)	(7,057)	(7,082)
Revenue	–	1,809	1,809
Loss from operations	(24)	(9,362)	(9,386)
Other comprehensive (expenses)/income	1	2,236	2,235
Total comprehensive expenses	(25)	(7,126)	(7,151)
Reconciled to the Group's interests in the joint ventures:			
Net liabilities	(25)	(7,057)	(7,082)
Proportion of the Group's ownership interest	50%	50%	50%
	(13)	(3,528)	(3,541)
Carrying amount of the Group's interest	–	–	–



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

18. INVESTMENTS IN JOINT VENTURES (Continued)

The Group has discontinued recognition of its share of losses of the joint ventures during the year ended 31 December 2016. The amounts of unrecognized share of losses of the joint ventures, extracted from the relevant management accounts of the joint ventures, both for the year and cumulatively are as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Unrecognised share of losses of the joint ventures for the year	<u>3,508</u>	–
Accumulated unrecognised share of losses of the joint ventures	<u>3,508</u>	–

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Amounts due from subsidiaries of joint ventures	<u>588</u>	–

The amounts due from joint ventures are unsecured, interest-free and repayable on demand.

19. AVAILABLE-FOR-SALE INVESTMENT

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Unlisted investment in equity securities, at fair value	<u>28,225</u>	–

The above unlisted equity investment represents an investment in the unlisted equity securities issued by a private entity incorporated in Hong Kong. The Group does not intend to dispose of it in the near future.

The fair value of the unlisted equity securities was arrived at by reference to the valuation performed by Access Partner Professional Services Limited, a firm of independent professional qualified valuers, by using cash flow projections based on the financial budget estimated by board of directors of the investee entity covering a five-year period.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

20. OTHER INTANGIBLE ASSETS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Cost		
At 1 January and at 31 December	<u>3,390</u>	<u>3,390</u>
Accumulated amortisation		
At 1 January	1,894	1,239
Amortisation provided during the year	539	539
Impairment losses recognised in profit or loss (note 14(d))	–	116
	<u>2,433</u>	<u>1,894</u>
At 31 December	<u>2,433</u>	<u>1,894</u>
Carrying amount		
At 31 December	<u>957</u>	<u>1,496</u>

Other intangible assets represent computer software held by the Group. The amortisation charge for the year is included in “administrative expenses” in the consolidated statement of profit or loss and other comprehensive income.

21. INVENTORIES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Raw materials	20,947	22,487
Work in progress	17,275	18,290
Finished goods	92,128	82,041
	<u>130,350</u>	<u>122,818</u>
Provision against slow-moving inventories	<u>(22,745)</u>	<u>(21,687)</u>
	<u>107,605</u>	<u>101,131</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

22. TRADE AND BILLS RECEIVABLES AND INTEREST RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade and bills receivables (note a)	313,851	228,119
Interest receivables (note b)	27,261	–
	<hr/>	<hr/>
Current portion	341,112 (336,871)	228,119 (228,119)
	<hr/>	<hr/>
Non-current portion	4,241	–
	<hr/> <hr/>	<hr/> <hr/>

(a) Trade and bills receivables

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivables	243,218	188,522
Bills receivables	78,623	45,603
	<hr/>	<hr/>
Less: Impairment	321,841 (7,990)	234,125 (6,006)
	<hr/>	<hr/>
	313,851	228,119
	<hr/> <hr/>	<hr/> <hr/>

- (i) The Group's trading terms with its customers are mainly on credit. The credit periods are generally two to four months. Each customer is assigned a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise its credit risk. Overdue balances are reviewed regularly by management. Trade receivables are non-interest-bearing.
- (ii) The bills receivables were all due within 60 to 180 days (2015: 60 to 360 days) from the end of the reporting period.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

22. TRADE AND BILLS RECEIVABLES AND INTEREST RECEIVABLES

(Continued)

(a) Trade and bills receivables (Continued)

- (iii) An ageing analysis of the trade receivables as at the end of the reporting period based on the invoice date is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 90 days	211,478	157,850
91 to 180 days	23,948	24,168
181 to 360 days	426	462
1 to 2 years	1,084	108
2 to 3 years	155	–
Over 3 years	6,127	5,934
	243,218	188,522

- (iv) An ageing analysis of the bills receivables as at the end of the reporting period based on bills issue date is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 90 days	56,668	13,851
91 to 180 days	21,955	31,674
181 to 360 days	–	78
	78,623	45,603

- (v) The movements in the provision for impairment of trade receivables are as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
At 1 January	6,006	5,883
Impairment losses recognised	1,984	379
Reversal of impairment	–	(256)
At 31 December	7,990	6,006

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB7,990,000 (2015: RMB6,006,000) with a carrying amount of RMB7,990,000 (2015: RMB6,006,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are doubtful. The Group does not hold any collateral or other credit enhancements over these balances.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

22. TRADE AND BILLS RECEIVABLES AND INTEREST RECEIVABLES (Continued)

(a) Trade and bills receivables (Continued)

- (vi) An ageing analysis of the trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

Trade receivables

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Neither past due nor impaired	220,634	149,223
Less than 90 days past due	14,271	32,527
91 to 180 days past due	48	557
181 to 360 days past due	256	171
1 to 2 years past due	17	–
Over 2 years past due	2	38
	235,228	182,516
	235,228	182,516

Bills receivables

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Neither past due nor impaired	78,623	45,603
	78,623	45,603

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

The trade receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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.

(b) Interest receivables

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest receivables		
– from third parties	23,020	–
– from a joint venture	4,241	–
	27,261	–
	27,261	–



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

22. TRADE AND BILLS RECEIVABLES AND INTEREST RECEIVABLES

(Continued)

(b) Interest receivables (Continued)

- (i) As at 31 December 2016, the interest receivables were arising from the loan receivables (note 23).
- (ii) As at the end of the reporting period, the ageing analysis of interest receivables, based on the revenue recognition date, is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 90 days	13,913	–
91 to 180 days	8,359	–
181 to 360 days	4,989	–
	<hr/> 27,261 <hr/>	–

- (iii) As at the end of the reporting period, the ageing analysis of interest receivables that are neither individually nor collectively considered to be impaired is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Neither past due nor impaired	22,579	–
Less than 90 days past due	2,284	–
91 to 180 days past due	2,398	–
	<hr/> 27,261 <hr/>	–

Interest receivables are due every one to six months or due on maturity of corresponding loan receivables according to the relevant loan agreements. Receivables that were neither past due nor impaired relate to customers for whom there were no significant history of default.

- (iv) Included in the Group's interest receivables is amount due from a joint venture of the Group of RMB4,241,000 (2015: RMB nil) which is due on 27 September 2018 with a repayment on demand clause which can be exercised at the Group's sole discretion. The directors of the Company are in the opinion that the amount will not be recovered within one year from the end of the reporting period.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

23. LOAN RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Loan receivables from third parties:		
– due within one year	113,476	–
– due after one year	115,641	–
	229,117	–
Less: Impairment	–	–
	229,117	–
Current portion	(113,476)	–
	115,641	–
Non-current portion	115,641	–

(a) The loan receivables comprise of:

- (i) Loan receivable of HK\$120,000,000 (approximate to RMB107,503,000) due from an independent third party borrower (the “Borrower 1”), which is secured by (i) a second charge over the equity interests in each of the Borrower 1 and its subsidiary; (ii) second floating charge of all undertaking, property, assets and rights of a subsidiary of the Borrower 1; and (iii) second deed of assignment and subordination of the indebtedness due by the Borrower 1’s subsidiary to the Borrower 1. The loan receivable is interest-bearing at 22% per annum and repayable after 9 months after the date of drawdown of the loan.
- (ii) Loan receivable of AUD10,000,000 (approximate to RMB50,069,000) due from an independent third party financier (the “Financier 1”) under a sub-participation agreement pursuant to which the Group has agreed to assume a sub-participation of up to AUD10,000,000 (equivalent to approximately RMB50,069,000) for a term of up to 30 September 2018 (the “Loan Facility 1”) in the rights, benefits, interests and obligations of the Financier 1 under a mezzanine facility agreement (the “Mezzanine Facility Agreement 1”).

The Financier 1 entered into Mezzanine Facility Agreement 1 with another independent third parties borrower and guarantors to provide a facility of up to AUD33,500,000 to the borrower (the “Mezzanine Facility 1”). The Mezzanine Facility 1 is secured by (i) the first-ranking freehold mortgage over the land of a residential property development project located in Melbourne, Australia (the “Development Project 1”); (ii) a general security deed given by the borrower and guarantors of the Mezzanine Facility Agreement 1; and (iii) the guarantees provided by a number of individuals and corporate entities associated with the sponsors of the Development Project 1. The Mezzanine Facility 1 is interest-bearing at a range of 18% to 19% per annum and repayable by 30 September 2018.

The Loan Facility 1 is unsecured, interest-bearing at a range of 17.2% to 18.2% per annum and recoverable within 2 business days of receipt by the Financier 1 from the borrower.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

23. LOAN RECEIVABLES (Continued)

(a) (Continued)

- (iii) Loan receivable of AUD12,500,000 (approximate to RMB62,586,000) due from an independent third party financier (the “Financier 2”) under a sub-participation agreement pursuant to which the Group has agreed to assume a sub-participation of up to AUD12,500,000 (equivalent to approximately RMB62,586,000) for a term of up to 22 months (the “Loan Facility 2”) in the rights, benefits, interests and obligations of the Financier 2 under a mezzanine facility agreement (the “Mezzanine Facility Agreement 2”).

The Financier 2 entered into Mezzanine Facility Agreement 2 with another independent third parties borrower and guarantors to provide a facility of up to AUD34,200,000 to the borrower (the “Mezzanine Facility 2”). The Mezzanine Facility 2 is secured by (i) the second-ranking freehold mortgage over the land of a residential property development project located in Queensland, Australia (the “Development Project 2”); (ii) a general security deed given by the borrower and guarantors of the Mezzanine Facility Agreement 2; and (iii) the guarantees provided by a number of individuals and corporate entities associated with the sponsors of the Development Project 2. The Mezzanine Facility 2 is interest-bearing at 18% per annum and repayable by 21 May 2018.

The Loan Facility 2 is unsecured, interest-bearing at 15.5% per annum and recoverable within 7 business days of receipt by the Financier 2 from the borrower.

- (iv) Loan receivable of HK\$10,000,000 (approximate to RMB8,959,000) due from an independent third party borrower (the “Borrower 2”), which is secured by (i) charge over the equity interests in the Borrower 2 and 11.7% equity interests in a subsidiary of Borrower 2; and (ii) personal guarantees provided by the members of Borrower 2. The loan receivable is interest-bearing at 10.5% per annum and repayable by three installments every six months with final due date on 19 April 2018.
- (b) There is no movement in the provision for impairment of loan receivables during the years ended 31 December 2016 and 2015.
- (c) All of the loan receivables were neither past due nor impaired and relate to creditworthy borrowers for whom there was no significant history of default.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Prepayments to suppliers	3,545	1,908
Prepaid land lease payment (note 16)	490	488
Other prepaid expenses	72	601
Deposits paid for acquisition of property, plant and equipment	732	6,097
Rental deposits	2,217	–
Other deposits	2,190	1,684
Other tax receivables	240	3,227
Other receivables	2,800	975
Derivative financial instruments		
– forward foreign exchange contracts (note 40(d))	1,398	–
	13,684	14,980
Impairment (note)	(980)	(386)
	12,704	14,594
Representing:		
Current	9,755	8,497
Non-current	2,949	6,097
	12,704	14,594

Note:

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
At 1 January	386	386
Uncollectible amounts written off	(386)	–
Impairment losses recognised	980	–
	980	386

Included in the above provision for impairment of other receivables is a provision for individually impaired other receivables of RMB980,000 (2015: RMB386,000) with a carrying amount of RMB980,000 (2015: RMB386,000). The individually impaired other receivables relate to debtors that were in financial difficulties and are doubtful. The Group does not hold any collateral or other credit enhancements over these balances.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

25. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Cash and bank balances	60,681	87,904
Amounts receivable from banks for wealth management products purchased (note c)	69,022	6,000
Time deposits	18,186	378,264
	147,889	472,168
Less: Pledged bank deposits for bills payable (note 26(d))	(4,858)	(7,525)
Pledged bank deposits for letter of credit	(8,558)	–
Pledged bank deposits for derivative financial instruments (note d)	(4,770)	–
	129,703	464,643
Add: Bank deposits with original maturity of less than three months when acquired:		
Pledged for bills payable and letters of credit	4,772	7,525
Pledged for derivative financial instruments	650	–
	5,422	7,525
Cash and cash equivalents in the consolidated statement of cash flows	135,125	472,168

Notes:

- (a) At the end of the reporting period, the Group's cash and bank balances, time deposits and wealth management products denominated in RMB amounted to RMB80,110,000 (2015: RMB40,192,000). The 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.
- (b) Cash at banks and pledged bank deposits earn interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between three months to one year depending on the immediate cash requirements of the Group and earn interest at the respective time deposit rates. The bank balances and pledged bank deposits are deposited with creditworthy banks. The carrying amounts of the cash and bank balances and the pledged bank deposits approximate their fair values.
- (c) This represents the RMB wealth management products purchased by the Group from Industrial and Commercial Bank of China and China Merchants Bank during the years ended 31 December 2016 and 2015 respectively. The return of total principals of RMB69,022,000 (2015: RMB6,000,000) is guaranteed. Given that the amounts of return of these wealth management products are determinable by known amounts of cash and there is no fixed maturity dates, the Group has recorded the amounts as cash equivalents.
- (d) At the end of the reporting period, the Group's derivative financial instruments were RMB1,398,000 (2015: nil) (note 24) and RMB355,000 (2015: nil) (note 27), which are secured by the pledged bank deposits of RMB4,770,000 (2015: nil).



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

26. TRADE AND BILLS PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade payables	96,800	102,656
Bills payables	16,235	18,584
	113,035	121,240

- (a) An ageing analysis of the trade payables as at the end of the reporting period based on the suppliers statements date is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 90 days	84,326	93,731
91 to 180 days	10,822	7,912
181 to 360 days	664	497
1 to 2 years	487	382
Over 2 years	501	134
	96,800	102,656

- (b) The trade payables are non-interest-bearing and are normally settled within 30 to 120 days.

- (c) An ageing analysis of the bills payables as at the end of the reporting period based on bills issue date is as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 90 days	16,095	14,660
91 to 180 days	140	3,924
	16,235	18,584

- (d) At 31 December 2016, included within trade and bills payable were bills payable of RMB16,235,000 (2015: RMB18,584,000) being secured by the pledged bank deposits of approximately RMB4,858,000 (2015: approximately RMB7,525,000).



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

27. DEFERRED INCOME, ACCRUALS AND OTHER PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Accruals	6,065	4,069
Salary payable	29,186	19,815
Other payables for acquisition of property, plant and equipment	7,765	6,336
Due to a non-controlling party of a non-wholly-owned subsidiary	205	–
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	43,221	30,220
Deferred income (note 28)	888	374
Other tax payable	7,610	6,862
Derivative financial instruments		
– forward foreign exchange contracts (note 40(d))	355	–
	<hr/>	<hr/>
	52,074	37,456
	<hr/> <hr/>	<hr/> <hr/>

The amount due to a non-controlling party of a non-wholly-owned subsidiary is unsecured, interest-free and repayable on demand.

28. DEFERRED INCOME Government grants

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Carrying amount at 1 January	23,903	24,732
Granted during the year	9,999	–
Released as income (note 7)	(957)	(829)
	<hr/>	<hr/>
Carrying amount at 31 December	32,945	23,903
Current portion included in deferred income, accruals and other payables (note 27)	(888)	(374)
	<hr/>	<hr/>
Non-current portion	32,057	23,529
	<hr/> <hr/>	<hr/> <hr/>

The government grants have been received from various government authorities specifically for the purchases of qualified plant and equipment in respect of the production of MLCC. Except for the condition that the government grants must be specifically used for the purchases of qualified plant and equipment in respect of the production of MLCC, there are no other conditions attached to these grants.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

29. BANK AND OTHER LOANS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Bank loans:		
Secured and repayable within one year	60,000	70,002
Other loans:		
Unsecured and repayable within one year	2,526	–
Unsecured and repayable after one year but within two years	272,999	–
	335,525	70,002
Less: Current portion	(62,526)	(70,002)
Non-current portion	272,999	–

- (a) The Group's bank loans and bank facilities are secured by:
- (i) certain buildings, prepaid land lease payments, investment properties and trade and bills receivables of the Group with carrying amounts of approximately RMB58,871,000, RMB10,869,000, RMB15,479,000 and RMB222,574,000 respectively as at 31 December 2016 (2015: approximately RMB47,559,000, RMB11,131,000, RMB21,828,000 and RMB195,580,000 respectively);
 - (ii) all equity interests in Anhui Jineyang Electronic Technology Co., Ltd., a wholly-owned subsidiary of the Company;
 - (iii) a corporate guarantee of approximately HK\$100,000,000 (equivalent to RMB89,586,000) (2015: RMB nil) executed by the Company; and
 - (iv) a personal guarantee provided by a key management personnel of the Group as to the bank loan of RMB20,000,000 (2015: RMB nil).
- (b) The bank and other loans of approximately RMB62,526,000 (2015: RMB60,000,000), RMB nil (2015: RMB10,002,000) and RMB272,999,000 (2015: RMB nil) are denominated in RMB, United States dollars ("US\$") and Hong Kong dollars ("HK\$"), respectively.
- (c) The carrying amounts of the bank and other loans approximate their fair values.
- (d) Of the total bank loans, RMB20,000,000 and RMB40,000,000 were arranged at floating rates and fixed rates, respectively, ranging from 4.95%-5.40% (2015: all bank loans with floating rates ranging from 2.07%-5.58%).
- (e) The other loans comprise of outstanding principal and interests of RMB271,258,000 (2015: RMB nil) and RMB4,267,000 (2015: RMB nil), respectively, which are due to the independent third parties to the Group. The principal of the other loans bear interest at the rate of 6% per annum.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

30. BOND PAYABLE

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Bond payable		
– repayable within one year	397,762	–
– repayable after one year but within two years	–	345,693
	<u>397,762</u>	<u>345,693</u>

The bond payable comprise of outstanding principal and interests of RMB358,344,000 (2015: RMB335,624,000) and RMB39,418,000 (2015: RMB10,069,000) respectively and the bond payable is denominated in Hong Kong dollars (“HK\$”).

On 14 August 2015, a wholly-owned subsidiary of the Company issued a two-year corporate bond with a principal amount of HK\$400,000,000 (equivalent to approximately RMB329,620,000) to an independent third party at an issue price equal to the face value of the bond. The bond is secured by all equity interests in two wholly-owned subsidiaries of the Company and is repayable on 13 August 2017, the maturity date of the bond. The principal of the bond payable bears interest at the rate of 8% per annum.

The Group may at any time after the first anniversary of the issue date of the bond to the maturity date to early redeem the whole outstanding bond payable, including the principal amount of HK\$400,000,000 and the interest accrued thereon, with the prior written consent from the bond holder provided that not less than 15 days’ advance notice of such redemption intention shall have been given to the bond holder.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

31. OBLIGATIONS UNDER FINANCE LEASE

At 31 December 2016, the Group had obligations under finance lease repayable as follows:

	2016		2015	
	Present value of the minimum lease payments <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>	Present value of the minimum lease payments <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>
Within 1 year	115	128	–	–
After 1 year but within 2 years	118	128	–	–
After 2 years but within 5 years	299	308	–	–
	417	436	–	–
	532	564	–	–
Less: Total future interest expenses		(32)		–
Present value of lease obligations		532		–

The obligations under finance lease is denominated in Hong Kong dollars.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

32. DEFERRED TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Deferred tax assets recognised

	Provision against slow-moving inventories <i>RMB'000</i>	Impairment of trade and other receivables <i>RMB'000</i>	Impairment of items of property, plant and equipment <i>RMB'000</i>	Impairment of other intangible assets <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2015	5,508	1,471	2,166	–	9,145
(Charged)/credited to the consolidated statement of profit or loss and other comprehensive income during the year (note 9)	(87)	31	3,146	29	3,119
At 31 December 2015 and 1 January 2016	5,421	1,502	5,312	29	12,264
Credited to the consolidated statement of profit or loss and other comprehensive income during the year (note 9)	265	550	12,674	–	13,489
At 31 December 2016	5,686	2,052	17,986	29	25,753

(b) Deferred tax liabilities recognised

	Withholding taxes <i>RMB'000</i>
At 1 January 2015	3,634
Credited to the consolidated statement of profit or loss and other comprehensive income during the year (note 9)	(454)
At 31 December 2015 and 1 January 2016	3,180
Charged to the consolidated statement of profit or loss and other comprehensive income during the year (note 9)	282
At 31 December 2016	3,462



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

32. DEFERRED TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax liabilities recognised (Continued)

Pursuant to the PRC Enterprise 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 is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2016, there was no significant unrecognised deferred tax liability (2015: nil) for taxes that would be payable on the unremitted earnings of certain Group's subsidiaries.

(c) Deferred tax assets not recognised

As at 31 December 2016, the Group has unused tax losses of approximately RMB20,474,000 (2015: RMB9,737,000) available for offset against future profits. No deferred tax was recognised in the consolidated statement of financial position as at 31 December 2016 (2015: nil) since it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Included in unrecognized tax losses as follows:

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Unrecognized tax losses will expire in:		
2016	–	3,335
2017	2,037	2,037
2018	1,554	1,554
2019	1,878	1,878
2020	933	933
2021	4,734	–
	11,136	9,737
Unrecognized tax losses without expiry date	9,338	–
	20,474	9,737



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

33. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Share options

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include (a) any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (b) a director or proposed director (including an independent non-executive director) of any member of the Group; (c) a direct or indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and (g) an associate of any of the foregoing persons. The Scheme became effective on 30 November 2007 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme shall not exceed 10% of the Shares in issue as at the date of listing of the Shares on the Main Board of the Stock Exchange (which is 21 December 2007) (the “Scheme Mandate Limit”) provided that the Company may at any time as the Board may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all share options to be granted under the Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as at the date of approval by the shareholders of the Company in general meeting where the Scheme Mandate Limit is refreshed. The maximum number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share options granted and yet to be exercised under any other schemes shall not exceed 30% of the Company’s issued share capital from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

The total number of securities available for issue under the share option scheme as at 31 December 2016 was nil (2015: nil) shares which represented approximately 0% (2015: 0%) of the issued share capital of the Company at 31 December 2016.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company’s shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

33. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(a) Share options (Continued)

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 per grant by the grantee. The exercise period of the share options granted under the Scheme is determinable by the directors of the Company, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options or the expiry of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than whichever the highest of (i) the nominal value of the Company's shares; (ii) the Stock Exchange closing price of the Company's shares on the date of grant of the share options; and (iii) the average Stock Exchange closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

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

Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

The number and weighted average exercise prices of share options are as follows:

	2016		2015	
	Weighted average exercise price per share	Number of shares issuable under options	Weighted average exercise price per share	Number of shares issuable under options
Outstanding at 1 January	-	-	HK\$1.052	13,700,000
Lapsed during the year	-	-	HK\$1.052	(3,800,000)
Exercised during the year [#]	-	-	HK\$1.052	(9,900,000)
Outstanding at 31 December		-		-
Exercisable at 31 December		-		-

[#] The weighted average share price on the dates of exercise for share options exercised during the year ended 31 December 2015 was HK\$2.07.

There is no share option outstanding as at 31 December 2016 and 2015.

(b) Share award

A share award arrangement was entered into by Mr. Huang and Cosmic Riches Investments Limited ("Cosmic Riches"), a shareholder of the Company, on 29 April 2016, pursuant to which Mr. Huang acquired 49,600,350 shares of the Company ("Interested Shares") from Cosmic Riches at a consideration of HK\$101,681,000 (equivalent to approximately RMB86,690,000), which is payable by five yearly instalments and is offset by the yearly sign-on bonus of the same amount for five years granted by Cosmic Riches to Mr. Huang as an incentive to join the Company. The Interested Shares are subject to a lock-up period of five years and maximum of 20% of the Interested Shares may be disposed of in each year thereafter. The vesting of Interested Shares is five years.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

33. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (Continued)

(b) Share award (Continued)

The average fair value of each Interested Share of HK\$1.53 is estimated by using the fair value (that is market value) of the Company's share closing price at the date of grant less the cost for securing put options ("Put Options"). The Black-Scholes Option Pricing Model was employed in deriving the fair value of the Put Options which was estimated on the date of grant using the following assumptions:

Expected volatility (%)	64.67%–73.90%
Risk free interest rate (%)	1.54%–1.77%
Lock-up period (years)	6–10 years

34. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

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

The Group also participates in a state-managed retirement benefit scheme operated by the government of the PRC. The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to profit or loss of RMB11,561,000 (2015: RMB9,258,000) represents contributions paid to these schemes by the Group for the year ended 31 December 2016. As at 31 December 2016, there were no material forfeitures available to offset the Group's future contributions (2015: nil).



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		4	5
Investments in subsidiaries		252,191	275,817
		252,195	275,822
Current assets			
Due from subsidiaries		548,585	109,293
Deposits and prepayments		209	158
Cash and bank balances		116	415,261
		548,910	524,712
Current liabilities			
Accruals and other payables		1,359	809
Dividends payable		88	88
Due to subsidiaries		412,275	360,196
		413,722	361,093
Net current assets		135,188	163,619
NET ASSETS		387,383	439,441
CAPITAL AND RESERVES			
Share capital	36(a)	4,571	4,571
Reserves	36(b)	382,812	434,870
TOTAL EQUITY		387,383	439,441



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

36. CAPITAL AND RESERVES

(a) Share capital

(i) Authorised and issued share capital

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Authorised:		
1,000,000,000 ordinary shares of HK\$0.01 each	<u>10,000</u>	<u>10,000</u>
Issued and fully paid:		
At the beginning of the year 496,500,000 (2015: 405,500,000) ordinary shares of HK\$0.01 each	4,965	4,055
Shares issued under share option scheme (9,900,000 ordinary shares of HK\$0.01 each)	–	99
Shares issued upon placing of shares (81,100,000 ordinary shares of HK\$0.01 each)	–	811
At the end of the year 496,500,000 ordinary shares of HK\$0.01 each	<u>4,965</u>	<u>4,965</u>
Equivalent to RMB'000	<u>4,571</u>	<u>4,571</u>

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Shares issued under share option scheme

During the year ended 31 December 2016, no share option was exercised.

During the year ended 31 December 2015, share options were exercised to subscribe for 9,900,000 ordinary shares of the Company at a total consideration of HK\$10,415,000 (equivalent to approximately RMB8,354,000), of which HK\$99,000 (equivalent to approximately RMB80,000) was credited to share capital and HK\$10,316,000 (equivalent to approximately RMB8,274,000) was credited to share premium account and RMB2,835,000 was transferred from the share option reserve to the share premium account.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

36. CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

(iii) Shares issued upon placing of shares

During the year ended 31 December 2016, no share was issued under placing of shares.

On 7 September 2015, the Company entered into a placing agreement with a placing agent pursuant to which the Company agreed to place, through the placing agent, 81,100,000 new shares of the Company to not less than six independent placees at the placing price of HK\$1.15 per placing share. On 23 September 2015, the placing of the shares was completed and 81,100,000 new shares of the Company were issued to not less than six independent placees. Of the net proceeds of approximately HK\$90,813,000 (equivalent to approximately RMB74,728,000) from the issue of the shares upon placing, approximately HK\$811,000 (equivalent to approximately RMB667,000) was credited to share capital and the remaining balance of approximately HK\$90,002,000 (equivalent to approximately RMB74,061,000) was credited to share premium account.

(b) Capital and 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 of the financial statements.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Attributable to owners of the Company					Total equity RMB'000
	Share capital RMB'000	Share premium account RMB'000	Contributed surplus RMB'000	Share option reserve RMB'000	Accumulated loss RMB'000	
At 1 January 2015	3,824	104,657	364,952	3,923	(73,356)	404,000
Loss and total comprehensive loss for the year	-	-	-	-	(47,641)	(47,641)
Shares issued upon placing of shares	667	74,061	-	-	-	74,728
Shares issued under share option scheme	80	11,109	-	(2,835)	-	8,354
Transfer to accumulated loss upon lapse of share options	-	-	-	(1,088)	1,088	-
At 31 December 2015	4,571	189,827	364,952	-	(119,909)	439,441
At 1 January 2016	4,571	189,827	364,952	-	(119,909)	439,441
Loss and total comprehensive loss for the year	-	-	-	-	(62,244)	(62,244)
Deemed contributed from owner for the share-award transactions (note 33(b))	-	-	10,186	-	-	10,186
At 31 December 2016	4,571	189,827	375,138	-	(182,153)	387,383



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

36. CAPITAL AND RESERVES (Continued)

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Contributed surplus

The contributed surplus of the Group represents:

- the difference of RMB203,536,000 being the excess of the nominal value of the shares and contributed surplus of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the Company's shares issued in exchange therefor;
- the deficit of RMB2,823,000 arising from the acquisition of Dongguan Eyang Technology Development Co., Ltd. ("DG Eyang") from the non-controlling shareholders of DG Eyang;
- the deficit of RMB1,774,000 arising from the disposal of Shenzhen Eycom Technology Co., Ltd. to the related party;
- the credit of RMB9,468,000 arising from the deemed contribution from the shareholders when acquiring Shenzhen Eyang Energy Company Limited and its subsidiary (the "Energy Group") during the year ended 31 December 2012;
- the deficit of RMB650,000 arising from deemed distribution to the shareholders when disposing the Energy Group during the year ended 31 December 2013; and
- the credit of RMB10,186,000 arising from the deemed contribution from the shareholder when Mr. Huang, the Executive Director, Chairman and Chief Executive Officer of the Company, acquired 49,600,000 shares of the Company from the shareholder, during the year ended 31 December 2016 as more fully described in notes 10 and 33(b).

(iii) Share option reserve

The share option reserve comprises the portion of the fair value of unexercised share options granted that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(r)(ii).

(iv) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 2(v).



36. CAPITAL AND RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(v) Statutory reserve

Pursuant to applicable PRC regulations, certain PRC subsidiaries in the Group are required to appropriate 10% of their profit after tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of their registered capital. Transfers to the reserve must be made before distribution of dividends to shareholders. Upon approval by relevant authorities, the statutory reserve can be utilised to offset the accumulated loss or to increase the registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(d) 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 maximize shareholders' value.

The Group is not subject to any externally imposed capital requirements except for one subsidiary licensed by the Securities and Futures Commission are obliged to meet the regulatory liquid capital requirements under the Securities and Futures (Financial Resources) Rules ("FRR") at all times.

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 payment to shareholders, return capital to shareholders or issue new shares. For the licensed subsidiary, the Group ensures the licensed subsidiary maintains a liquid capital level adequate to support the level of activities with sufficient buffer to accommodate for increase in liquidity requirements arising from potential increase in the level of business activities. During the financial year, the licensed subsidiary complied with the liquid capital requirements under the FRR at all times. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

36. CAPITAL AND RESERVES (Continued)

(d) Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt is calculated as the sum of bank and other loans, bond payable, obligations under finance lease, trade and bills payables, and accruals and other payables (excluding deferred income) less cash and cash equivalents. Capital represents equity attributable to owners of the Company (excluding share capital). The Group's policy is to keep the gearing ratio at a reasonable level. The gearing ratios as at the end of the reporting periods are as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Bank and other loans	335,525	70,002
Bond payable	397,762	345,693
Obligations under finance lease	532	–
Trade and bills payables	113,035	121,240
Accruals and other payables	51,186	37,082
Less: Cash and cash equivalents (note 25)	<u>(135,125)</u>	<u>(472,168)</u>
Net debt	762,915	101,849
Total equity excluding share capital	<u>371,594</u>	438,219
Equity and net debt	<u><u>1,134,509</u></u>	<u><u>540,068</u></u>
Gearing ratios	<u><u>67%</u></u>	<u><u>19%</u></u>

37. COMMITMENTS

(a) Operating lease commitments

(i) The Group as lessor

The Group leases its investment properties (note 15) under operating lease arrangements. Leases are negotiated for terms ranging from one to twenty years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases receivable as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within one year	2,107	6,175
After one year but within five years	2,365	1,114
After five years	–	504
	<u><u>4,472</u></u>	<u><u>7,793</u></u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

37. COMMITMENTS (Continued)

(a) Operating lease commitments (Continued)

(ii) The Group as lessee

The Group leases certain of its factories and office premises under operating lease arrangements. Leases for properties are negotiated for terms of two to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

At 31 December 2016, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within one year	4,465	141
After one year but within five years	6,698	–
	<hr/> 11,163	<hr/> 141

(b) Capital commitments

Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Contracted for:		
Plant and machinery	3,241	14,271
Investment in an associate	100	–
	<hr/> 3,341	<hr/> 14,271



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

38. RELATED PARTY TRANSACTIONS AND BALANCES

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year and balances with related parties at the end of the reporting period:

(a) Recurring transactions

Name of parties	Nature of transactions	2016 RMB'000	2015 RMB'000
Dongguan Guangtong Enterprise Co., Ltd. ("DG Guangtong") (東莞市光通實業有限公司) (i)	Rental income received from DG Guangtong (iv)(vi)	–	38
	Purchase of materials from DG Guangtong (v)	–	1,318
Shenzhen Eycom Technology Co., Ltd. ("SZ Eycom") (ii)	Sale of MLCC to SZ Eycom (v)	54	2,761
	Rental income received from SZ Eycom (iv)(vi)	174	1,736
Anhui Century Eycom Digital Technology Co., Ltd ("Anhui Eycom") (安徽世紀億通數碼科技有限公司) (iii)	Rental income received from Anhui Eycom (iv) (vi)	19	205
	Management fee income received from Anhui Eycom (iv)	16	267
UBL	Interest income from UBL (vii)	<u>4,036</u>	–

Notes:

- (i) The shareholders of DG Guangtong are the brother and sisters of Mr. Chen Weirong ("Mr. Chen"), a director of a principal subsidiary and a key management personnel of the Group.
- (ii) One of the ultimate shareholders of SZ Eycom is Mr. Chen.
- (iii) One of the ultimate shareholders of Anhui Eycom is Mr. Chen.
- (iv) The tenancy agreements entered into between the Group and the related parties and the management fee are based on mutually agreed terms.
- (v) The transactions were conducted in accordance with terms mutually agreed by the parties.
- (vi) No operating lease commitment as lessor at 31 December 2016 (2015: RMB1,099,000) as set out in note 37(a)(i).
- (vii) The interest income is arising from loan receivable from joint venture detailed in note 18.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Outstanding balances with related parties

	2016	2015	Maximum amount outstanding	
	<i>RMB'000</i>	<i>RMB'000</i>	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Due from				
DG Guangtong	-	-	-	1,313
Dongguan Deyang Industrial Co. Ltd.	-	-	-	72
SZ Eycom	-	-	850	2,684
Anhui Eycom	-	-	130	190
Shenzhen Eyang Energy Company Ltd ("Eyang Energy") (i)	-	-	-	2,660
Due from subsidiaries of joint ventures (iii)	588	-	588	-
UBL (iii)	272,999	-	272,999	-
	273,587	-		

Notes:

- (i) The director of Eyang Energy is Mr. Chen.
- (ii) The carrying amounts of these balances approximate their fair values.
- (iii) Details of the terms and conditions of the amounts due from joint ventures and loan and interest receivables from the joint venture are disclosed in notes 18 and 22 respectively.
- (iv) All outstanding balances with related parties will be settled in cash. No guarantees have been given or received. RMB980,000 (2015: RMB nil) has been recognised in the year ended 31 December 2016 for bad or doubtful debts in respect of the amounts owed by related parties.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Key management personnel remuneration

The key management personnel include directors of the Company (the remuneration for them disclosed in note 10) and Mr. Chen, as follows:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Short-term employee benefits	10,821	1,597
Post-employment benefits	80	43
Equity compensation benefits	9,694	–
	20,595	1,640

Total remuneration is included in “staff costs” (see note 8(b)).

39. PARTICULAR OF SUBSIDIARIES OF THE COMPANY

Particulars of the principal subsidiaries as at 31 December 2016 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Eyang Management Co., Ltd.	BVI/HK	10,000 ordinary shares of US\$1 each	100	–	Investment holding
Hong Kong Eyang Holdings (Group) Co., Ltd. (香港宇陽控股(集團)有限公司)	HK/The PRC	10,000 ordinary shares	–	100	Investment holding and trading of MLCC
Hong Kong Eyang Technology Co., Ltd. (香港宇陽科技有限公司)	HK/PRC	500,000 ordinary shares	–	100	Trading of MLCC
SZ Eyang*	PRC/PRC	Registered capital of RMB350,000,000	–	100	Manufacture and sale of MLCC
Dongguan Eyang Technology Development Co., Ltd. ("DG Eyang") (東莞市宇陽科技發展有限公司)*	PRC/PRC	Registered capital of RMB20,000,000	–	100	Lease of properties and trading of MLCC
Anhui Jineyang Electronic Technology Co., Ltd. (安徽金宇陽電子科技有限公司)*	PRC/PRC	Registered capital of RMB5,000,000	–	100	Manufacture of MLCC



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

39. PARTICULAR OF SUBSIDIARIES OF THE COMPANY (Continued)

Name	Place of incorporation/ operation	Issued and fully paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
NER Management Ltd.	BVI/HK	1 ordinary share of US\$1 each	100	–	Inactive
Eyang Energy Management Co., Limited	BVI/HK	100 ordinary shares of US\$1 each	100	–	Investment holding
Shenzhen Weichang New Energy Co., Ltd. (深圳市威長新能源有限公司)*	PRC/PRC	Registered capital of HK\$3,000,000	–	100	Investment holding
EY Management Services Limited	HK/HK	1 ordinary share	–	100	Trading of commodities and financial investment
Tianli Financial Group Limited	Cayman Islands/HK	1 ordinary share of US\$1 each	100	–	Investment holding
Most Glorious Limited	BVI/HK	100 ordinary shares of US\$1 each	100	–	Financial investment
Tianli Financial Holdings Limited	HK/HK	2,000,000 ordinary shares	–	100	Investment holding and provision of financial services
Noble Sky Investment Limited	BVI/Macau	10,000 ordinary shares of US\$1 each	–	100	Financial investment
Tianhe Medical Investment Limited	BVI/HK	1,000 ordinary shares of US\$1 each	–	50.7	Investment holding
First Promise Limited	BVI/HK	100 ordinary shares of US\$1 each	–	50.7	Financial investment
Tianli Investment Trading Limited	HK/HK	1 ordinary share	–	100	Trading of commodities



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

39. PARTICULAR OF SUBSIDIARIES OF THE COMPANY (Continued)

Name	Place of incorporation/ operation	Issued and fully paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Celestial Hope Limited	BVI/HK	10,000 ordinary shares of US\$1 each	–	100	Investment holding
深圳盛騰資產管理有限公司*	PRC/PRC	Paid-up capital of RMB nil out of registered capital of RMB5,000,000	–	100	Financial technology
瑾融資產管理(深圳)有限公司#	PRC/PRC	Paid-up capital of RMB nil out of registered capital of RMB5,000,000	–	100	Inactive
深圳市天望諮詢合夥企業® (有限合夥)	PRC/PRC	Paid-up capital of RMB nil out of registered capital of RMB5,000,000	–	100	Inactive
深圳天譽投資合夥企業® (有限合夥)	PRC/PRC	Paid-up capital of RMB nil out of registered capital of RMB5,000,000	–	100	Inactive
深圳市天盛諮詢管理合夥企業® (有限合夥)	PRC/PRC	Paid-up capital of RMB nil out of registered capital of RMB5,000,000	–	100	Inactive



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

39. PARTICULAR OF SUBSIDIARIES OF THE COMPANY (Continued)

Name	Place of incorporation/ operation	Issued and fully paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
深圳市香納商業保理有限公司#	PRC/PRC	Paid-up capital of RMB nil out of registered capital of RMB10,000,000	-	70	Inactive
深圳市天農科技有限公司^	PRC/PRC	Paid-up capital of RMB70,000,000 out of registered capital of RMB100,000,000	-	70	Financial technology
天榆諮詢(深圳)有限公司*	PRC/PRC	Paid-up capital of RMB2,500,000 out of registered capital of RMB5,000,000	-	100	Investment holding
深圳潤利投資管理有限公司#	PRC/PRC	Paid-up capital of RMB2,500,000 out of registered capital of RMB10,000,000	-	100	Financial investment

* These companies were established in the PRC in the form of wholly-foreign-owned enterprises.

These companies were established in the PRC as PRC domestic-invested companies.

@ These companies were established in the PRC in the form of limited partnership.

^ This company was established in the PRC in the form of sino-foreign equity joint venture.

The English name of companies established in the PRC are for identification purpose only.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include the followings:

Categories of financial instruments

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Financial assets		
Trade and bills receivables and interest receivables	341,112	228,119
Loan receivables from independent third parties	229,117	–
Loan receivables from joint ventures	268,758	–
Other receivables	1,820	975
Due from joint ventures	588	–
Pledged bank deposits	18,186	7,525
Cash and bank balances	129,703	464,643
	<hr/>	<hr/>
Loans and receivables	989,284	701,262
	<hr/> <hr/>	<hr/> <hr/>
Available-for-sale investment	28,225	–
	<hr/> <hr/>	<hr/> <hr/>
Derivative financial instruments	1,398	–
	<hr/>	<hr/>
Financial assets at fair value through profit or loss	1,398	–
	<hr/> <hr/>	<hr/> <hr/>
Financial liabilities		
Trade and bills payables	113,035	121,240
Accruals and other payables	43,221	30,220
Bank and other loans	335,525	70,002
Bond payable	397,762	345,693
Obligations under finance lease	532	–
Dividends payable	88	88
	<hr/>	<hr/>
Financial liabilities measured at amortised cost	890,163	567,243
	<hr/> <hr/>	<hr/> <hr/>
Derivative financial instruments	355	–
	<hr/>	<hr/>
Financial liabilities at fair value through profit or loss	355	–
	<hr/> <hr/>	<hr/> <hr/>



40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

The Group's principal financial instruments comprise bank and other loans, bond payable, and cash and bank balances and pledged bank deposits. The main purpose of these financial instruments is to raise/provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and interest receivables, loan receivables, trade and bills and other payables, which arise directly from its operations. The Group also invests in available-for-sale investment.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Fair values

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group has a team headed by the finance manager with the assistance of independent valuers to perform valuations for the financial instruments, including available-for-sale investment which is categorised into Level 3 of the fair value hierarchy. The team reports directly to the Executive Directors and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the Executive Directors. Discussion of the valuation process and results with the Executive Directors and the audit committee is held at least twice a year, to coincide with the reporting dates.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

(a) Fair values (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

	Fair value at 31 December 2016 RMB'000	Fair value measurements as at 31 December 2016 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurements				
Assets:				
Available-for-sale investment				
– Unlisted	28,225	–	–	28,225
Derivative financial instruments:				
– Forward foreign exchange contracts	1,398	–	1,398	–
	<u>29,623</u>	<u>–</u>	<u>1,398</u>	<u>28,225</u>
Liabilities:				
Derivative financial instruments:				
– Forward foreign exchange contracts	355	–	355	–



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Fair values (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

	Fair value at 31 December 2015 <i>RMB'000</i>	Fair value measurements as at 31 December 2015 categorised into		
		Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>
Recurring fair value measurements				
Assets:				
Available-for-sale investment				
— Unlisted	—	—	—	—
Derivative financial instruments:				
— Forward foreign exchange contracts	—	—	—	—
	—	—	—	—
<hr style="border-top: 1px solid black;"/>				
Liabilities:				
Derivative financial instruments:				
— Forward foreign exchange contracts	—	—	—	—
	—	—	—	—
<hr style="border-top: 1px solid black;"/>				

During the years ended 31 December 2015 and 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of forward foreign exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

(a) Fair values (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Rate
Unlisted available-for-sale investment	Discounted cash flow	Discount for lack of marketability (note 1)	20% (2015: not applicable)
		Discount for lack of control (note 2)	15% (2015: not applicable)
		Weighted average cost of capital (note 3)	20% (2015: not applicable)
		Long-term revenue growth rate (note 4)	3% (2015: not applicable)
		Long-term per-tax operating margin (note 5)	30% (2015: not applicable)

The fair value of unlisted available-for-sale investment is determined using the discounted cash flow adjusted for lack of marketability discount and lack of control discount. The fair value measurement is negatively correlated to the discount for lack of marketability, lack of control discount and weighted average cost of capital.

Notes:

- (1) At 31 December 2016, it is estimated that a general increase/decrease of discount for lack of marketability by 3% (2015: not applicable), with all other variables held constant, would have decreased/increased the Group's other comprehensive income by approximately RMB1,308,000 (2015: nil).
- (2) At 31 December 2016, it is estimated that a general increase/decrease of discount for lack of control by 3% (2015: not applicable), with all other variables held constant, would have decreased/increased the Group's other comprehensive income by approximately RMB1,308,000 (2015: nil).
- (3) At 31 December 2016, it is estimated that a general increase/decrease of weighted average cost of capital by 3% (2015: not applicable), with all other variables held constant, would have decreased/increased the Group's other comprehensive income by approximately RMB7,149,000 (2015: nil).
- (4) At 31 December 2016, it is estimated that a general increase/decrease of long-term revenue growth rate by 3% (2015: not applicable), with all other variables held constant, would have increased/decreased the Group's other comprehensive income by approximately RMB1,552,000 (2015: nil).
- (5) At 31 December 2016, it is estimated that a general increase/decrease of long-term pre-tax operating margin by 3% (2015: not applicable), with all other variables held constant, would have increased/decreased the Group's other comprehensive income by approximately RMB1,798,000 (2015: nil).



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Fair values (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

Information about Level 3 fair value measurements (Continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	Unlisted available-for-sale investment RMB'000
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Purchases	28,225
	<hr/>
At 31 December 2016	28,225
	<hr/> <hr/>

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2016 and 2015.

(b) Credit risk

- (i) Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.
- (ii) In respect of trade and other receivables and amounts due from related parties, in order to minimise the credit risk, the management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis. Ongoing credit evaluation is performed on the financial condition of debtors. These evaluations focus on the debtors' past history of making payments when due and current ability to pay, and take into account information specific to the debtor as well as pertaining to the economic environment in which the debtor operates. The Group does not require collateral in respect of its financial assets. Trade receivables are usually due within 2 to 4 months from the date of billing.
- (iii) In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group has a certain concentration of credit risk as 17% (2015: 4%) and 39% (2015: 17%) of the trade and bills receivables were due from the Group's largest customer and the five largest customers respectively. Taking into account the creditworthiness of the Group's customers, the credit risk measures and the historical levels of the bad debts, the directors consider that such concentration of credit risk would not result in significant credit default exposure to the Group.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

(b) Credit risk (Continued)

- (iv) The Group has taken measures to identify credit risks arising from loan receivables. The Group conducts debtor acceptance and due diligence prior to the approval of the loan transactions.

The management of the Group monitors the credit risk on an ongoing basis. Ongoing credit evaluation is performed on the financial condition of debtors. These evaluations focus on the debtors' current ability to pay, and take into account information specific to the debtor as well as pertaining to the economic environment in which the debtor operates. Based on the evaluations, management believes that no impairment allowance is necessary in respect of the loan receivables and interest receivables as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

- (v) In respect of loan receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each debtor and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual debtors. At the end of the reporting period, 54% (2015: nil) and 100% (2015: nil) of the total loan receivables was due from the Group's largest loan debtor and the five largest loan debtors respectively.
- (vi) In respect of the credit risk on liquid funds, the risk is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivables and interest receivables are set out in note 22 and credit risk arising from loan receivables are set out in note 23.

(c) Interest rate risk

The Group's interest rate risk arises primarily from loan receivables, bank deposits, bank and other loans and bond payable.

Bank deposits and bank loans at variable rates and time deposits, loan receivables, bank and other loans and bond payable at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The management continuously monitors interest rate fluctuation and will consider further hedging interest rate risk should the need arise.

Bank deposits are carried at low interest rates and the interest income thereon is not significant.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Interest rate risk (Continued)

The effective interest rates of the interest-bearing financial instruments of the Group are set out below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's interest-bearing financial instruments at the end of the reporting period:

	2016		2015	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed interest rate				
Financial assets				
Bank deposits	0.3	18,186	0.15-0.55	378,264
Amounts receivable from banks for wealth management products purchased	2.4-2.5	69,022	2.0-3.7	6,000
Loan receivables				
— from independent third parties	10.5-22.0	229,117		—
— from a joint venture	6.0	268,758		—
		<u>585,083</u>		<u>384,264</u>
Financial liabilities				
Bank loans	5.0-5.4	(40,000)		—
Other loans	6.0	(275,525)		—
Bond payable	7.412	(397,762)	7.412	(345,693)
Obligations under finance lease	3.2	(532)		—
		<u>(713,819)</u>		<u>(345,693)</u>
Net		<u>(128,736)</u>		<u>38,571</u>
Variable interest rate				
Financial assets				
— Cash at bank	0.35	60,660	0.35	87,892
Financial liabilities				
— Bank loans	5.0	(20,000)	2.07-5.58	(70,002)
Net		<u>40,660</u>		<u>17,890</u>
Fixed rate liabilities as a percentage of total liabilities		<u>97.3</u>		<u>83.2</u>



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

Bank deposits, loan receivables, bank and other loans, bond payable and obligations under finance lease of the Group which are fixed rate instruments, are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. For variable-rate financial instruments, the analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2015: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The analysis is performed on the same basis for 2015.

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates for variable-rate financial instruments, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated loss by approximately RMB327,000 (2015: RMB168,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

(d) Currency risk

(i) Exposure to currency risk

The Group is exposed to currency risk primarily through sales and purchases and loan investments which give rise to receivables, payables and cash and bank deposits that are denominated in a foreign currency, that is, a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States Dollars, Hong Kong Dollars, Australian Dollars and Japanese Yen. The Group manages this risk as follows:

Recognised assets and liabilities

Changes in the fair value of forward foreign exchange contracts that minimise the foreign currencies risk of certain monetary assets and liabilities are recognized in profit or loss (see note 7). The fair value of forward foreign exchange contracts used by the Group at 31 December 2016 was RMB1,398,000 (2015: nil) (note 24) and RMB355,000 (2015: nil) (note 27), recognised as derivative financial instruments under assets and liabilities respectively.

In respect of other assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Currency risk (Continued)

(i) Exposure to currency risk (Continued)

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the end of the reporting period.

	Exposure to foreign currencies (expressed in RMB)							
	2016				2015			
	United States Dollars RMB'000	Hong Kong Dollars RMB'000	Australian Dollars RMB'000	Japanese Yen RMB'000	United States Dollars RMB'000	Hong Kong Dollars RMB'000	Australian Dollars RMB'000	Japanese Yen RMB'000
Trade and bills receivables and interest receivables and other receivables	78,046	17,130	5,920	-	36,609	1,551	-	-
Loan receivables	-	-	112,655	-	-	-	-	-
Pledged bank deposits and cash and bank balances	37,345	1,566	-	-	10,477	419,292	-	-
Trade and bills payables and other payables	(56,038)	(4,847)	-	(4,250)	(75,540)	(2,663)	-	(4,987)
Bank and other loans	-	-	-	-	(10,002)	-	-	-
Dividends payables	-	(88)	-	-	-	(88)	-	-
Gross exposure arising from recognised assets and liabilities	(59,353)	13,761	118,575	(4,250)	(38,456)	418,092	-	(4,987)
Notional amount of forward foreign exchange contracts used to minimise the foreign currency risk	104,156	-	-	-	-	-	-	-
Net exposure arising from recognised assets and liabilities	163,509	13,761	118,575	(4,250)	(38,456)	418,092	-	(4,987)



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar, Hong Kong dollar, Australian dollars and Japanese yen exchange rates, with all other variables held constant, of the Group's loss before tax.

	2016		2015	
	Increase/ (decrease) in rate	(Increase)/ decrease in loss before income tax RMB'000	Increase/ (decrease) in rate	(Increase)/ decrease in loss before income tax RMB'000
United States dollars ("US\$")	5	4,421	5	(1,923)
	(5)	(4,421)	(5)	1,923
Hong Kong dollars ("HK\$")	5	682	5	20,905
	(5)	(682)	(5)	(20,905)
Australian dollars	5	5,929	5	–
	(5)	(5,929)	(5)	–
Japanese Yen	5	(213)	5	(249)
	(5)	213	(5)	249

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit/loss before tax measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. In this respect, it is assumed that the pegged rate between the HK\$ and the US\$ would not be materially affected by any changes in movement in value of the US\$ against other currencies. The analysis is performed on the same basis for 2015.

(e) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to the parent company's board approval.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (for example, trade receivables) and projected cash flows from operations.

The Group's policy is to maintain sufficient cash and cash equivalents and have available funding through bank loans to meet its working capital requirements.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Liquidity risk (Continued)

The maturity profile of the Group's non-derivative financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period and the earliest date the Group can be required to pay, is as follows:

	2016				Total	Carrying amount at 31 December
	On demand	Less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities						
Bank and other loans	-	65,723	298,181	-	363,904	335,525
Bond payable	-	415,679	-	-	415,679	397,762
Trade and bills payables	-	113,035	-	-	113,035	113,035
Accruals and other payables	-	43,221	-	-	43,221	43,221
Obligations under finance lease	-	128	128	308	564	532
Dividends payable	-	88	-	-	88	88
	-	637,874	298,309	308	936,491	890,163

	2015				Total	Carrying amount at 31 December
	On demand	Less than 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities						
Bank loans	-	71,531	-	-	71,531	70,002
Bond payable	-	-	389,324	-	389,324	345,693
Trade and bills payables	-	121,240	-	-	121,240	121,240
Accruals and other payables	-	30,220	-	-	30,220	30,220
Dividends payable	-	88	-	-	88	88
	-	223,079	389,324	-	612,403	567,243



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

(e) Liquidity risk (Continued)

The following tables set out the remaining contractual maturities at the end of the reporting period of the Group's derivative financial liabilities based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

	2016		2015	
	Within 1 year or on demand RMB'000	Total RMB'000	Within 1 year or on demand RMB'000	Total RMB'000
Derivative settled gross:				
Forward foreign exchange contracts				
— outflow	(103,113)	(103,113)	—	—
— inflow	104,156	104,156	—	—

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been early adopted in these financial statements. These include the following which may be relevant to the Group.

IFRS 9	Financial Instruments ²
IFRS 15	Revenue from Contracts with Customers and the related Amendments ²
IFRS 16	Leases ³
Amendments to IAS 7	Disclosure Initiative ¹
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to IFRSs	Annual Improvements to IFRSs 2014–2016 Cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2017

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

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after a date to be determined

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

41. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016 (Continued)

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

42. MAJOR NON-CASH TRANSACTIONS

On 30 November 2016, Celestial Hope Limited (as the “Transferee”), a wholly-owned subsidiary of the Company, entered into a novation deed (the “Deed”) with UBL (as the “Transferor”), a joint venture of the Company, and an independent third party lender (the “Lender”). According to the Deed, the Transferee take up the rights of, and assume the obligations of, the Transferor under a split amended and restated loan agreement (the “Loan Agreement”) in relation to the loan of HK\$300,000,000 (equivalent to approximately RMB266,736,000) advanced by the Lender to the Transferor.

Accordingly, the Transferor cease to be a party to the Loan Agreement and the Transferee become a party to the Loan Agreement and is indebted to the Lender for the loan of HK\$300,000,000 (equivalent to approximately RMB266,736,000) the terms of which is disclosed in note 29.

On the same date, Transferor and Transferee also entered into a shareholder’s loan agreement for loan of HK\$300,000,000 (equivalent to approximately RMB266,736,000) which Transferor becomes a borrower of the loan made available to it by the Transferee, the terms of which is disclosed in note 18.

43. COMPARATIVE FIGURES

Certain comparative figures and items and balances have been adjusted and reclassified to confirm with the current year’s presentation.

44. EVENTS AFTER THE REPORTING PERIOD

The following events took place subsequent to 31 December 2016:

- (a) On 5 January 2017, Tianli Capital Limited (“Tianli Capital”), an indirect wholly owned subsidiary of the Company, entered into a subscription agreement, pursuant to which Tianli Capital agreed to invest with the capital commitment of US\$35,000,000 (equivalent to approximately HK\$271,250,000 or approximately RMB240,800,000) as a junior limited partner in Tianli Private Debt Fund L.P. (“Tianli Private Debt Fund”), established by Tianli Private Debt Fund Investment Limited, an indirect wholly owned subsidiary of the Company, as general partner and Tianli Capital as the initial limited partner.
- (b) Completion of the open offer took place on 14 February 2017. The Company raised gross proceeds of HK\$372,375,000 (equivalent to approximately RMB330,356,000) by way of an open offer of 248,250,000 offer shares at subscription price of HK\$1.50 per offer share on the basis of one offer share for every two shares.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

44. EVENTS AFTER THE REPORTING PERIOD (Continued)

- (c) On 20 February 2017, Tianli Financial Group Limited, a direct wholly owned subsidiary of the Company, disposed of the entire issued shares of and shareholder's loan to Noble Sky Investments Limited, an indirect wholly owned subsidiary of the Company at a total consideration of approximately US\$18,481,000 (equivalent to approximately HK\$143,412,000 or approximately RMB127,148,000) to Tianli Private Debt Fund.
- (d) On 3 March 2017, Universal Blossom Limited, a joint venture of the Group, sold, transferred, assigned, set over and delivered 8.84% of the total commitment in Tianli Real Estate Investment L.P. ("Tianli Real Estate Fund") to Tianli Capital at a consideration of approximately US\$10,378,000 (equivalent to approximately HK\$80,530,000 or approximately RMB71,401,000) (the "Acquisition"). Upon completion of the Acquisition, Tianli Capital holds 15.04% of the total commitment of Tianli Real Estate Fund.
- (e) In March 2017, Tianli Capital subscribed for the respective limited partner interests in the following four new funds with distinct investment objectives and focuses as junior limited partner:
 - (i) Tianli Private Debt Capital L.P., a Cayman Islands exempted limited partnership, with the capital commitment of US\$9,800,000 (equivalent to approximately HK\$76,048,000 or approximately RMB67,424,000);
 - (ii) Tianli Real Estate Capital L.P., a Cayman Islands exempted limited partnership, with the capital commitment of US\$9,800,000 (equivalent to approximately HK\$76,048,000 or approximately RMB67,424,000);
 - (iii) Tianli Special Situations Capital L.P., a Cayman Islands exempted limited partnership, with the capital commitment of US\$9,800,000 (equivalent to approximately HK\$76,048,000 or approximately RMB67,424,000); and
 - (iv) Tianli Public Markets Capital L.P., a Cayman Islands exempted limited partnership, with the capital commitment of US\$5,600,000 (equivalent to approximately HK\$43,456,000 or approximately RMB38,528,000).

