卡姆丹克太陽能系統集團有限公司

# Comtec Solar Systems Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code: 712

# 2016 Annual Report

# Contents



# Corporate Information

## DIRECTORS

**Executive Directors**

Mr. John Yi Zhang *(Chairman)*
Mr. Chau Kwok Keung
Mr. Zhang Zhen

**Non-executive Director**

Mr. Wang Yixin

**Independent non-executive Directors**

Mr. Kang Sun
Mr. Leung Ming Shu
Mr. Xu Erming

## COMPANY SECRETARY

Mr. Chau Kwok Keung *(HKICPA, ACCA, CFA)*

## AUTHORISED REPRESENTATIVES

Mr. John Yi Zhang
Mr. Chau Kwok Keung

## AUDIT COMMITTEE

Mr. Leung Ming Shu *(Chairman)*
Mr. Kang Sun
Mr. Xu Erming

## NOMINATION COMMITTEE

Mr. John Yi Zhang *(Chairman)*
Mr. Kang Sun
Mr. Leung Ming Shu
Mr. Xu Erming

## REMUNERATION COMMITTEE

Mr. Leung Ming Shu *(Chairman)*
Mr. John Yi Zhang
Mr. Kang Sun
Mr. Xu Erming

## CORPORATE GOVERNANCE COMMITTEE

Mr. John Yi Zhang *(Chairman)*
Mr. Chau Kwok Keung
Mr. Leung Ming Shu

## SIGNIFICANT PAYMENTS COMMITTEE

Mr. John Yi Zhang *(Chairman)*
Mr. Chau Kwok Keung

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEADQUARTER

16 Yuan Di Road
Nanhui Industrial Zone
Shanghai 201314
PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 33
35/F Central Plaza
18 Harbour Road
Wanchai
Hong Kong

## COMPANY'S WEBSITE

www.comtecsolar.com

## AUDITOR

Deloitte Touche Tohmatsu

# Corporate Information

## LEGAL ADVISERS AS TO HONG KONG LAW

Luk & Partners

## PRINCIPAL BANKS

Agriculture Bank of China
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

# Chairman's Statement

Dear Shareholders,

On behalf of Comtec Solar Systems Group Limited, I am pleased to present the audited annual results of the Group for the year ended 31 December 2016. Here are some financial and business highlights for the year:

- Revenue for the year was approximately RMB810.0 million, representing a year-on-year decrease of 25.8% from approximately RMB1,091.2 million for the year ended 31 December 2015;

- Gross loss for the year was approximately RMB152.6 million for the year ended 31 December 2016, representing a year-on-year increase of 61.7% from RMB94.4 million for the year ended 31 December 2015;

- Gross loss margin for the year was approximately 18.8%, increased from 8.7% for the year ended 31 December 2015;

- Net loss for the year was approximately RMB1,007.1 million, increased from the net loss of RMB434.7 million for the year ended 31 December 2015;

- Net loss margin for the year was approximately 124.3%, comparing to 39.8% for the year ended 31 December 2015;

- Our loss per share for the year was RMB69.48 cents, comparing to the loss per share of RMB31.23 cents for the year ended 31 December 2015; and

- Achieved net cash inflow from operating activities of approximately RMB80.2 million and maintained cash and restricted cash balances of approximately RMB208.8 million.

During the year ended 31 December 2016, the Group was under a process of restructuring to downsize the scale of manufacturing business and to expand to the downstream solar businesses which specifically focus on rooftop distributed generation projects on industrial, commercial and residential buildings.

On 30 December 2016 (after trading hours of the Stock Exchange), the Company, Comtec Solar International (M) Sdn. Bhd. ("Comtec Malaysia") and Longi (Kuching) Sdn. Bhd. ("Longi") entered into an asset transfer agreement (the "Asset Transfer Agreement"), pursuant to which Comtec Malaysia agreed to sell and Longi agreed to purchase certain assets and properties (the "Target Assets") of Comtec Malaysia at the total consideration (the "Total Consideration") of RMB200 million.

# Chairman's Statement

Comtec Malaysia was established in 2013 by the Company to expand the Group's production capacity in its solar-grade monocrystalline silicon business. Comtec Malaysia was still at pilot running and testing stage during the year. Due to the unfavorable global macro-economic environment, the relatively small scale of operations, the lower production efficiency at the early stage of its pilot running and testing and that it took time to train the local production team, Comtec Malaysia has been loss making and has recorded cumulative operating loss of approximately RMB178.5 million since 2013. Although the Group has been striving to improve its operating efficiency and reduce its production cost per unit during the pilot running and testing process, Comtec Malaysia has not been able to generate operating profit in 2016. At the same time, the industry landscape for the monocrystalline silicon business deteriorated in the second half of 2016, with certain major players who use monocrystalline silicon wafers, such as those produced by Comtec Malaysia, scaling back or even shutting down their production. In such circumstances, the Board considers that it will be in the interest of the Company to exit its investment in the production facilities in Malaysia so that the Group can provide more resources on expanding its downstream distributed solar system business, as it is expected that the business prospects of the downstream distributed solar system business is better than that of the upstream ingot and wafer manufacturing business. Also, given the unfavorable market conditions, the Board believes there is a risk that the prices of the Target Assets may fall even lower later.

As one or more of the applicable percentage ratios exceeds 25% but none of the applicable percentage ratios exceeds 75%, the Asset Transfer Agreement and this transaction constitute a major transaction for the Company and are subject to the reporting and announcement and Shareholders' approval requirements as set out in Chapter 14 of the Listing Rules.

An extraordinary general meeting ("EGM") was held on 20 April 2017 to approve the Asset Transfer Agreement. A circular containing, among others, further details about the Asset Transfer Agreement together with a notice convening the EGM has been despatched to the Shareholders on 31 March 2017.

On 7 July 2016 (after trading hours of the Stock Exchange), the Company, Joy Boy HK Limited ("Joy Boy"), the original shareholders of Joy Boy entered into a sale and purchase agreement. The Company agreed to acquire the entire issued share capital of Joy Boy at a total maximum consideration of RMB130 million from its original shareholders. The consideration is to be satisfied by the Company by allotting and issuing new Shares to the original shareholders of Joy Boy under the Specific Mandate sought from the Shareholders (unless the Company opted to pay in cash with the consent of its original shareholders). In September 2016, the Group has completed the acquisition of Joy Boy, which marked the beginning of the Group's expansion into the business of downstream solar project development, which the Directors believe would fuel the growth of the Group. As such, the Group intends to explore further opportunities to expand into downstream solar business with a view to creating synergy through integration of the downstream solar business with the Group's existing upstream solar business of the Group. The acquisition of Joy Boy was completed on 15 September 2016. The acquisition of Joy Boy represents an attractive opportunity for the Group to expand into the business of downstream solar project development.

# Chairman's Statement

On 14 November 2016 (after trading hours of the Stock Exchange), the Company, Forum (Asia) Limited, and its original shareholders entered into a sale and purchase agreement, pursuant to which the Company agreed to acquire 51% of the entire issued share capital of Forum (Asia) at a total maximum consideration of RMB52.02 million from its original shareholders. The consideration is to be satisfied by the Company by allotting and issuing new shares to the original shareholders of Forum (Asia) under the Specific Mandate sought from the Shareholders (unless the Company opted to pay in cash with the consent of its original shareholders). On 1 March 2017, the Group has completed the acquisition of Forum (Asia). This acquisition represents an attractive opportunity for the Group to expand into the business of residential rooftop solar project.

From December 2016 onwards, we have made good progress on the downstream businesses. On 19 December 2016, the Group and Beijing Enterprises Clean Energy Group Limited ("BECE") entered into a strategic cooperation agreement in relation to the solar power stations, pursuant to which the Group and BECE agreed to strengthen the overall strategic cooperation in relation to the development, construction and project acquisition of solar power stations. It is agreed that BECE would be entitled to purchase, subject to entering into definitive sales and purchase agreement, certain solar power stations from our Group in the next three years with a scale no less than 500MW.

On 10 January 2017, the Group entered into a strategic agreement with Luoyang Tourism Development Group Limited ("Luoyang Tourism Development) in relation to the exclusive cooperation in the investment, establishment, development and operation of the smart energy charging facilities project in Luoyang.

On 12 January 2017, the Group entered into a strategic framework cooperation agreement with Administrative Committee of Wuxi Huishan Economic Development Zone in relation to the proposed cooperation in the distributed solar power generation projects and the intelligent energy charging facilities projects. Pursuant to the agreement, both parties agreed to cooperate exclusively with each other in connection with solar projects in Huishan Economic Development Zone.

On 8 July 2016, the Company entered a subscription agreement with Shanghai Hengqu Internet Technology Co., Ltd.* (上海恒渠互聯網科技有限公司) (the "Subscriber"), pursuant to which the Company has conditionally agreed to allot and issue 154,651,306 subscription shares at a subscription price of HK$0.46 per Share to the Subscriber or its designated nominee. The subscription has been completed on 18 August 2016 with the 154,651,306 subscriptions shares allotted and issued to Harmony Gold Venture Corp, a wholly-owned subsidiary of the Subscriber, generating the net proceeds of approximately HK$70.4 million, representing a net subscription price of HK$0.45 per subscription share, which was expected to be used for any investment opportunity to be identified by the Group and as general working capital of the Group. As at the date of this report, a total amount of HK$35.2 million has been used as working capital of the Group and it is expected that the remaining HK$35.2 million will be used for any investment opportunity to be identified by the Group and as general working capital of the Group. Please refer to the announcements of the Company dated 8 July 2016 and 18 August 2016 for further details. Save as disclosed herein, the Company has not conducted any equity fund raising activities in the past twelve months preceding the date of this announcement. The Group would implement a balanced financing plan to support the operation of our business.

# Chairman's Statement

With the sounding track records of our N type Super Monocrystalline, the Group has signed a cooperation framework agreement with Jolywood (Taizhou) Sunwatt Co. Ltd. ("Jolywood") on 21 December 2016, pursuant to which the Group and Jolywood agreed to strengthen strategic cooperation by promoting the large scale market application of N-type solar batteries through technological cooperation, product sharing and solar project sharing market integration, resources sharing, business innovation, and the introduction of advanced technology for solar power stations. Also, Jolywood will give priority to the Group in their procurement of N-type super monocrystalline wafers. It is expected that the Group will supply approximately 68 million pieces of A-grade N-type super monocrystalline wafers to Jolywood from January 2017 to December 2018 and Jolywood settled an advance payment of RMB20.4 million to the Group. It has secured a long term customer to support the remaining production facilities of the Group in China.

The Group also continued to execute our cost reduction strategy on the supply chain management. In prior years, in order to secure a stable supply of raw materials, the Group has entered into several non-cancellable purchase agreements with two major suppliers, independent parties not related to the Group, whereby the Group committed a "take or pay" obligation to purchase the minimum annual quantity of raw materials at pre-determined prices over the contractual periods up to 2018. In early 2016, the Group has reached into agreement with one of the major suppliers, of which one has unconditionally agreed to waive the terms relating to minimum annual quantity and pre-determined purchase price. The agreement with another major supplier also expired by end of 2016. It enables the Group, starting from 2017 onwards, to be free from the risks and costs related to the long term purchase agreements which led to the substantial operating losses in last few years. It would allow the Group to be more flexible in managing its supply chain to adapt to the market situations and benefit from the decreasing spot prices of raw materials.

The Group intends to explore opportunities and to expand into downstream solar business. We believe this strategy would fuel the growth of the Group and would try to create synergy through integration of the downstream solar business with the Group's existing upstream solar business. The acquisition of Joy Boy and Forum (Asia) represent attractive opportunities for the Group to expand into the business of downstream solar project development.

On behalf of the Board, I would like to express my sincere gratitude to our Shareholders and business partners for their support and trust in us, and also to our management and employees for their hard work. We look forward to creating greater value and return for our Shareholders.

John Yi Zhang
*Chairman*

Shanghai, 31 March 2017

# Management Discussion and Analysis

## BUSINESS REVIEW

During the year ended 31 December 2016, the Group was under a process of restructuring to downsize the scale of manufacturing business and to expand to the downstream solar businesses which specifically focus on rooftop distributed generation projects on industrial, commercial and residential buildings.

On 30 December 2016 (after trading hours of the Stock Exchange), the Company, Comtec Malaysia and Longi entered into the Asset Transfer Agreement, pursuant to which Comtec Malaysia agreed to sell and Longi agreed to purchase the Target Assets of Comtec Malaysia at the Total Consideration of RMB200 million.

Comtec Malaysia was established in 2013 by the Company to expand the Group's production capacity in its solar-grade monocrystalline silicon business. Comtec Malaysia was still at pilot running and testing stage during the year. Due to the unfavorable global macro-economic environment, the relatively small scale of operations, the lower production efficiency at the early stage of its pilot running and testing and that it took time to train the local production team, Comtec Malaysia has been loss making and has recorded cumulative operating loss of approximately RMB178.5 million since 2013. Although the Group has been striving to improve its operating efficiency and reduce its production cost per unit during the pilot running and testing process, Comtec Malaysia has not been able to generate operating profit in 2016. At the same time, the industry landscape for the monocrystalline silicon business deteriorated in the second half of 2016, with certain major players who use monocrystalline silicon wafers, such as those produced by Comtec Malaysia, scaling back or even shutting down their production. In such circumstances, the Board considers that it will be in the interest of the Company to exit its investment in the production facilities in Malaysia so that the Group can provide more resources on expanding its downstream distributed solar system business, as it is expected that the business prospects of the downstream distributed solar system business is better than that of the upstream ingot and wafer manufacturing business. Also, given the unfavorable market conditions, the Board believes there is a risk that the prices of the Target Assets may fall even lower later.

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From December 2016 onwards, we have made good progress on the downstream businesses. On 19 December 2016, the Group and BECE entered into a strategic cooperation agreement in relation to the solar power stations, pursuant to which the Group and BECE agreed to strengthen the overall strategic cooperation in relation to the development, construction and project acquisition of solar power stations. It is agreed that BECE would be entitled to purchase, subject to entering into definitive sales and purchase agreement, certain solar power stations from our Group in the next three years with a scale no less than 500MW.

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With the sounding track records of our N type Super Monocrystalline, the Group has signed a cooperation framework agreement with Jolywood on 21 December 2016, pursuant to which the Group and Jolywood agreed to strengthen strategic cooperation by promoting the large scale market application of N-type solar batteries through technological cooperation, product sharing and solar project sharing market integration, resources sharing, business innovation, and the introduction of advanced technology for solar power stations. Also, Jolywood will give priority to the Group in their procurement of N-type super monocrystalline wafers. It is expected that the Group will supply approximately 68 million pieces of A-grade N-type super monocrystalline wafers to Jolywood from January 2017 to December 2018 and Jolywood settled an advance payment of RMB20.4 million to the Group. It has secured a long term customer to support the remaining production facilities of the Group in China.

The Group also continued to execute our cost reduction strategy on the supply chain management. In prior years, in order to secure a stable supply of raw materials, the Group has entered into several non-cancellable purchase agreements with two major suppliers, independent parties not related to the Group, whereby the Group committed a “take or pay” obligation to purchase the minimum annual quantity of raw materials at pre-determined prices over the contractual periods up to 2018. In early 2016, the Group has reached into agreement with one of the major suppliers, of which has unconditionally agreed to waive the terms relating to minimum annual quantity and pre-determined purchase price. The agreement with another major supplier also expired by end of 2016. It enables the Group, starting from 2017 onwards, to be free from the risks and costs related to the long term purchase agreements which led to the substantial operating losses in last few years. It would allow the Group to be more flexible in managing its supply chain to adapt to the market situations and benefit from the decreasing spot prices of raw materials.

Revenues from our top five customers in 2016 represented approximately 44.5% of our total revenues, compared to approximately 63.2% in the last year. The sales to our largest customer in Philippines with the high quality “Super Mono Wafers” accounted for approximately 25.9% of our total revenues in 2016 as compared to approximately 39.7% in 2015. The remaining of our sales in 2016 was mainly shipped to PRC (including Hong Kong), Japan, U.S.A. and Korea.

# Management Discussion and Analysis

The Group intends to explore opportunities and to expand into downstream solar business. We believe this strategy would fuel the growth of the Group and would try to create synergy through integration of the downstream solar business with the Group's existing upstream solar business. The acquisition of Joy Boy and Forum (Asia) represent attractive opportunities for the Group to expand into the business of downstream solar project development. To leverage on our advanced technological capabilities, high quality product offerings, the strategic alliance with reputable strategic partners and the completed acquisitions to fill us with the required talents and resources to drive the downstream solar businesses, we are confident to capture enormous opportunities and to drive continuous growth for the Group in the future.

## FINANCIAL REVIEW

**Revenue**

Revenue decreased by RMB281.2 million, or 25.8%, from RMB1,091.2 million for the year ended 31 December 2015 to RMB810.0 million for the year ended 31 December 2016, primarily as a result of the decrease in shipment volume of monocrystalline solar wafers as well as the decrease in average selling prices.

*Sales of 125 mm by 125 mm monocrystalline solar wafers*

Revenue from sales of 125 mm by 125 mm monocrystalline solar wafers decreased by RMB236.2 million, or 52.3%, from RMB451.2 million for the year ended 31 December 2015 to RMB215.0 million for the year ended 31 December 2016, primarily due to the decrease in both of sales volume and average selling price. The sales volume of 125 mm by 125 mm monocrystalline wafers decreased of approximately 131.8MW, or 43.5%, from 303.1MW for the year ended 31 December 2015 to 171.3MW for the year ended 31 December 2016 and was primarily due to the industry landscape for the monocrystalline silicon business deteriorated in the second half of 2016, with certain major players who use monocrystalline silicon wafers scaling back or even shutting down their production. The average selling price decreased by RMB0.24, 16.1%, from RMB1.49 per watt for the year ended 31 December 2015 to RMB1.25 per watt for the year ended 31 December 2016 due to the competitive market environment.

*Sales of 156 mm by 156 mm monocrystalline wafers*

Revenue from sales of 156 mm by 156 mm monocrystalline solar wafers decreased by RMB78.2 million, or 46.1%, from RMB169.8 million for the year ended 31 December 2015 to RMB91.6 million for the year ended 31 December 2016, primarily as a result of the decrease in sales volume and average selling price. The sales volume decreased by 21.5MW, or 21.2% from 101.3MW for the year ended 31 December 2015 to 79.8MW for the year ended 31 December 2016. It was mainly due to the was primarily due to the industry landscape for the monocrystalline silicon business deteriorated in the second half of 2016, with certain major players who use monocrystalline silicon wafers scaling back or even shutting down their production. The average selling price decreased by RMB0.53, 31.5%, from RMB1.68 per watt for the year ended 31 December 2015 to RMB1.15 per watt for the year ended 31 December 2016 due to the competitive market environment.

*Others*

The remaining revenues, mainly composed of revenues from the sales of excess inventory of polysilicon, sales of ingots and other solar products. Other revenues increased by RMB33.2 million, or 7.1% from RMB470.2 million for the year ended 31 December 2015 to RMB503.4 million for the year ended 31 December 2016. The increases of other revenues were mainly due to the increase in sales volume of ingots and other solar products in 2016 while it was partially mitigated by the decrease of average selling price of the ingots.

Substantial amount of other revenues were derived from the sales of excess inventory of polysilicon. It was approximately RMB456.1 million for the year ended 31 December 2016 and there was no material differences from the amount of approximately RMB459.8 million recorded for the year ended 31 December 2015. The excess inventories were purchased under the long term agreements with our major polysilicon suppliers.

In relation to the analysis of our revenue by geographical market, approximately 66.3% of total revenue for the year ended 31 December 2016 was generated from our PRC customers (2015: 38.3%). Remaining portion was mainly generated from our Philippines customer which represented approximately 25.9% of total revenue (2015: 39.7%).

*Cost of sales*

Cost of sales for the year ended 31 December 2016 was approximately RMB962.6 million, representing a decrease of RMB223.0 million or 18.8% from RMB1,185.6 million for the year ended 31 December 2015. The decrease was mainly due to the decrease in shipment volume of wafers and average purchase costs of polysilicons during the year ended 31 December 2016 while it was partially offset by the write-down of inventory and the increase of costs of production due to the ramp up for production capacity in Malaysia as well as the decrease in production volumes of wafers.

The shipment volumes 125 mm by 125 mm monocrystalline solar wafers, 156 mm by 156 mm monocrystalline solar wafers as well as of the excess inventory of polysilicon decreased by 43.5%, 21.2% and 6.1% respectively for the year ended 31 December 2016 when compared with that of the year ended 31 December 2015. The average purchase costs of poly silicon also decreased by 7.8% for the year ended 31 December 2016, comparing to the same period in 2015.

The write-down of inventory were approximately RMB94.5 million for the year ended 31 December 2016 while the write-down of inventory were RMB112.7 million for the year ended 31 December 2015. When the Group identifies items of inventories which have a net realizable value that is lower than its carrying amount, the Group would write down of inventories in that year. During the year ended 31 December 2016, the average selling price of the 125 mm by 125 mm monocrystalline solar wafers and the 156 mm by 156 mm monocrystalline solar wafers decreased by approximately 16.1% and 31.5% respectively. Also, certain recycle polysilicons generated during the pilot running and testing process would be obsolete after the disposal of assets and properties of Comtec Malaysia as they are not allowed to be imported to China and we have not yet identified any potential buyers for remaining amount of recycle materials. In addition, there were negative impacts on production yield during the ramp up period of the production facilities in Malaysia which resulted in higher production and inventory costs. Thus, there was an increase in amount of inventories which have net realizable values that are lower than their carrying amounts, resulting in the write-down of inventory for the year ended 31 December 2016.

The negative impacts on production yield, as mentioned above, during the ramp up period the production facilities in Malaysia also increased the inventory costs and hence cost of sales when the inventories were sold and charged to profits and losses account during the year.

*Gross losses*

The Company recorded gross losses of RMB152.6 million for the year ended 31 December 2016, comparing to gross losses of approximately RMB94.4 million for the year ended 31 December 2015.

The gross losses was mainly attributable to the decrease in revenue by RMB281.2 million or 25.8% which was mainly due to the decrease of sales volume and average selling prices of monocrystalline wafers as mentioned above. Nonetheless, the cost of sales only decreased by RMB223.0 million or 18.8% which was mainly due to the write-down of inventory of approximately RMB94.5 million and the increase of costs of production due to the ramp up for production capacity in Malaysia as well as the decrease in production volumes of wafers.

As a result of the foregoing, the Company recorded gross losses of RMB152.6 million for the year ended 31 December 2016, comparing to gross losses of approximately RMB94.4 million for the year ended 31 December 2015.

*Other income*

Other income for the year ended 31 December 2016 was approximately RMB4.1 million, representing a decrease of approximately RMB5.4 million, or 56.8%, from RMB9.5 million for the year ended 31 December 2015, mainly due to the decrease of interest income caused by the decrease in bank balances in 2016 and there was compensation from local government for removal from a leased factory in Shanghai recorded in 2015.

*Other gains and losses, expenses and provision*

Other losses increased by RMB563.5 million from RMB200.3 million for the year ended 31 December 2015 to RMB763.8 million for the year ended 31 December 2016. The amount of other losses for the year ended 31 December 2016 mainly included (i) the losses from disposal of assets and properties of our Comtec Malaysia of approximately RMB339.3 million, (ii) the impairment losses recognized in respect of property, plant and equipment of approximately RMB276.5 million and (iii) the accrued expenses for termination of our Malaysia plant under construction as a result of the disposal of major assets and properties of Comtec Malaysia and downsize of manufacturing business of approximately RMB149.0 million. For the year ended 31 December 2015, the amount of other losses mainly included (i) impairment losses on advance to equipment supplier of approximately RMB152.8 million and (ii) losses on disposal of fixed assets of approximately RMB35.6 million.

*(i) Losses from disposal of assets and properties of our Comtec Malaysia*

Reference is made to the announcement of the Company dated 3 January 2017. On 30 December 2016 (after trading hours of the Stock Exchange), the Company, Comtec Solar International (M) Sdn. Bhd. ("Comtec Malaysia") and Longi (Kuching) Sdn. Bhd. ("Longi") entered into an asset transfer agreement, pursuant to which Comtec Malaysia agreed to sell and Longi agreed to purchase the Target Assets of Comtec Malaysia at the Total Consideration of RMB200.0 million. The net book value of the disposed assets and properties were approximately RMB500.0 million as at 31 December 2016. And there was an agreed rectification expenses of approximately RMB35.0 million upon the assets and properties for disposal. Thus the losses from the disposal were approximately RMB339.3 million, including the stamp duties of approximately RMB4.3 million to be incurred in relation to the disposal.

*(ii) Impairment losses recognized in respect of property, plant and equipment*

In assessing the impairment of property, plant and equipment, the Group requires to estimate the recoverable amount of the cash-generating units or the underlying assets. The recoverable amount, which is determined by the value-in-use calculation, requires the Group to estimate the future cash flows expected to arise from the cash-generating units or the underlying assets and a suitable discount rate in order to calculate the present value. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount and impairment losses would be arose.

The industry landscape for the monocrystalline silicon business deteriorated in the second half of 2016, with certain major players who use monocrystalline silicon wafers, such as those produced by the Group, scaling back or even shutting down their production. The Group thus conducted a review of the Group's property, plant and equipment which has made reference to the Group's annual shipment volume would be less than 500MW in future, the Group's product mix would mainly comprise 125mm x 125mm and 156mm x 156mm "Super Mono" wafers, recent market demand for the Group's products, the forecasted selling prices of our products and of polysilicons would continue to decrease etc. and determined that a number of those assets were impaired, due to the adverse changes in the future economic conditions of the solar wafer manufacturing business in which the Group is engaging. Accordingly, impairment losses of RMB276.5 million have been recognized in respect of plant and machinery, which are used in the Group's manufacturing and sales of solar wafers and related processing services.

(iii) *Accrued expenses for termination of our Malaysian plant under construction as a result of the disposal of major assets and properties of Comtec Malaysia and downsize of manufacturing business*

Due to the disposal of major assets and properties of Comtec Malaysia, we are in discussion with the electricity and gas suppliers to terminate the long term agreement which would incur certain termination expenses per the signed agreements or the agreed settlement arrangements. It was expected the termination expenses of power purchase agreement and gas supply agreements would be approximately RMB45.0 million and RMB24.0 millions respectively. The amount of retrenchment expenses to lay off staffs of Comtec Malaysia was expected to be approximately RMB2.9 million which was based on the years of services of the staffs to Comtec Malaysia, their existing salaries amount and unclaimed leaves as well as the local employment rules and regulations in Malaysia etc. In addition, Comtec Malaysia was expected to incur expenses of approximately RMB16.3 million for its actual consumption volume to be less than the minimum take or pay obligations in the power purchase agreement and gas supply agreements before the termination of the agreements. In March 2016, we have entered into an agreement to change the expiry date of a long term consumable purchase agreement from March 2027 to December 2017. Due to the downsizing of our manufacturing business, the Group expected that it would not be able to fulfill the agreed purchase amount and would incur penalties of approximately RMB35.0 million. In addition, it is expected that certain prepayments of approximately RMB25.8 million in relation to production equipments would not be recoverable due to our plan to downsizing the scale of manufacturing business and the material drop of equipment prices in the market.

**Distribution and selling expenses**

The distribution and selling expenses accounted for approximately 1.9% of the revenue for the year ended 31 December 2016 which was same as the percentage recorded for the year ended 31 December 2015. The distribution and selling expenses decreased by approximately RMB4.9 million, or 24.3%, from RMB20.2 million for the year ended 31 December 2015 to RMB15.3 million for the year ended 31 December 2016. The decrease was in line with the decrease in shipment volume during 2016.

**Administrative and general expenses**

Administrative and general expenses decreased by RMB43.8 million, or 38.1%, from RMB114.9 million for the year ended 31 December 2015 to RMB71.1 million for the year ended 31 December 2016. It was mainly due to the decrease in the stock compensation expenses of approximately RMB34.7 million incurred for the share options newly grant during the year ended 31 December 2016 and the efforts to reduce operating expenses during the year.

**Interest expenses**

Interest expenses were approximately RMB9.1 million for the year ended 31 December 2016, representing a decrease by RMB5.7 million from RMB14.8 million for the year ended 31 December 2015, which was mainly due to reduction of bank borrowings during the year ended 31 December 2016.

### Loss before taxation

Loss before taxation of RMB1,007.8 million for the year ended 31 December 2016, increased from the loss before taxation of RMB435.1 million for the year ended 31 December 2015, as a result of the foregoing.

### Taxation

The Group did not incur significant tax expenses for the year 31 December 2016 and corresponding period in 2015 since no assessable profits were derived or tax losses were incurred from the Group entities.

### Loss for the year

The Group recorded a loss of RMB1,007.1 million, increased from the loss of RMB434.7 million for the year ended 31 December 2015, as a result of the foregoing. Net loss margin of 124.3% for the year ended 31 December 2016, comparing to the net loss margin of 39.8% for the year ended 31 December 2015.

### Inventory turnover days

The inventories of the Group mainly comprised of raw materials (namely polysilicon, crucibles and other auxiliary materials) for production requirements, work in process and finished goods. There was a decrease in inventories balance of 27.5% from RMB263.6 million for the year ended 31 December 2015 to RMB191.1 million for the year ended 31 December 2016. The decrease was mainly due to the efforts to improve inventory turnover and to reduce inventory balances. The inventory turnover days as at 31 December 2016 were 72 days in total (2015: 81 days).

### Trade receivable turnover days

The trade receivable turnover days as at 31 December 2016 totaled 41 days (2015: 60 days). For the year ended 31 December 2016, the Group has closely supervised the repayment status of debtor balances. The credit period granted to customers is approximately 7 to 180 days on case-by-case basis. The average receivable turnover days were approximately 41 days which was within the credit periods of the Group grants to its customers.

### Trade payable turnover days

The trade payable turnover days as at 31 December 2016 totaled 97 days (2015: 62 days). The Group has obtained continuous supports from long term and strategic suppliers during the challenging industry environments.

# Management Discussion and Analysis

**Liquidity and financial resources**

The Group's principal sources of working capital included cash flow from operating activities, bank borrowings and the proceeds from the share placements. As at 31 December 2016, the Group's current ratio (current assets divided by current liabilities) was 1.0 (31 December 2015: 1.0) and it was in a net debt position of approximately RMB168.8 million (2015: approximately RMB282.0 million). The Group had a working capital deficit (total consolidated current liabilities exceeded total consolidated current assets) of RMB28.8 million as of 31 December 2016. However, the Group still maintained net assets of approximately RMB210.1 million as of 31 December 2016 and has recorded net cash inflow from operating activities of approximately RMB80.2 million during 2016. In additions, although there are no assurance that the Group will be able to refinance its short-term bank loans when they become due, historically, the Group has rolled over or obtained replacement borrowings from existing credit for most of its short-term bank loans upon the maturity date of the loans. The Group has assumed it will continue to be able to do so for the foreseeable future. The Group has also adopted strict control of operating and investing activities.

On 8 July 2016, the Company entered a subscription agreement with Shanghai Hengqu Internet Technology Co., Ltd.* (上海恒渠互聯網科技有限公司) (the "Subscriber"), pursuant to which the Company has conditionally agreed to allot and issue 154,651,306 subscription shares at a subscription price of HK$0.46 per Share to the Subscriber or its designated nominee. The subscription has been completed on 18 August 2016 with the 154,651,306 subscriptions shares allotted and issued to Harmony Gold Venture Corp, a wholly-owned subsidiary of the Subscriber, generating the net proceeds of approximately HK$70.4 million, representing a net subscription price of HK$0.45 per subscription share, which was expected to be used for any investment opportunity to be identified by the Group and as general working capital of the Group. As at the date of this announcement, a total amount of HK$35.2 million has been used as working capital of the Group and it is expected that the remaining HK$35.2 million will be used for any investment opportunity to be identified by the Group and as general working capital of the Group. Please refer to the announcements of the Company dated 8 July 2016 and 18 August 2016 for further details.

Save as disclosed herein, the Company has not conducted any equity fund raising activities in the past twelve months preceding the date of this announcement. The Group would implement a balanced financing plan to support the operation of our business.

**Capital Commitments**

As at 31 December 2016, the Group determined not to further expand its production capacity of manufacturing business. In addition, the Group has yet to make any capital commitments for its downstream solar business which would depend on and subject to the market conditions and opportunities. (2015: RMB205.2 million).

**Contingent liabilities**

As at 31 December 2016, other than the balance of contingent consideration payables of approximately RMB93.8 million (2015: Nil), the Group had no other contingent liabilities.

**Related Party Transactions**

Other than remuneration that the Group paid to the Directors and key management, the Group did not have any related party transactions for the year ended 31 December 2016.

**Charges on Group Assets**

As at 31 December 2016, other than the short term bank deposits of approximately RMB126.6 million (31 December 2015: RMB171.1 million), the Group pledged its buildings and prepaid lease payments having net book values of approximately RMB137.8 million (31 December 2015: RMB152.3 million) and approximately RMB23.1 million (31 December 2015: RMB19.6 million), respectively, to banks to secure banking facilities granted to the Group.

Save as disclosed above, as at 31 December 2016, no Group asset was under charge to any financial institution.

**Acquisition of subsidiary**

Reference is made to the announcement of the Company dated 7 July 2016. On 7 July 2016 (after trading hours of the Stock Exchange), the Company, Joy Boy HK Limited ("Joy Boy"), the original shareholders of Joy Boy entered into a sale and purchase agreement. The Company agreed to acquire the entire issued share capital of Joy Boy at a total maximum consideration of RMB130 million from its original shareholders. The consideration is to be satisfied by the Company by allotting and issuing new Shares to the original shareholders of Joy Boy under the Specific Mandate sought from the Shareholders (unless the Company opted to pay in cash with the consent of its original shareholders). In September 2016, the Group has completed the acquisition of Joy Boy, which marked the beginning of the Group's expansion into the business of downstream solar project development, which the Directors believe would fuel the growth of the Group. As such, the Group intends to explore further opportunities to expand into downstream solar business with a view to creating synergy through integration of the downstream solar business with the Group's existing upstream solar business of the Group. The acquisition of Joy Boy was completed on 15 September 2016. The acquisition of Joy Boy represents an attractive opportunity for the Group to expand into the business of downstream solar project development.

Reference is made to the announcement of the Company dated 14 November 2016. On 14 November 2016 (after trading hours of the Stock Exchange), the Company, Forum (Asia) Limited, and its original shareholders entered into a sale and purchase agreement, pursuant to which the Company agreed to acquire 51% of the entire issued share capital of Forum (Asia) at a total maximum consideration of RMB52.02 million from its original shareholders. The consideration is to be satisfied by the Company by allotting and issuing new shares to the original shareholders of Forum (Asia) under the Specific Mandate sought from the Shareholders (unless the Company opted to pay in cash with the consent of its original shareholders). On 1 March 2017, the Group has completed the acquisition of Forum (Asia). This acquisition represents an attractive opportunity for the Group to expand into the business of residential rooftop solar project.

# Management Discussion and Analysis

**Disposal of assets and properties of subsidiary**

Reference is made to the announcement of the Company dated 3 January 2017. On 30 December 2016 (after trading hours of the Stock Exchange), the Company, Comtec Solar International (M) Sdn. Bhd. ("Comtec Malaysia") and Longi (Kuching) Sdn. Bhd. ("Longi") entered into an asset transfer agreement, pursuant to which Comtec Malaysia agreed to sell and Longi agreed to purchase the Target Assets of Comtec Malaysia at the Total Consideration of RMB200.0 million.

Comtec Malaysia was established in 2013 by the Company to expand the Group's production capacity in its solar-grade monocrystalline silicon business. Comtec Malaysia was still at pilot running and testing stage during the year. Due to the unfavorable global macro-economic environment, the relatively small scale of operations, the lower production efficiency at the early stage of its pilot running and testing and that it took time to train the local production team, Comtec Malaysia has been loss making and has recorded cumulative operating loss of approximately RMB178.5 million since 2013. Although the Group has been striving to improve its operating efficiency and reduce its production cost per unit during the pilot running and testing process, Comtec Malaysia has not been able to generate operating profit in 2016. At the same time, the industry landscape for the monocrystalline silicon business deteriorated in the second half of 2016, with certain major players who use monocrystalline silicon wafers, such as those produced by Comtec Malaysia, scaling back or even shutting down their production. In such circumstances, the Board considers that it will be in the interest of the Company to exit its investment in the production facilities in Malaysia so that the Group can provide more resources on expanding its downstream distributed solar system business, as it is expected that the business prospects of the downstream distributed solar system business is better than that of the upstream ingot and wafer manufacturing business. Also, given the unfavorable market conditions, the Board believes there is a risk that the prices of the Target Assets may fall even lower later.

As one or more of the applicable percentage ratios exceeds 25% but none of the applicable percentage ratios exceeds 75%, the asset transfer agreement and this transaction constitute a major transaction for the Company and are subject to the reporting and announcement and Shareholders' approval requirements as set out in Chapter 14 of the Listing Rules.

An EGM was convened on 20 April 2017 to approve the Asset Transfer Agreement. A circular containing, among others, further details about the asset transfer agreement together with a notice convening the EGM has been despatched to the Shareholders on 31 March 2017.

**Human resources**

As at 31 December 2016, the Group had 805 (2015: 1,140) employees. The decrease was mainly due to the downsizing of our manufacturing business. The remuneration of the existing employee includes basic salaries, discretionary bonuses and social security contributions. Pay levels of the employees are commensurate with their responsibilities, performance and contribution.

### Details of the future investment plans for material investment

The Group is planning to expand to the downstream business. Due to the rapid changing market environment, the Group prefers to maintain flexibilities throughout the expansion process and avoid fixing a capacity target under a pre-determined timeline. The Group has yet to make any capital commitments for its downstream solar business which would depend on and subject to the market conditions and opportunities. We believe this strategy would enable the Group to maximize its advantages from the industry consolidation process.

### Exposure to fluctuations in exchange rates and any related hedges

The Group recognized net exchange losses of approximately RMB10.1 million (2015: approximately RMB21.8 million), which mainly arose from monetary assets and liabilities of the group entities denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy but the management has been monitoring foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. John Yi Zhang**, aged 54, is as an executive Director and the chairman of the Board of the Company, responsible for the overall strategy and operation of our Group. Mr. Zhang is also a director of certain subsidiaries of the Group. Mr. Zhang has accumulated over ten years of experience in the semiconductor and solar industries from both his founding and development of the Group and his prior professional experience. Prior to founding the Group, Mr. Zhang joined Silicon Systems Inc. which was a semiconductor technology company in California, U.S., in 1992 as an engineer and was responsible for developing and designing communication firmware used in silicon chips. Mr. Zhang graduated from 清華大學 (Tsinghua University) in July 1985 with a Bachelor's degree in Electrical Engineering and from Utah State University with a Master's degree in Electrical Engineering in August 1988.

**Mr. Zhang Zhen (張楨)**, aged 48, is an executive Director, the chief executive officer. He was also the president of the Company from 3 October 2016 to 19 April 2017. He is also currently a director of certain of the subsidiaries of the Group, including Comtec Renewable Energy Group Limited (formally known as Joy Boy HK Limited). Mr. Zhang is primarily responsible for overseeing the Group's downstream solar power business. Mr. Zhang has extensive experience in the downstream solar business and served as the president and co-founder of Enfinity HK Development Ltd. for its operation of downstream solar business in the PRC since 2008. Mr. Zhang graduated from Beihang University with a bachelor's degree in electronic engineering in July 1993 and then obtained a master' degree in business administration from the University of Illinois in May 1999.

**Mr. Chau Kwok Keung**, aged 40, is an executive Director, the chief financial officer of the Group and the company secretary of the Company, responsible for corporate financial and general management. He is also a director of certain subsidiaries of the Group. He was also appointed as (i) an independent non-executive director and the chairman of the audit committee of Qingdao Port International Co., Ltd., a listed company on the Stock Exchange (Stock Code: 6198), in May 2014; (ii) an independent director of The9 Limited, whose shares are listed by way of American Depository Shares on the NASDAQ (NASDAQ: NCTY), in October 2015. He acted as a member of supervisory board of RIB Software AG, a software company in Germany, which was listed in Frankfurt Stock Exchange, from May 2010 to June 2013. Prior to joining the Group, Mr. Chau served in various positions at China.com Inc., a company listed on the Stock Exchange (Stock Code: 8006) from October 2005 to October 2007, including vice president of the finance department, chief financial officer, company secretary and authorised representative. Prior to joining China.com Inc., he was the deputy group financial controller of China South City Holdings Limited, a company listed on the Stock Exchange (Stock Code: 1668) from August 2003 to April 2005 and the financial controller of Shanghai Hawei New Material and Technology Co., Ltd. from June 2002 to August 2003. Mr. Chau was employed by Andersen & Co. initially as an experienced staff accountant and then he was subsequently promoted to be a senior consultant in the Global Corporate Finance Division of Andersen & Co. in March 2002. Mr. Chau has been a fellow member of the Association of Chartered Certified Accountants since June 2002, a member of Hong Kong Institute of Certified Public Accountants since July 2005 and a Chartered Financial Analyst of CFA Institute since September 2003. Mr. Chau received a bachelor's degree in Business Administration from the Chinese University of Hong Kong in May 1998.

# Biographical Details of Directors and Senior Management

## NON-EXECUTIVE DIRECTOR

**Mr. Wang Yixin**, aged 45, is a non-executive Director. Mr. Wang acted as the director of the port affairs bureau and the director assistant and the deputy director of the management committee of Wuxi Jiangyin Lingang Economic Development Zone* (無錫江陰臨港經濟開發區) from February 2006 to September 2015. He is currently the general manager of Shanghai Xizheng Investment Management Co., Ltd.* (上海熙正投資管理有限公司) since September 2015 and the general manager of Guangdong West Environmental Protection Investment Fund Management Co., Ltd.* (廣東西部環保投資基金管理有限公司) since April 2016. Mr. Wang graduated from Xi'an Jiaotong University with a bachelor's degree in industrial electric automation in July 1994, and obtained a master's degree in business administration from Nanjing University in June 2001. Mr. Wang is now pursuing a doctor's degree in global finance business administration in Shanghai Advanced Institute of Finance of Shanghai Jiaotong University. Mr. Wang also passed the professionals qualification test of the securities industry organised by the Securities Association of China in June 2015.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Leung Ming Shu**, aged 41, is an independent non-executive Director. Mr. Leung is currently the chief financial officer and company secretary of China ITS (Holdings) Co., Ltd. He is also an independent non-executive director of Cabbeen Fashion Limited, a listed company on the Stock Exchange (code: 2030), and Sun King Power Electronics Group Limited, a listed company on the Stock Exchange (code: 580). He acted as an independent non-executive director of 勝利油氣管道控股有限公司 (Shengli Oil & Gas Pipe Holdings Limited) , a company listed on the Stock Exchange (code: 1080) from January 2011 to April 2013. Mr. Leung is experienced in the areas of corporate finance and accounting from his various roles detailed below. From November 2006 to January 2008, Mr. Leung served as the chief financial officer of Beijing Lingtu Spacecom Technology Co., Ltd, a subsidiary of Beijing Lingtu Software Co., Ltd, a PRC digital mapping and navigation software company. From February 2006 to October 2006, Mr. Leung served as the chief financial officer of Beijing Xinwei Telecom Technology Co., Ltd, a related party of 大唐電信科技股份有限公司 (Datang Telecom Technology Co., Ltd, a company listed on the Shanghai Stock Exchange) which is engaged in the development of a telecommunications standard and the manufacturer of telecommunications equipment. Prior to that, Mr. Leung spent approximately three years from February 2003 at CDC Corporation, a NASDAQ-listed company, as a senior manager in the mergers and acquisitions department, and as the chief financial officer of China.com Inc., a subsidiary of CDC Corporation and a company listed on the Stock Exchange. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong in auditing in 1998, and subsequently worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until December 2000. From July 2001 to February 2003, he also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he advised companies on issues of strategy, organisation and operations. Mr. Leung obtained a First Class Honours Bachelor's degree in accountancy from the City University of Hong Kong in June 1998 and a Master's degree in accountancy from the Chinese University of Hong Kong in November 2001. He is a Fellow of the Association of Chartered Certified Accountants since February 2007 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants since March 2006.

# Biographical Details of Directors and Senior Management

**Mr. Kang Sun**, aged 62, is an independent non-executive Director. Mr. Sun is currently the president and chief executive officer of RayTracker Inc., Pasadena, California, USA and a venture partner of WI Harper Group, San Francisco, California USA. Prior to that, Mr. Sun worked from September 2007 to August 2008 as the president and chief operating officer of JA Solar Holding Ltd, China, a company listed on NASDAQ (Code: JASO), managing director of new business development at Applied Materials Inc., USA since 2005. Prior to that, in different periods of time between 1990 and 2005, he had served as the vice president of Microfabrica Inc., the vice president of Honeywell International Inc., USA and the general manager of Optical Devices Business, AlliedSignal Inc., USA, respectively. Mr. Sun received a Ph.D. degree in Materials Science from Brown University, USA in 1988, a M.S. degree in Physical Chemistry from University of Georgia, USA in 1983 and a B.S. degree in Polymer Chemistry from 南京大學 (Nanjing University), China in 1978.

**Mr. Xu Erming**, aged 68, is an independent non-executive Director. Mr. Xu is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China (中國人民大學) and vice chairman of the Chinese Enterprise Management Research Association. He is entitled to the State Council's special government allowances. He is the Independent Supervisor of Harbin Electric Company Limited. Over the years, Professor Xu has conducted research in areas related to strategic management, organisational theories, international management and education management, and has been responsible for research on many subjects put forward by the National Natural Science Foundation, the National Social Science Foundation, and other authorities at provincial and ministry level. He has received many awards such as the Ministry of Education's Class One Excellent Higher Education Textbook Award, the State-Level Class Two Teaching Award and the National Excellent Course Award. Mr. Xu has been a visiting professor at over 10 domestic universities and has been awarded the Fulbright Scholar of U.S.A. twice. Professor Xu was previously a lecturer at the New York State University at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan, Panyapiwat Institute of Management, Thailand and the Hong Kong Polytechnic University. Mr. Xu is also currently the independent non-executive director of China Telecom Corporation Limited (a company listed on the Stock Exchange and the New York Stock Exchange with stock codes of "728" and "CHA", respectively). Mr. Xu graduated from Renming University of China with a bachelor's degree in industrial economic management in December 1982 and also obtained a master's degree and doctorate degree in economy from Renming University of China in October 1989 and January 1998, respectively.

# Biographical Details of Directors and Senior Management

## SENIOR MANAGEMENT

**Mr. Tang Huantong**, aged 36, is the chief operation officer of the Company. Mr. Tang has extensive experience in the downstream solar business. Mr. Tang Huantong served as the executive vice-president of Jetion Solar (China) Co., Ltd.* (中建材浚鑫科技股份有限公司), a company principally engaged in providing customers with sustainable solutions involving solar cells, solar modules and solar power plants, and was responsible for the solar module business and downstream solar business for the period commencing from 2009 to 2015. Mr. Tang graduated from Xi'an Polytechnic University with a bachelor's degree in administrative business management in July 2001 and further obtained a master's degree in administrative business management for senior management from Nanjing University in March 2013.

**Mr. Wu Cheng Xian**, aged 69, is the vice general manager and the head of the manufacturing department of the Group. He is mainly responsible for stipulating and implementing manufacturing plan, supervising quality control, coordinating manufacturing and the operations of the other departments in our Group. He joined the Group in October 2008. Mr. Wu has approximately 40 years of experience in the related industry. Prior to joining the Group, Mr. Wu worked as the vice general manager in 麥斯克電子材料有限公司 (MCL Electronic Materials Co. Ltd.) from October 1999 to September 2008, responsible for daily manufacturing and sales, quality control and human resources management. He worked in 洛陽單晶硅廠 (Luoyang Monocrystalline Silicon Factory), which is now 洛陽單晶硅有限責任公司 (Luoyang Monocrystalline Silicon Co., Ltd.) from August 1968 to September 2008, as the manufacturing department head and then promoted to vice general manager in February 1994, responsible for daily manufacturing and sales of semiconductor materials, quality control and human resources management. Mr. Wu studied in 建德冶金工業學校 (Jiande Metallurgy Industrial School), which is now 嘉興學院 (Jiaxing Institute) since September 1963, majoring in Statistics and graduated in August 1968 with a secondary technical school degree. Mr. Wu received a junior college degree in Statistics in December 1988 by National self-taught examination. Mr. Wu was appraised as the senior economist in November 2006 by 中國有色金屬工業協會 (China Nonferrous Metals Industry Committee) according to nonferrous metals industry credential requirements.

## COMPANY SECRETARY

**Mr. Chau Kwok Keung**. Please refer to the biography of Mr. Chau above.

# Report of the Directors

The Directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacture and marketing of solar wafers and ingots, with a focus on high quality monocrystalline solar wafers, and the investment, development, construction and operation of solar photovoltaic power stations.

## SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2016 are set out in note 39 to the consolidated financial statements.

## FINANCIAL STATEMENTS

The summary of the results, assets and liabilities of the Group for the year ended 31 December 2016 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 79 to 169 of this annual report.

## RESULTS AND DIVIDENDS

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

The Board recommended that since the Company plans to reserve the cash for working capital requirement and any potential investment opportunities in the future, no dividend will be declared for the year ended 31 December 2016.

The Company may consider its dividend policy in the future according to the financial results and performance of the Company, and the general industry and economic environment.

## RESERVES

Details of movements in reserves of the Group and the Company for the year ended 31 December 2016 are set out in the consolidated statement of changes in equity and note 32 to the financial statement, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB145,641,000. The amount of approximately RMB145,641,000 represents the Company's share premium account of approximately RMB1,374,735,000 which is offsetted by accumulated losses of approximately RMB1,229,094,000 in aggregate as at 31 December 2016, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

## CHARITABLE DONATIONS

The Company did not make any charitable and other donations during the year under review.

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2016 are set out in note 15 to the consolidated financial statements.

## SHARE CAPITAL

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

## DIRECTORS

The Directors during the financial year and as of the date of this annual report were:

**Executive Directors**

Mr. John Yi Zhang *(Chairman)*
Mr. Chau Kwok Keung
Mr. Zhang Zhen *(appointed on 3 October 2016)*
Mr. Shi Chengqi *(retired on 23 May 2016)*

**Non-Executive Directors**

Mr. Donald Huang *(resigned on 19 April 2017)*
Mr. Wang Yixin *(appointed on 3 October 2016)*

**Independent Non-Executive Directors**

Mr. Daniel DeWitt Martin *(resigned on 19 April 2017)*
Mr. Kang Sun
Mr. Leung Ming Shu
Mr. Xu Erming *(appointed on 19 April 2017)*

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

According to Article 84(3), any Director appointed by the Board either to fill a casual vacancy on the Board or as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. As such, each of Mr. Zhang Zhen, Mr. Wang Yixin and Mr. Xu Erming will retire at the forthcoming annual general meeting and, being eligible, will offer himself for re-elections. In addition, in accordance with article 84 of the Company's articles of association, Mr. John Yi Zhang, Mr. Chau Kwok Keung and Mr. Leung Ming Shu will retire from the Board by rotation at the forthcoming annual general meeting. Each of Mr. John Yi Zhang, Mr. Chau Kwok Keung and Mr. Leung Ming Shu, being eligible, offers themselves for re-election. No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 21 to 24 of this annual report.

## DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no transactions, arrangements or contracts to which the Company or any of its subsidiaries was a party to and in which a Director or its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest in, whether directly or indirectly, and subsisted as of 31 December 2016 or at any time during the year ended 31 December 2016.

## DIRECTORS' SERVICE CONTRACTS

Please refer to the paragraph headed "Appointments, Re-election and removal of Directors" under the section headed "Corporate Governance Report" for details of the service contracts of the Directors.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

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

As at 31 December 2016, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are 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:

Long positions in the Company:

| Name of Director | Nature of interest | Number of shares interested | Approximate percentage of interest in the issued share capital of the Company |
|---|---|---|---|
| Mr. John Yi Zhang[1] | Beneficiary of a trust, interest in a controlled corporation, interest of spouse and interest of children under 18 | 629,283,550 | 40.69% |
| Mr. Chau Kwok Keung[2] | Beneficial owner | 13,228,000 | 0.86% |
| Mr. Kang Sun[3] | Beneficial owner | 549,574 | 0.04% |
| Mr. Daniel DeWitt Martin[4] | Beneficial owner | 499,659 | 0.03% |
| Mr. Leung Ming Shu[5] | Beneficial owner | 362,787 | 0.02% |
| Mr. Zhang Zhen[6] | Interest in a controlled corporation/ Beneficial owner | 164,059,384 | 10.61% |

*Notes:*

(1) Fonty, which is 100% beneficially owned by Mr. Zhang, held 576,453,844 Shares. For the purposes of the SFO, Mr. Zhang is also deemed to be interested in 47,829,706 Shares which are beneficially owned by Mr. Alan Zhang, Mr. Zhang's child under the age of 18, as beneficiary of Zhang Trusts For Descendants, which is an irrevocable trust set up by Mr. Zhang for the benefit of his descendants and of which J.P. Morgan Trust Company of Delaware is the trustee. For the purpose of the SFO, Mr. Zhang is also deemed to be interested in 5,000,000 underlying Shares by virtue of share options granted to him to subscribe for 5,000,000 Shares under the Company's Share Option Scheme on 28 June 2012.

(2) The Shares in which Mr. Chau Kwok Keung is deemed to be interested represent 13,228,000 Shares which may be issued to him upon the exercise of the Share Options (as defined below) granted to him on 28 June 2012 and on 31 March 2014 under the Share Option Scheme (as defined below).

(3) The 549,574 Shares in which Mr. Kang Sun is deemed to be interested represent 549,574 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options (as defined below) granted to him on 3 August 2009 and 2 October 2009 under the Pre-IPO Share Option Scheme and the Share Options (as defined below) granted to him on 27 December 2012 under the Share Option Scheme.

(4) The 499,659 Shares in which Mr. Daniel DeWitt Martin is deemed to be interested represent 499,659 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options (as defined below) granted to him on 3 August 2009 and 2 October 2009 under the Pre-IPO Share Option Scheme and the Share Options (as defined below) granted to him on 27 December 2012 under the Share Option Scheme. Mr. Daniel DeWitt Martin resigned as a Director on 19 April 2017.

(5) The 362,787 Shares in which Mr. Leung Ming Shu is deemed to be interested represent 362,787 Shares which may be issued to him upon the exercise of the Pre-IPO Share Options (as defined below) granted to him on 3 August 2009 and 2 October 2009 under the Pre-IPO Share Option Scheme and the Share Options (as defined below) granted to him on 27 December 2012 under the Share Option Scheme.

(6) The 164,059,384 Shares in which Mr. Zhang Zhen is deemed to be interested represent a maximum of 164,059,384 consideration Shares which may be issued to him or a company designated by him, assuming the maximum consideration will be paid and satisfied by the allotment and issue of such consideration Shares pursuant to a sale and purchase agreement entered into by, amongst others, the Company and Mr. Zhang Zhen, dated 7 July 2016. Please refer to the announcement of the Company dated 7 July 2016 for further details.

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

Save as disclosed in this report, at no time during the year ended 31 December 2016 was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Director or chief executive of the Company, as at 31 December 2016, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

| Name of Shareholders | Nature of interest | Number of shares interested | Approximate percentage of interest in the issued share capital of the Company |
|---|---|---|---|
| Fonty Holdings Limited | Beneficial owner | 576,453,844 | 37.27% |
| Ms. Carrie Wang[1] | Interest of spouse | 629,283,550 | 40.69% |
| Harmony Gold Ventures Corp[2] | Beneficial owner | 154,651,306 | 10.00% |
| Shanghai Hengqu Internet Technology Co., Ltd.*[2] | Interest in a controlled corporation | 154,651,306 | 10.00% |
| Jiangyin Jinqu Capital Management Co., Ltd.*[2] | Interest in a controlled corporation | 154,651,306 | 10.00% |
| Mr. Wang Yixin (王藝新)[2] | Interest in a controlled corporation | 154,651,306 | 10.00% |

*Notes:*

(1) Ms. Carrie Wang is the spouse of Mr. John Yi Zhang, therefore, pursuant to the SFO, she is deemed to be interested in all the Shares in which Mr. John Yi Zhang is interested.

(2) Harmony Gold Ventures Corp is a wholly-owned subsidiary of Shanghai Hengqu Internet Technology Co., Ltd.* (上海恒渠互聯網科技有限公司), which is wholly-owned by Jiangyin Jinqu Capital Management Co., Ltd.* (江陰市金渠資本管理有限公司), which is in turn owned as to 99% by Mr. Wang Yixin (王藝新). Therefore, each of Shanghai Hengqu Internet Technology Co., Ltd.* (上海恒渠互聯網科技有限公司), by Jiangyin Jinqu Capital Management Co., Ltd.* (江陰市金渠資本管理有限公司) and Mr. Wang Yixin (王藝新) is deemed to be interested in the 154,651,306 Shares held by Harmony Gold Ventures Corp.

Save as disclosed above, as at 31 December 2016, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEMES

**Pre-IPO Share Option Scheme**

The Company has adopted a share option scheme on 2 June 2008 (the "Pre-IPO Share Option Scheme") for the purpose of giving its employees an opportunity to have a personal stake in the Company and helping motivate its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 574,020 Shares (the "Underlying Shares") were granted to three independent non-executive Directors on 3 August 2009 and 2 October 2009, in respect of 230,000 Underlying Shares and 344,020 Underlying Shares, respectively. The exercise price per Share is HK$2.51, which is at a 19.5% premium to the final Offer Price in the Global Offering. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date.

All options granted under the Pre-IPO Share Option Scheme (the "Pre-IPO Share Options") can only be exercised in the following manner: (a) Shares representing 1/12th of the Shares which may be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme shall vest on 1 November 2009; (b) from 1 November 2009 onwards, the remaining 11/12th of the Underlying Shares shall vest in equal quarterly instalments of 1/12th of the Underlying Shares at the end of each three-month period subject to continued employment with our Company during that period and all other terms and conditions as described in the Pre-IPO Share Option Scheme; and (c) all outstanding Pre-IPO Share Options shall lapse on the date falling 10 years from the offer date of the Pre-IPO Share Options.

Details of the movement of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2016 are as follows:

| Grantee | Date of Grant | Exercise price per Share | Balance as at 1 January 2016 | Exercised during 2016 | Lapsed during 2016 | Cancelled during 2016 | Balance as at 31 December 2016 |
|---|---|---|---|---|---|---|---|
| Director | | | | | | | |
| Kang Sun | 3 August 2009 | HK$2.51 | 249,574 | – | – | – | 249,574 |
| Daniel DeWitt Martin[(1)] | 3 August 2009 | HK$2.51 | 199,659 | – | – | – | 199,659 |
| Leung Ming Shu | 3 August 2009 | HK$2.51 | 62,787 | – | – | – | 62,787 |
| Total | | | 512,020 | – | – | – | 512,020 |

*Note:*

(1) Mr. Daniel DeWitt Martin resigned as a Director on 19 April 2017.

Save as disclosed above, no Pre-IPO Share Options was granted, lapsed or cancelled for the year ended 31 December 2016.

**Share Option Scheme**

The Company has adopted the share option scheme (the "Share Option Scheme") on 2 October 2009 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Eligible person refer to (a) an executive; (b) a director or proposed director (including an independent non-executive director) of any member of our Group; (c) a direct or indirect shareholder of any member of our Group; (d) a supplier of goods or services to any member of our Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our 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 our Group; and (g) an associate of any of the foregoing person.

Upon adoption, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issued as at the Listing Date, that is, 100,000,000 Shares.

At the extraordinary general meeting of the Company held on 24 December 2015, the scheme mandate limit under the Share Option Scheme was refreshed. As at the date of this annual report, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option schemes of the Company is 154,651,305 Shares, being 10% of the Shares in issue as at the date of the extraordinary general meeting of the Company held on 24 December 2015 and 10% of the Shares in issue as at the date of this report.

No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

Details of the share options granted, exercised and lapsed under the Share Option Scheme as at 31 December 2016 are as follows:

| Grantee | Date of grant | Exercise price per Share | Balance as at 1 January 2016 | Share options granted during 2016 | Exercised during 2016 | Lapsed during 2016 | Balance as at 31 December 2016 |
|---|---|---|---|---|---|---|---|
| Other participants in aggregate | 9 September 2016 | HK$0.56 | – | 89,000,000 | – | – | 89,000,000 |
| Other participants in aggregate | 25 November 2015 | HK$0.736 | 59,000,000 | – | – | – | 59,000,000 |
| Other participants in aggregate | 26 June 2015 | HK$1.500 | 20,000,000 | – | – | – | 20,000,000 |
| Other participants in aggregate | 11 May 2015 | HK$1.390 | 59,800,000 | – | – | – | 59,800,000 |
| Director | | | | | | | |
| Mr. Chau Kwok Keung | 31 March 2014 | HK$1.386 | 13,000,000 | – | – | – | 13,000,000 |
| Other participants in aggregate | 31 March 2014 | HK$1.386 | 22,650,000 | – | – | – | 22,650,000 |
| Other participants in aggregate | 30 September 2013 | HK$1.870 | 4,020,000 | – | – | – | 4,020,000 |
| Director | | | | | | | |
| Mr. Kang Sun | 27 December 2012 | HK$1.262 | 300,000 | – | – | – | 300,000 |
| Mr. Daniel DeWitt Martin[10] | 27 December 2012 | HK$1.262 | 300,000 | – | – | – | 300,000 |
| Mr. Leung Ming Shu | 27 December 2012 | HK$1.262 | 300,000 | – | – | – | 300,000 |
| Other participants in aggregate | 27 December 2012 | HK$1.262 | 6,638,000 | – | – | – | 6,638,000 |
| Director | | | | | | | |
| Mr. John Yi Zhang | 28 June 2012 | HK$0.980 | 5,000,000 | – | – | – | 5,000,000 |
| Mr. Chau Kwok Keung | 28 June 2012 | HK$0.980 | 228,000 | – | – | – | 228,000 |
| Other participants in aggregate | 28 June 2012 | HK$0.980 | 3,556,000 | – | – | – | 3,556,000 |
| Other participants in aggregate | 24 May 2010 | HK$1.490 | 2,240,000 | – | – | – | 2,240,000 |
| | | | 197,032,000 | 89,000,000 | – | – | 286,032,000 |

*Notes:*

(1) Share options granted under the Share Option Scheme on 24 May 2010 shall vest in the relevant grantee in accordance with the timetable below with a 10-year exercise period (for the purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 24 May 2010 | 50% of the total number of Share Options granted |
| 30 June 2011 | 50% of the total number of Share Options granted |

(2) Share options granted under the Share Option Scheme on 28 June 2012 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for the purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 28 June 2012 | 50% of the total number of Share Options granted |
| 28 September 2012 | 12.5% of the total number of Share Options granted |
| 28 December 2012 | 12.5% of the total number of Share Options granted |
| 28 March 2013 | 12.5% of the total number of Share Options granted |
| 28 June 2013 | 12.5% of the total number of Share Options granted |

(3) Share options granted under the Share Option Scheme on 27 December 2012 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 27 December 2012 | 50% of the total number of Share Options granted |
| 27 March 2013 | 12.5% of the total number of Share Options granted |
| 27 June 2013 | 12.5% of the total number of Share Options granted |
| 27 September 2013 | 12.5% of the total number of Share Options granted |
| 27 December 2013 | 12.5% of the total number of Share Options granted |

(4) Share options granted under the Share Option Scheme on 30 September 2013 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 30 September 2013 | 50% of the total number of Share Options granted |
| 30 December 2013 | 12.5% of the total number of Share Options granted |
| 30 March 2014 | 12.5% of the total number of Share Options granted |
| 30 June 2014 | 12.5% of the total number of Share Options granted |
| 30 September 2014 | 12.5% of the total number of Share Options granted |

(5) Share options granted under the Share Option Scheme on 31 March 2014 vest in the relevant grantee in accordance with the timetable below with a 10-year exercise period (for the purpose, the date or each such date on which the Share Options are to vest being hereinafter referred to as a "Vesting Date"):

The 30,800,000 share options (including the Share Option granted to Mr. Chau Kwok Keung) shall be subject to a vesting period as followings:

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 31 March 2014 | 50% of the total number of Share Options granted |
| 30 June 2014 | 12.5% of the total number of Share Options granted |
| 30 September 2014 | 12.5% of the total number of Share Options granted |
| 31 December 2014 | 12.5% of the total number of Share Options granted |
| 31 March 2015 | 12.5% of the total number of Share Options granted |

The remaining 5,850,000 share options shall be subject to a vesting period as followings:

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 31 March 2014 | 1/3 of the total number of options granted |
| 30 June 2014 | 1/12 of the total number of options granted |
| 30 September 2014 | 1/12 of the total number of options granted |
| 31 December 2014 | 1/12 of the total number of options granted |
| 31 March 2015 | 1/12 of the total number of options granted |
| 30 June 2015 | 1/12 of the total number of options granted |
| 30 September 2015 | 1/12 of the total number of options granted |
| 31 December 2015 | 1/12 of the total number of options granted |
| 31 March 2016 | 1/12 of the total number of options granted |

(6) Share options granted under the Share Option Scheme on 11 May 2015 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 11 May 2015 | 50% of the total number of Share Options granted |
| 11 August 2015 | 12.5% of the total number of Share Options granted |
| 11 November 2015 | 12.5% of the total number of Share Options granted |
| 11 February 2016 | 12.5% of the total number of Share Options granted |
| 11 May 2016 | 12.5% of the total number of Share Options granted |

(7) Share options granted under the Share Option Scheme on 26 June 2015 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 26 June 2015 | 50% of the total number of Share Options granted |
| 26 September 2015 | 12.5% of the total number of Share Options granted |
| 26 December 2015 | 12.5% of the total number of Share Options granted |
| 26 March 2016 | 12.5% of the total number of Share Options granted |
| 26 June 2016 | 12.5% of the total number of Share Options granted |

(8) Share options granted under the Share Option Scheme on 25 November 2015 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 25 November 2015 | 50% of the total number of Share Options granted |
| 25 February 2015 | 12.5% of the total number of Share Options granted |
| 25 May 2016 | 12.5% of the total number of Share Options granted |
| 25 August 2016 | 12.5% of the total number of Share Options granted |
| 25 November 2016 | 12.5% of the total number of Share Options granted |

(9) Share options granted under the Share Option Scheme on 9 September 2016 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

| Vesting Date | Percentage of Share Options to vest |
|---|---|
| 9 September 2016 | 50% of the total number of Share Options granted |
| 9 December 2016 | 12.5% of the total number of Share Options granted |
| 9 March 2017 | 12.5% of the total number of Share Options granted |
| 9 June 2017 | 12.5% of the total number of Share Options granted |
| 9 September 2017 | 12.5% of the total number of Share Options granted |

(10) Mr. Daniel DeWitt Martin resigned as a Director on 19 April 2017.

During the year ended 31 December 2016, save as disclosed above, no options granted under the Share Option Scheme were lapsed or cancelled.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 31 to the financial statements.

## ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year ended 31 December 2016, were rights to acquire benefits by means of the acquisition of Share in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of Shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## FUND RAISING AND USE OF PROCEEDS

On 8 July 2016, the Company entered a subscription agreement with Shanghai Hengqu Internet Technology Co., Ltd.* (上海恒渠互聯網科技有限公司) (the "Subscriber"), pursuant to which the Company has conditionally agreed to allot and issue 154,651,306 subscription shares at a subscription price of HK$0.46 per Share to the Subscriber or its designated nominee. The subscription has been completed on 18 August 2016 with the 154,651,306 subscriptions shares allotted and issued to Harmony Gold Venture Corp, a wholly-owned subsidiary of the Subscriber, generating the net proceeds of approximately HK$70.4 million, representing a net subscription price of HK$0.45 per subscription share, which was expected to be used for any investment opportunity to be identified by the Group and as general working capital of the Group. As at the date of this annual report, a total amount of HK$35.2 had been used to purchase the raw materials, mainly including polysilicons, for the manufacturing of the Group and it was expected that the remaining HK$35.2 would be used for any investment opportunity to be identified by the Group and as general working capital of the Group. Please refer to the announcements of the Company dated 8 July 2016 and 18 August 2016 for further details.

Save as disclosed above, the Company has not conducted any other equity fund raising activities during the year ended 31 December 2016 and up to the date of this annual report.

## NON-COMPETE UNDERTAKINGS

Each of the Controlling Shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Non-competition Deeds (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Non-competition Deeds have been complied with by the Controlling Shareholders.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2016 and up to and including the date of this annual report.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2016.

## CONNECTED TRANSACTION

The Company has not entered into connected transactions during the year ended 31 December 2016.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

Except for the deviations from code provision A.2.1 of the Corporate Governance Code, during the year 31 December 2016, the Company has complied with the Corporate Governance Code. On 19 April 2017, Mr. John Yi Zhang resigned and Mr. Zhang Zhen was appointed as the chief executive officer of the Company, following which the Company is able to comply with code provision A.2.1 of the Corporate Governance Code. The Group's principal corporate governance practices are set out on pages 45 to 58 of the annual report.

## EQUITY-LINKED AGREEMENTS

On 7 July 2016, the Company entered into a sales and purchase agreement with two vendors, pursuant to which the Company agreed to acquire the entire issued share capital of Joy Boy HK Limited at a total maximum consideration of RMB130 million from the two vendors. The maximum consideration is to be satisfied by the Company by allotting and issuing new Shares at an issue price of HK$0.46 per consideration Share to the two Vendors. Assuming that the maximum consideration will be paid and satisfied by the allotment and issue of the consideration Shares, a total of 328,118,768 consideration Shares will be allotted and issued by the Company. Further details of this transaction are set out in the Company's announcements dated 7 July 2016, 24 August 2016 and 15 September 2016 and the Company's circular dated 9 August 2016.

On 14 November 2016, the Company entered into a sales and purchase agreement with two vendors, pursuant to which the Company agreed to acquire 51% of the entire issued share capital of Forum (Asia) Limited at a total maximum consideration of RMB52.02 million from the two vendors. The maximum consideration is to be satisfied by the Company by allotting and issuing new Shares at an issue price of HK$0.355 per consideration Share to the two Vendors. Assuming that the maximum consideration will be paid and satisfied by the allotment and issue of the consideration Shares, a total of 166,479,449 consideration Shares will be allotted and issued by the Company. Further details of this transaction are set out in the Company's announcements dated 14 November 2016 and 1 March 2017 and the Company's circular dated 12 December 2016.

Save as disclosed herein and in the sections headed "Share Option Schemes", as at the end of and during the year ended 31 December 2016, the Company did not enter into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

## PERMITTED INDEMNITY PROVISION

Pursuant to Article 164 of the Articles of Association of the Company, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which the Directors or any of the Directors shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of the Directors shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated applicable to the Company.

## PRINCIPAL RISKS AND RISK MANAGEMENT

The Board acknowledges its responsibility for the effectiveness of the internal control and risk management systems of the Group, which are designed to manage the risk of failure to achieve business objectives and provide reasonable assurance against material misstatement or loss.

The principal risks related to the Group are set forth as below:

**Business Risk**

The Group's business risks includes rapid change in the market conditions of the solar industry, downturn pressure on the government subsidies to the industry and selling price of solar products. The Board is responsible for the overall management of the business and review of material business decisions involving material risks exposures from time to time.

**Financial Risk**

The Group adopts financial risk management policies to manage its currency risk, interest rate risk, credit risk and liquidity risk. The Board also reviews monthly management accounts, capital structure and key operating data of the Group.

**Compliance Risk**

The Board adopts procedures to ensure the Company is in compliance with the applicable laws, rules and regulations. The Company engages professional advisors and consultants to keep the Company abreast of the latest developments in the regulatory environment, including legal, financial, environmental and operational developments. The Company also adopts a strict policy in prohibiting any unauthorized use or dissemination of confidential or inside information.

**Operational Risk**

The Company adopts procedures to manage its operational risk such as inadequate management efficiency, inefficient raw material procurement and production facilities utilization.

The Board has conducted a review of the effectiveness of the Group's internal control and risk management systems covering business, financial, compliance and operational risks of the Group and is satisfied that such systems are effective and adequate.

## EMPLOYEES

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees. The Group strives to motivate its employees with a clear career path and trainings for advancement and improvement of their skills. The Group has also adopted the Share Option Scheme to recognize and reward the contribution of the employees to the growth and development of the Group.

**Emolument Policy**

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. Details of Directors' remuneration are set out in note 11 to the financial statements.

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of the scheme are set out in the paragraph headed "Share Option Schemes" above and note 31 to the consolidated financial statements.

None of the directors waived any emoluments during the year ended 31 December 2016.

**Retirement Benefits Schemes**

The Group participates in a defined contribution mandatory provident fund scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000 for eligible employees. Contributions by the Group, which are matched by the employees, are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group and are invested in funds under the control of independent trustees. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute certain percentages of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the state-managed retirement benefits scheme.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

## MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers during the year of 2016 were 25.9% and 44.5% of the Group's total sales, respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers during the year of 2016 were 68.4% and 87.5% of the Group's total purchases, respectively.

So far as is known to the Directors, at no time during the year did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers.

The Group built long term relations with suppliers and customers and the Group treasures the technical and cost competitiveness of each other and provides supports to each other.

The Group has established strong relationships with numerous suppliers of high quality virgin polysilicon feedstock. The Group has an average of approximately twelve years of relationships with the Group's major suppliers. The Group has been able to rely on these relationships with its suppliers to provide the Group with a stable supply of polysilicon feedstock to meet the current production requirements. The strength of the relationships with long-term suppliers allows the Group to manage the raw materials procurement efficiently.

The Group has also established a number of long-term relationships with key customers in the solar power industry.

The Company believes its strong customer base will provide the Group with the critical support necessary for further expanding the Group's business and ensure that the Group is well-positioned to capture future growth opportunities in the solar power industry.

## ENVIRONMENTAL PROTECTION

The Group is specialized in providing energy saving and environmentally-friendly products. In addition, the Group is committed to building an environmentally-friendly corporation that pays close attention to conserving energy.

The Group strives to operate in compliance with the relevant environmental regulations and rules and has instituted various measures to comply with applicable laws and regulations, including measures to monitor and control waste water and waste chemicals. The Group currently has in-house waste water treatment facilities and external waste chemicals processing facilities. The facility maintenance team oversees the Group's compliance with environmental and waste treatment laws and regulations.

The Company believes that there are no environmental protection laws and regulations which may adversely affect the Group's production in any material respect, and the Group is currently in compliance in all material aspects with all applicable environmental laws and regulations for the year ended 31 December 2016.

## COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2016 and up to the date of this report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

## AUDITOR

Deloitte Touche Tohmatsu will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

## REVIEW OF THE FINANCIAL STATEMENTS

The audit committee of the Company had reviewed together with the management and external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2016.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the period from the Listing Date to 31 December 2016.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans of the Group as at 31 December 2016 are set out in note 27 to the consolidated financial statements.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2016 as set out in the section headed "Management Discussion and Analysis — Business Review" in this annual report is expressly included in this directors' report and forms part of this directors' report.

## IMPORTANT EVENTS SINCE THE END OF THE FINANCIAL YEAR

Following the fulfilment of all the conditions precedent, the acquisition of the 51% issued share capital of Forum (Asia) Limited was completed on 1 March 2017, after which, Forum (Asia) Limited has become a non-wholly owned subsidiary of the Group and its financial statements has been consolidated to those of the Group.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31 December 2016 is set out on page 170 of this annual report.

On behalf of the Board

John Yi Zhang

*Chairman*

# Corporate Governance Report

## CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

Except for the following deviations from code provision A.2.1 of the Corporate Governance Code, the Company has complied with the Corporate Governance Code for the year ended 31 December 2016.

Under provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group did not separate the roles of the chairman and chief executive officer during the year ended 31 December 2016. Mr. John Yi Zhang was both the chairman and chief executive officer of the Group. He has extensive experience in solar wafer industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considered that vesting the roles of chairman and chief executive officer in the same individual was beneficial to the business prospects and management of the Group. The balance of power and authorities was ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. On 19 April 2017, Mr. John Yi Zhang resigned and Mr. Zhang Zhen was appointed as the chief executive officer of the Company, following which the Company is able to comply with code provision A.2.1 of the Corporate Governance Code.

## BOARD OF DIRECTORS

The overall management of the Company's operation is vested in the Board.

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems, and monitoring of the performance of the senior management. The Directors have to make decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

As at the date of this annual report, the Board comprises seven Directors, consisting of three executive Directors, Mr. John Yi Zhang (the chairman of the Board), Mr. Chau Kwok Keung and Mr. Zhang Zhen, one non-executive Director, Mr. Wang Yixin and three independent non-executive Directors, Mr. Kang Sun, Mr. Leung Ming Shu and Mr. Xu Erming. All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Biographical information of the Directors are set out in the section headed "Biographic Details of Directors and Senior Management" of this annual report.

To the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

The Company has complied with Rule 3.10(1) of the Listing Rules to appoint at least three independent non-executive Directors. In addition, at least one independent non-executive Director possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors representing more than one-third of the Board and is in compliance with Rule 3.10A of the Listing Rules.

**Board Diversity Policy**

Pursuant to the new code provisions of the Corporate Governance Code relating to board diversity which has come into effect since 1 September 2013, the Board approved a new board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

### Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions for the year ended 31 December 2016.

### Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decision, in particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors with one of them, Mr. Leung Ming Shu, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

## Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company. The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the New Code on continuous professional development for the year ended 31 December 2016:

| | Corporate Governance/ Updates on Laws, Rules and Regulations | | Accounting/Financial/ Management or Other Professional Skills | |
|---|---|---|---|---|
| Name of Director | Read materials | Attend Seminars/ Briefings | Read materials | Attend Seminars/ Briefings |
| **Executive Directors** | | | | |
| Mr. John Yi Zhang | ✓ | ✓ | ✓ | ✓ |
| Mr. Chau Kwok Keung | ✓ | ✓ | ✓ | ✓ |
| Mr. Zhang Zhen | ✓ | ✓ | ✓ | ✓ |
| **Non-executive Directors** | | | | |
| Mr. Donald Huang | ✓ | ✓ | ✓ | ✓ |
| Mr. Wang Yixin | ✓ | ✓ | ✓ | ✓ |
| **Independent non-executive Directors** | | | | |
| Mr. Daniel DeWitt Martin | ✓ | ✓ | ✓ | ✓ |
| Mr. Kang Sun | ✓ | ✓ | ✓ | ✓ |
| Mr. Leung Ming Shu | ✓ | ✓ | ✓ | ✓ |

## Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

**Meetings**

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications.

The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2016 is set out below:

| Name of Director | Attendance/ Number of Board Meeting(s) | Attendance/ Number of General Meeting(s) |
|---|---|---|
| Executive Directors | | |
| Mr. John Yi Zhang *(Chairman and chief executive officer)* | 12/12 | 3/3 |
| Mr. Chau Kwok Keung | 12/12 | 3/3 |
| Mr. Zhang Zhen *(appointed on 3 October 2016)* | 3/3 | 1/1 |
| Non-executive Directors | | |
| Mr. Donald Huang | 12/12 | 3/3 |
| Mr. Wang Yixin *(appointed on 3 October 2016)* | 3/3 | 1/1 |
| Independent non-executive Directors | | |
| Mr. Daniel DeWitt Martin | 12/12 | 3/3 |
| Mr. Kang Sun | 12/12 | 3/3 |
| Mr. Leung Ming Shu | 12/12 | 3/3 |

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all time and may seek independent professional advice at the Company's expense. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures comply with the articles of association of the Company, as well as relevant rules and regulations.

**Appointments, Re-election and removal of Directors**

Mr. Zhang Zhen and Mr. Wang Yixin were appointed as an executive Director and non-executive Director, respectively, on 3 October 2016.

Mr. Donald Huang and Mr. Daniel Dewitt Martin resigned as a non-executive Director and an independent non-executive Director, respectively, on 19 April 2017. On the same date, Mr. Xu Erming was appointed as an independent non-executive Director.

Each of Mr. John Yi Zhang, Mr. Chau Kwok Keung and Mr. Zhang Zhen, being the executive Directors of the Company has entered into a service contract with the Company for a specific term of two years commencing form the Listing Date, the Listing Date and 3 October 2016, respectively, and will automatically continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Mr. Wang Yixin, being the non-executive Director of the Company, has entered into a service contract with the Company for a specific term of two years commencing from 3 October 2016 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of Mr. Kang Sun, Mr. Leung Ming Shu and Mr. Xu Erming, being the independent non-executive Directors of the Company, has entered into a service contract with the Company for a specific term of two years commencing form the Listing Date, the Listing Date and 19 April 2017, respectively, and will automatically continue for another three years thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

The above service contracts are subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

**Board Committees**

The Board has established (i) audit committee, (ii) remuneration committee; (iii) nomination committee and (iv) corporate governance committee, with defined terms of reference. The terms of reference of the board committees which explain their respective role and the authority delegated to them by the Board are available on the website of the Company at www.comtecsolar.com and the website of the Stock Exchange at www.hkexnews.hk. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

**Audit Committee**

The Company established an audit committee pursuant to a resolution of the Directors passed on 2 October 2009. The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the risk management and internal control systems of the Company. Their composition and written terms of reference are in line with the Corporate Governance Code. During the year ended 31 December 2016, the audit committee comprised of four members, namely, a non-executive Director, Mr. Donald Huang and three independent non-executive Directors, Mr. Leung Ming Shu, Mr. Daniel DeWitt Martin and Mr. Kang Sun. Mr. Leung Ming Shu is the chairman of the audit committee.

The Group's unaudited financial data for the three months ended 31 March 2016, unaudited interim results for the six months ended 30 June 2016, and the audited annual results for the year ended 31 December 2016 have been reviewed by the audit committee, which was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors. In addition, the audit committee reviewed the unaudited quarterly financials and the internal control of the Group and oversaw the risk management and internal control systems of the Group during the year of 2016.

During the year ended 31 December 2016, four meetings were held by the audit committee. The individual record of each member of the audit committee at the meetings of the audit committee is set out below:

| Name of Director | Attendance/ Number of Committee Meeting(s) |
|---|---|
| Mr. Donald Huang | 4/4 |
| Mr. Daniel DeWitt Martin | 4/4 |
| Mr. Kang Sun | 4/4 |
| Mr. Leung Ming Shu | 4/4 |

**Remuneration Committee**

The Company established a remuneration committee on 2 October 2009 with written terms of reference. The primary duties of the remuneration committee to make recommendations to the Board on the remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of non-executive Directors. Their composition and written terms of reference are in line with the CG Code. During the year ended 31 December 2016, the remuneration committee comprised of five members, namely, Mr. John Yi Zhang, an executive Director, Mr. Donald Huang, a non-executive Director, and three independent non- executive Directors, Mr. Daniel DeWitt Martin, Mr. Kang Sun, and Mr. Leung Ming Shu. Mr. Leung Ming Shu is the chairman of the remuneration committee.

During the year ended 31 December 2016, the remuneration Committee reviewed the remuneration packages of the Directors and the senior management.

During the year ended 31 December 2016, two meetings were held by the remuneration committee. The individual record of each member of the remuneration committee at the meeting of the remuneration committee is set out below:

| Name of Director | Attendance/ Number of Committee Meeting(s) |
|---|---|
| Mr. John Yi Zhang | 2/2 |
| Mr. Donald Huang | 2/2 |
| Mr. Daniel DeWitt Martin | 2/2 |
| Mr. Kang Sun | 2/2 |
| Mr. Leung Ming Shu | 2/2 |

**Nomination Committee**

The Company established a nomination committee on 2 October 2009 with written terms of reference. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. In identifying suitable director candidates and making such recommendations to the Board, the nomination committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships. Their composition and written terms of reference are in line with the CG Code. During the year ended 31 December 2016, the nomination committee comprised of five members, namely, Mr. John Yi Zhang, an executive Director and the chairman of the Board, Mr. Donald Huang, a non-executive Director, and three independent non-executive Directors, Mr. Daniel DeWitt Martin, Mr. Kang Sun, and Mr. Leung Ming Shu. Mr. John Yi Zhang is the chairman of the nomination committee.

The nomination committee reviewed the structure, size and composition of the Board, during the year of 2016.

During the year ended 31 December 2016, one meeting was held by the nomination committee. The individual record of each member of the nomination committee at the meeting of the nomination committee is set out below:

| Name of Director | Attendance/ Number of Committee Meeting(s) |
|---|---|
| Mr. John Yi Zhang | 1/1 |
| Mr. Donald Huang | 1/1 |
| Mr. Daniel DeWitt Martin | 1/1 |
| Mr. Kang Sun | 1/1 |
| Mr. Leung Ming Shu | 1/1 |

**Corporate Governance Committee**

The Company's corporate governance function is carried out by the corporate governance committee established pursuant to a resolution of the Board passed on 30 March 2012. The duties of the corporate governance committee include: (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report. During the year ended 31 December 2016, the corporate governance committee of the Board comprised four Directors, namely Mr. John Yi Zhang, an executive Director, Mr. Chau Kwok Keung, an executive Director, Mr. Donald Huang, a non-executive Director, and Mr. Leung Ming Shu, an independent non-executive Director. Mr. John Yi Zhang is the Chairman of the corporate governance committee.

During the year of 2016, the corporate governance committee reviewed the Company's policies and practices on corporate governance and; reviewed the training and continuous professional development of the Directors and senior management of the Group; reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements; reviewed the compliance manual applicable to employees of the Group and the Directors; and reviewed the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

During the year ended 31 December 2016, two meetings were held by the corporate governance committee. The individual record of each member of the corporate governance committee at the meeting of the corporate governance committee is set out below:

| Name of Director | Attendance/ Number of Committee Meeting(s) |
|---|---|
| Mr. John Yi Zhang | 2/2 |
| Mr. Chau Kwok Keung | 2/2 |
| Mr. Donald Huang | 2/2 |
| Mr. Leung Ming Shu | 2/2 |

### Company Secretary

The secretary of the Company is Mr. Chau Kwok Keung, whose biography details are set out in the section headed "Biographical Details of Directors and Senior Management" in this annual report. Mr. Chau Kwok Keung has been informed of the requirement of the Rule 3.29 of the Listing Rules. Mr. Chau Kwok Keung has informed the Company that he took approximately 20 hours of training covering corporate governance and accounting matters. The Company considers that the training of the company secretary is in compliance with the requirements under Rule 3.29 of the Listing Rules.

## FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Deloitte Touche Tohmatsu, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

### Auditor's Remuneration

The audit committee of the Board (the "Audit Committee") is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the authorized external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of the external auditors. The Company engages Deloitte Touche Tohmatsu as its external auditors. Details of the fees paid/payable to Deloitte Touche Tohmatsu during the year ended 31 December 2016 are as follows.

| | *RMB'000* |
|---|---|
| Audit services | 2,000 |

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Group's risk management and internal control systems are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board also recognises its overall responsibility for the Group's risk management and internal control systems and reviewing their effectiveness on an ongoing basis. In addition, the Audit Committee also has the responsibility for reviewing and assessing the Group's risk management and internal control systems. During the year of 2016, the Company has adopted the following policies and procedures and taken the following measures to improve the risk management and internal control systems of the Group.

In order to ensure the effectiveness of our risk management and internal control system, the Company has established various management and control procedures and adopted a Compliance Manual ("Risk Management and Internal Control Procedures") for identifying, evaluating, and managing the significant risks associated with the achievement of its operational objectives. The Company has completed the Risk Management and Internal Control Procedure with scientific analysis and assessment, to recognize potential risk points. By virtue of the Risk Management and Internal Control Procedure, the senior management of the Group reviews and evaluates the internal control process, monitors any risk factors on a regular basis, and reports to the Board on any findings and measures taken to address such variances and identified risks. The Board, with the assistance of the senior management of the Company, also conducts regular management meetings and on-site inspections to check and monitor the potential risks associated with the business operation and financial management of the Group.

With the integration of the real situation of the Company and various applicable laws and regulations, the management of the Company can act in concert with such to develop solutions towards the risks, to organize the business operation systematically, and to monitor and mitigate possible risks. The Company also formulated and distributed a Compliance Manual and Internal Audit Charter, etc. internally to require all staff of the Group to comply with these internal risk management and internal control standards, and together build a regulatory environment of risk control and standardized operation. In addition, the Company has also established policies and procedures with clear segregation of duties applicable to certain operating units to ensure the effectiveness of risk management and internal controls. The day-to-day operation is also entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board or the Audit Committee. This process was in place throughout 2016 and is subject to continuous improvement.

Meanwhile, the Company has updated the terms of reference and procedures of the Audit Committee accordingly in November 2015 to conform the new "Corporate Governance Code" requirements. Meanwhile, with the assistance of the professional auditor, the Audit Committee supervised the Company's revenue and expenditure for the financial and economic activities, to further strengthen the functions of risk management, to ensure the effective implementation of risk management and internal control system and the Company's standardized operation and healthy development. In order to comply with the relevant requirements under the Corporate Governance Code in relation to the corporate risk management and internal controls, the Company has established an internal audit department for the purposes of simultaneous updates between the corporate governance and the Code on Corporate Governance and continuously improving the effectiveness of the Company's risk management and internal controls.

During the year of 2016, the Company provided inside information training courses to the Directors and senior management of the Company to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is assessed in a timely manner and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of Shareholders. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

During the year of 2016, the Board, with the assistance of the Audit Committee, has conducted reviews of the risk management and internal control systems of the Company twice and considered the risk management and internal control systems of the Company are adequate and being implemented effectively. Such review covered all material controls, financial, compliance and operational controls as well as risk management mechanisms.

The Board, with the assistance of the Audit Committee, has also reviewed and was satisfied with the adequacy of the Company's resources, the staff's qualifications and experience, the training courses and the related budgets in accounting, internal review and financial reporting functions.

## SHAREHOLDERS' RIGHTS

**Procedures for shareholders to convene an extraordinary general meeting and putting forward proposals at shareholders' meeting**

Pursuant to the Article 58 of the articles of association of the Company, any one or more member(s) of the Company ("Shareholder(s)") 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 shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Suite 33, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong,to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

**Procedures by which enquiries may be put to the Board**

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Suite 33, 35/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong or by email at billy_law@comtecsolar.com. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

**Constitutional documents**

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2016.

**Communications with Shareholders**

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders of the Company and investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the shareholders of the Company receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.comtecsolar.com. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. Members of the Board and of the various board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

# Environmental, Social and Governance Report

This environmental, social and governance ("ESG") report (the "ESG Report") was prepared to present the Group's performance of corporate social responsibility and environmental protection for the year ended 31 December 2016. This ESG Report takes Comtec Solar Systems Group Limited as the main body and covers all the subsidiaries of the Company.

The Board has overall responsibility for the Company's ESG strategy and reporting. In line with the Corporate Governance Code, the Board is responsible for evaluating and determining the Company's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The management of the Company confirm to the Board that these systems are in place and effective.

The Company has internal control policies and systems to ensure compliances to rules and regulations at location of its operation. Management keep regular communication and monitoring of the operation to ensure its running as appropriate. Risk and defects identified would be discussed and reported to board if any.

Please see section "Risk management and internal control" for more details.

## PART I ENVIRONMENTAL

### Emissions

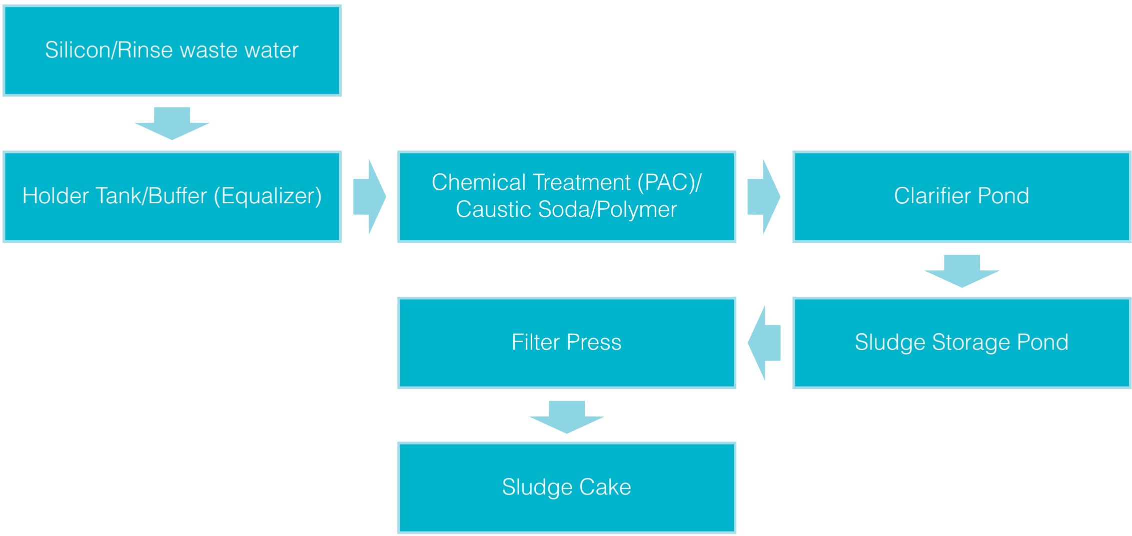
The Group carries out strict policies and procedures to monitor and treat the emissions of the four categories of pollutants specified by the state (waste water, waste gases, solid wastes and noise) and is committed to developing and introducing new technologies, and higher efficiency of pollutant treatment.

The principal manufacturing facilities of the Group are based in PRC and Malaysia. The Group strictly complies both China's and Malaysia's rules and regulations in regards with emission. Furthermore, the Group has established a greenhouse gas monitoring system to monitor greenhouse gas emissions. The Company does not generate any Greenhouse gas or any hazardous waste during manufacturing process. In 2016, emissions of greenhouse gases by the Group were mainly due to the consumption of purchased electricity.

The main non-hazardous waste generated during the production is dust and sludge, most of which are well processed and combined with our waste water process. During the year of 2016, the Group handled more than 1,769.9 tone sludge, which was sent to brickyard and then rebuilt to brick. During the year of 2016, the Group handled more than 4.7KG dust, which was sprayed by water and handled by waste water treatment process.

The below diagram sets out the general waste water treatment process of the Group:

**General Waste Water Treatment Process**




Ever since the commencement of the production of the Group, the Group has been focusing on environment protection and strictly following the following relevant applicable environment regulations and standards:

| Type | Standard/Regulations |
|---|---|
| Air | Integrated emission standard of air pollutants GB16297-1996<br>Environmental Quality (Clean Air) Regulations 1978<br>(Incorporated latest amendments — P.U. (A) 309/2000) |
| Water | Integrated wastewater discharge standard GB8978-1996 |
| Noise Level | Emission standard for industrial enterprises noise at boundary GB12348-2008 |

During the year of 2016, the Group was in compliance with the relevant laws and regulations that have a significant impact of the Company relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

The Group will endeavour to further reduce waste emission in the future by continuing to refine the manufacture process and upgrade existing wasting process unit.

### Uses of Resources

The Group has minimized energy losses in production and operation by continuously promoting effective energy-saving technologies, so as to achieve sustainable development. Meanwhile, it also cultivates employees' awareness of environmental protection, advocates green office work through employee training and education to minimise environmental impact in the course of management and daily operation of the Group.

The Group mainly consumes electricity, water and packaging materials (including paper boxes, form material and sponges) during its production, storage, packaging and transportation process. The Group also has policies and internal procedures to minimise usage of water under control of a log book, to set a specific temperature to allow the usage of air conditioners and to make sure cars shall be used effectively. In addition, the Group deepens innovation in management of packaging materials by reducing inventory backlog, avoiding claim of excessive materials and strengthening recovery management, to effectively reduce the use of packaging materials and avoid waste.

### The Environment and Natural Resources

Responding to the government's call on environment protection and energy saving, the Group continues to implement green office practices, such measures include the using of energy-saving lightings and recycled paper, minimising use of paper, reducing energy consumption by switching off idle lightings, computers and electrical appliances, use of teleconferencing as an alternative to travel.

## PART II SOCIAL

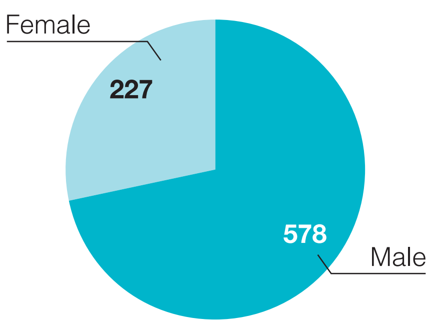
### Employment and Labour Practices

*Employment*

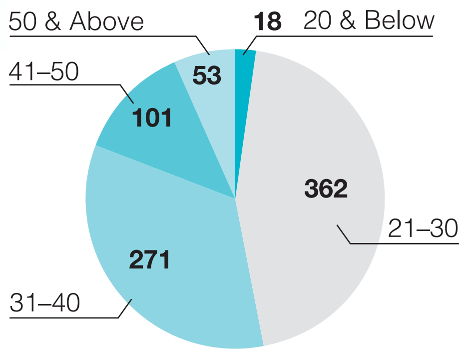
Understanding that staff is one of our most valuable assets, we have established comprehensive staff policies and welfare guidelines to attract and retain talent. We strive to ensure a safe and healthy workplace, which also serves as a platform for staff to excel in career and personal growth.

As of 31 December 2016, the total staff headcount, composition, and turnover rate of the Group are illustrated as follows:

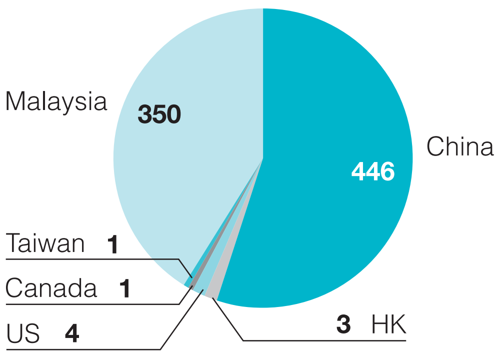
### Gender



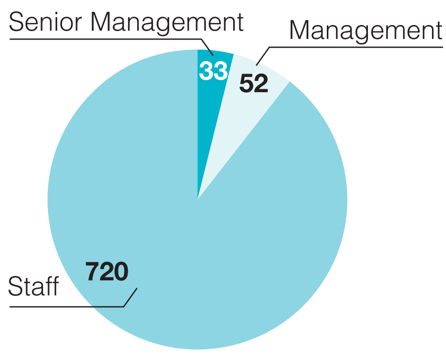

### Age



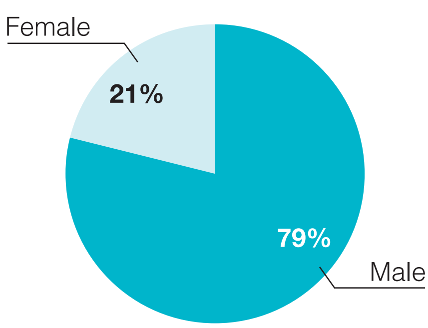

### Geography



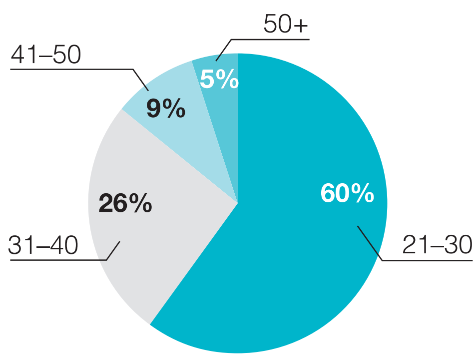

### Type




### Staff turnover by Gender




### Staff turnover by Age



We have internal policies to request all local operation to comply with the relevant rules and regulations relating to labor use and labor management. Management of the Company regularly communicates with each of the local operation teams to ensure such compliance and would strictly review the remedial measures to rectify any non-compliance notice or charges from the government authorities or complaints from our staffs.

The Group has established and perfected a welfare system suitable for enterprise development and employees' growth, built a remuneration management system and continuously perfected the remuneration scheme. Further, in accordance with national regulations, it pays social insurance and provident fund for employees and employer liability insurance for employees, provides various benefits such as subsidies on holidays and festivals, home leaves, meal allowance, and subsidies for mobile phone bill for employees, truly enabling employees to feel happy at work and in turn work hard due to the happy working environment.

During the year of 2016, the Group was in compliance with the relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

*Health and Safety*

The Group is committed to guarding its staff's health and safety. Various guidelines on work safety and emergency response, regarding daily operations, have been in place for staff to ensure their compliance. Notices are also posted in work places to constantly remind staff of wearing applicable personal safety equipment, and maintain an accident-free working environment together. The Group organizes various training modules on occupational health and safety to raise safety awareness amongst staff. Working environment is reviewed and evaluated on a regular basis, and improvement from time to time.

| Health and Safety performance | Performance |
|---|---|
| Number of work-related fatalities | 0 |
| Lost days due to work injury | 79 Days |
| Number of accident | 11 |

During the year of 2016, the Group was in compliance with the relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

*Development and Training*

The Group emphasizes staff development, and allocates annual training budgets as necessary to support employees' all-round training program. Staff is encouraged to participate in internal and external training opportunities per their duties. These training courses and seminars cover a wide range of topics, such as management skills, communication skills, and specific technical skills, which help strengthen their professional knowledge. The Group also encourages staff's self-learning to support employees' personal development.

| Total Training hours by employee category | Hours |
|---|---|
| Top Management Level | 20 |
| Senior Management Level | 72 |
| General Staff | 707 |

*Labour Standards*

The Group advocates a merit-based principle based on staff competency, to assemble a highly-efficient team. The Group offers a fair workplace by establishing clear staff policies and management controls, which respects equal opportunities, eliminates sexual harassment, provides grievance mechanisms, promotes anti-corruption, and ensures personal data confidentiality.

The company has implemented internal policies to require all HR departments in different locations to comply with national and local labour laws, including these related to child ad forced labour, and the management of the Company also makes regular communications with the head of the HR departments in different locations to ensure the compliance of the labor laws. In 2016, there were no instances of discrimination, child labor, forced labor or violations of employees' interests.

During the year of 2016, the Group followed the relevant laws and regulations that have a significant impact on the Group relating to preventing child and forced labour.

## Operating Practices

*Supply Chain Management*

The Group adheres to open, fair and transparent criteria in selecting suppliers and service providers, and has established a supplier qualification system in terms of price, quality, cost, delivery and after-sales service. The Group will carry out long-term quality monitoring and conduct regular reviews on all suppliers as well as casual examinations on different suppliers to ensure sustainable quality material supplies and services.

| Geographical region | Number of suppliers |
|---|---|
| China | 81 |
| Malaysia | 133 |
| Singapore | 2 |
| Korea | 1 |
| Germany | 1 |
| Philippines | 1 |
| Japan | 1 |
| Hong Kong | 1 |

*Product Responsibility*

The Group has policies to request all departments including sales and production to ensure all business and operation be complied with rules and regulations. Management communicate with staffs and department head and customers regularly and would review if any complaints, charges or lawsuits in these areas.

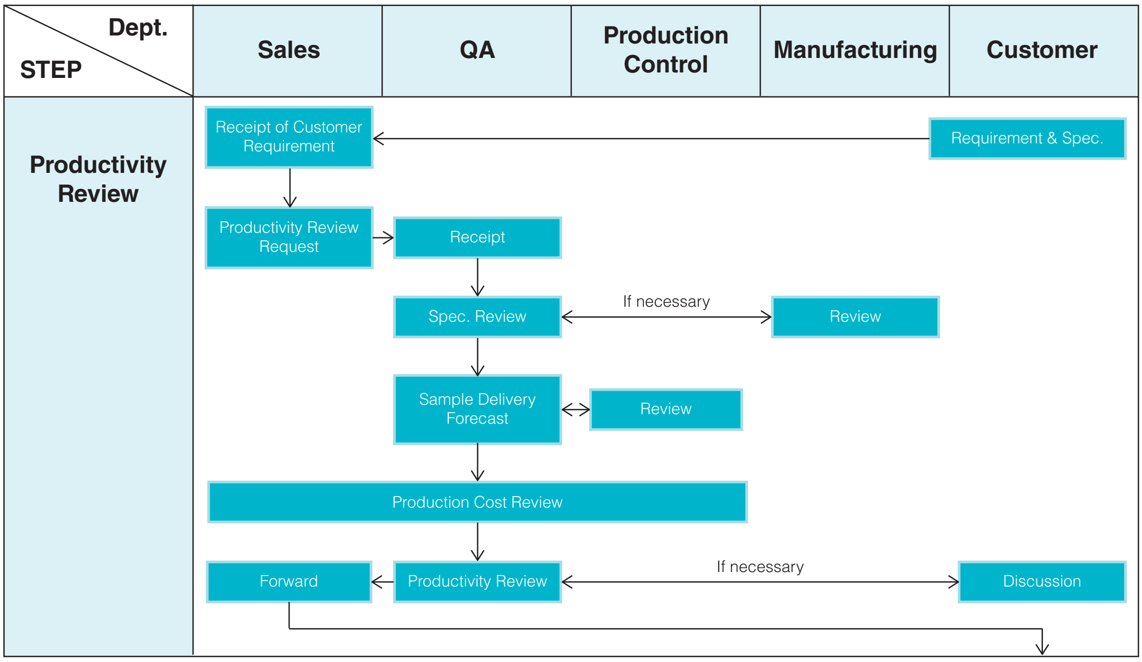
The Group has developed its brands and technologies for its products and therefore the protection of the Group's intellectual property rights is of critical importance. It is the Group's policy to register trademarks and invention patents in most of the major countries where such trademarks or patents are used or will be used soon. The Group will take appropriate steps to police infringements of its intellectual property rights and take necessary proceedings to protect its intellectual property rights. The Group also have Q&A and Complaint processes and to make sure after sale service qualities.

To regulate production and management, improve product quality and reduce production of unqualified products and waste of resources, the Group has established and strictly enforced a quality management system that covers the product life cycle ranging from procurement of raw materials to production process control to process supervision and inspection of finished products. Meanwhile, the Group has also strengthened quality inspection in its subsidiaries, branches and consortiums, monitored process quality control indices and thus uncovering and resolving product quality problems on a timely basis.

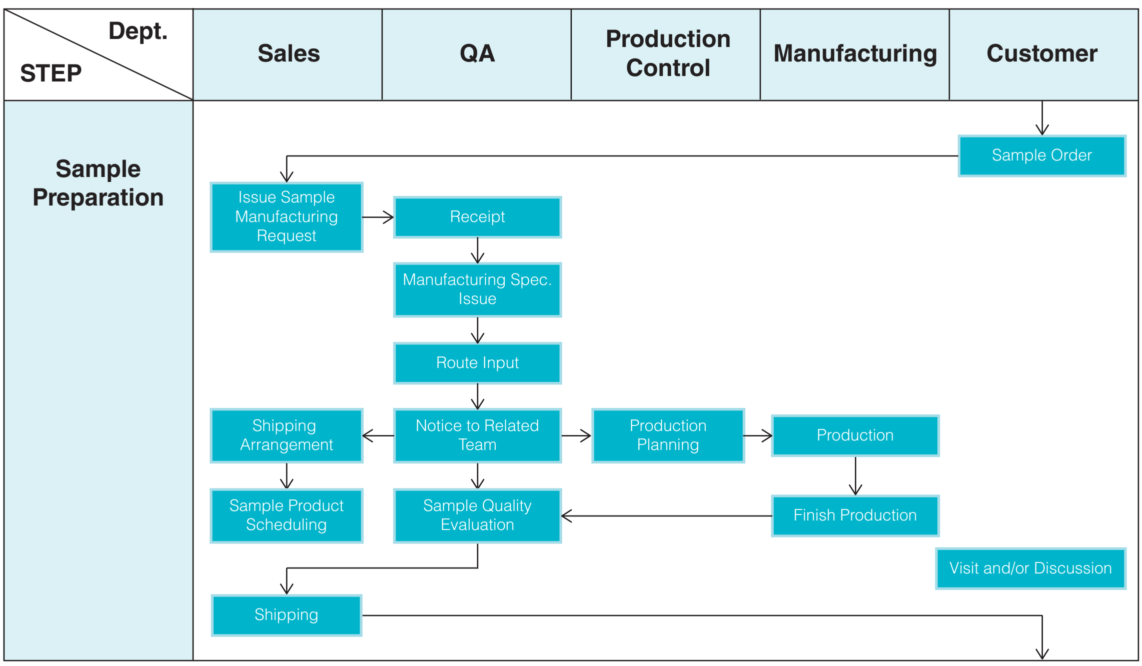
In order to provide consumers with genuine high-quality products, the Group has developed "a system" to strengthen rights protection against competing products suspected of infringing the patent of the Group. In the meantime, the Group has also developed "International Patent Application Process", gradually extended protection of intellectual property rights to overseas markets and strengthened protection of patents abroad.

Here is flowchart of the Company's QA and after sale services.

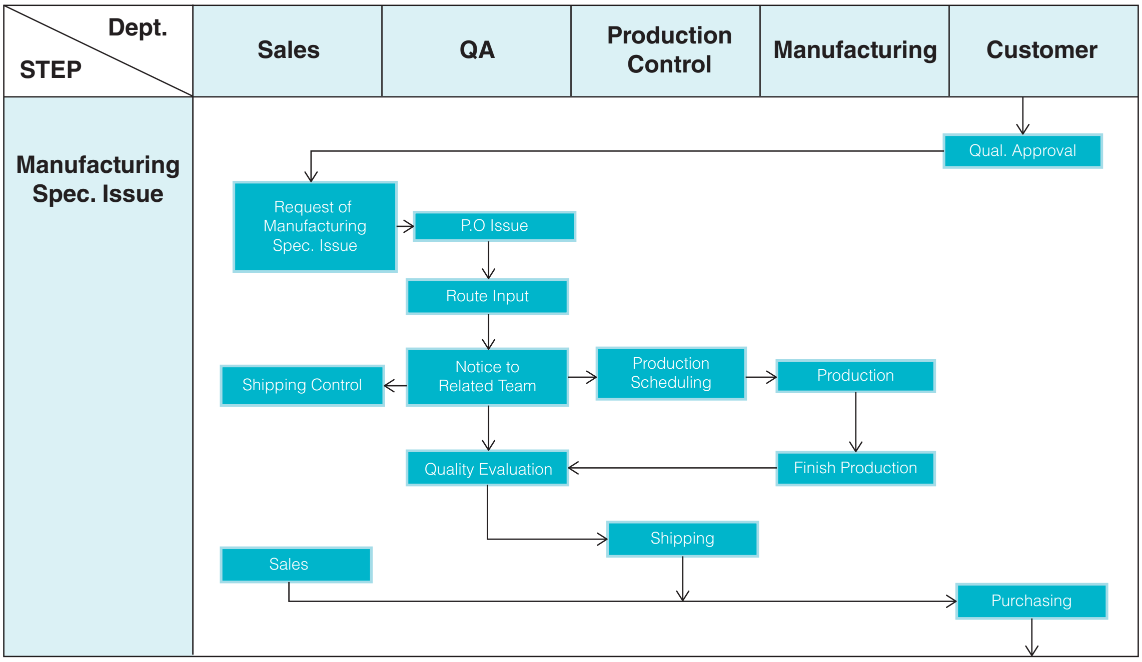
### Quality Assurance Flow Chart — Productivity Review



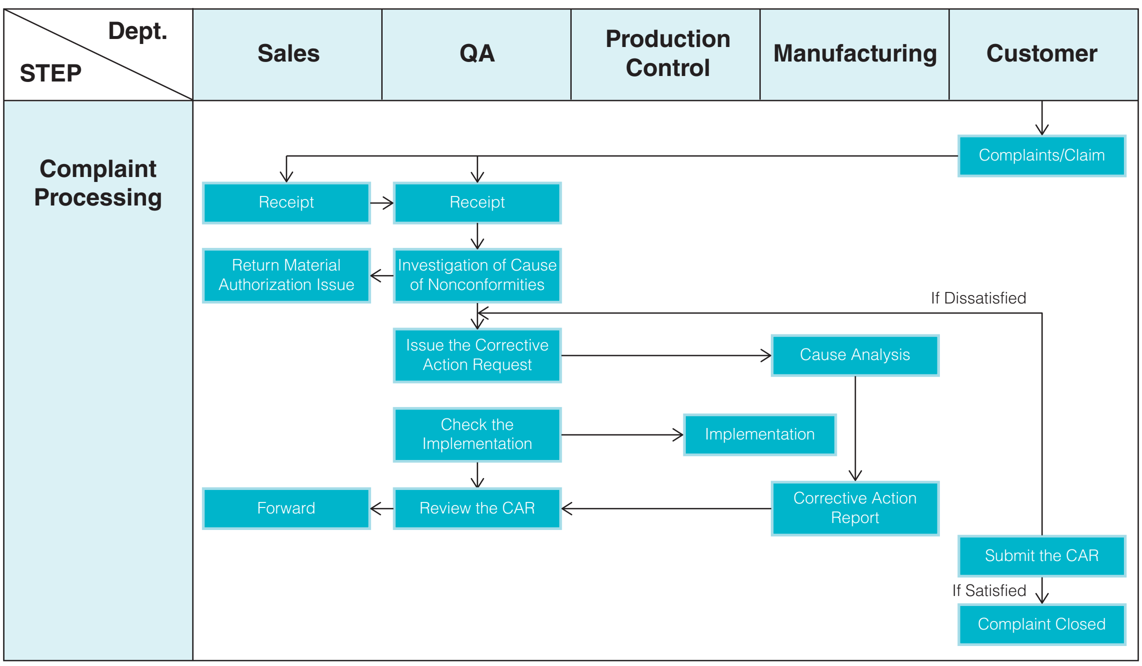

### Quality Assurance Flow Chart — Sample Preparation



### Quality Assurance Flow Chart — Spec. Issue




### Quality Assurance Flow Chart — Complaint Processing



| | Number or percentage |
|---|---|
| Total products sold or shipped subject to recalls for safety and health reasons | 0 |
| Products and service related complaints received and how they are dealt with | 0.67% |

During the year of 2016, the Group was in compliance with the relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.

**Anti-corruption**

The Group values credibility and integrity and follows the principle of fairness in its daily operations. At the same time, the Group has clarified its determined stance on fighting against corruption and deception to all employees, suppliers and business partners. Appropriate binding terms have been introduced accordingly to respective contracts to ensure the relevant parties acted under the Group's requirement. The Company has distributed an internal staff compliance handbook which implicitly forbids any corruption and also designated a personnel to be the contact person for the staff if any such case is noted.

All staffs are expected to observe ethical, personal and professional conduct. In additional to the Staff Code of Conduct on anti-bribery and anti-corruption, the Group has established whistle-blowing system and procedures, whistle-blowers of verified cases will be rewarded accordingly.

During the year of 2016, the Group did not identify any corruption or bribe-taking case and in compliance with the relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to bribery, extortion, fraud and money laundering.

**Community**

*Community Investment*

Over the years, the Group has been dedicating itself to serving the society with care, passion, integrity, and respect, which also constitutes an important part of the Group's mission. To fulfil its corporate responsibility, the Group promotes staff to be a volunteer and supports various community social events. These community events will help to build the team collaboration workstyle and contribute to the sustainable development of local society.

Here is some activities during the year of 2016:

Volunteering services of local rest home in China

Activity — Gotong Royong


Activity 2: SECA Bald Run

Deloitte. 德勤

TO THE MEMBERS OF COMTEC SOLAR SYSTEMS GROUP LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of Comtec Solar Systems Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 79 to 169, 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, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Impairment loss and provision for the termination of Malaysian plant under construction* | |
| We identified the impairment loss and provision for the termination of Malaysian plant under construction as a key audit matter due to significance of the amounts in the context of the Group's consolidated financial statements.<br><br>As disclosed in Note 24 to the consolidated financial statements, on 30 December 2016, the Group entered into an agreement to dispose certain assets of the Group maintained in Malaysia with a total net book value of approximately RMB500 million. The Group then provided a total impairment of RMB 340 million based on the cash consideration of approximately RMB200 million and the cost of disposal of approximately RMB40 million.<br><br>As the Group will terminate its Malaysian plant under construction, a total provision of approximately RMB88 million in respect of retrenchment expenses to lay off Malaysian staffing and compensations to suppliers was made in relation to the termination of the Malaysian plant. In addition, the Group has written off a non-refundable deposit paid amount to approximately RMB26 million as the directors of the Company is of a review that this deposit is no longer recoverable. | Our procedures in relation to impairment loss and provision for the termination of Malaysian plant under construction include:<br><br>• Obtaining an understanding of the Group's strategic plans and the background of the parties involved in relation to this assets disposal transaction;<br><br>• Obtaining an understanding on the process and testing the internal controls over the assessment on impairment loss and provision for the termination of Malaysian plant under construction;<br><br>• Obtaining the asset disposal lists and checking it by performing site visit, assessing the impairment on the disposal assets and unrecovered non-refundable deposit with reference to the supporting information on the respective carrying values and disposal price, as appropriate;<br><br>• Assessing the provision for compensations to suppliers with reference to the suppliers' contracts and termination settlement agreements;<br><br>• Assessing the provision of the retrenchment expenses to lay off staffing by checking the list of staff to be terminated to their employment contracts, on a simple basis, and the applicable labour laws;<br><br>• Enquiring management whether the potential material obligations in relation to the termination of the Malaysian plan under construction have been fully considered and evaluated; and<br><br>• Re-performing the underlying calculation used in the Group's assessment. |

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Impairment assessment of property, plant and equipment* | |
| We have identified the impairment assessment of property, plant and equipment as a key audit matter due to the inherent subjectivity within the estimation of the present value of the future cash flow, a key component of determining the asset's recoverable amount.<br><br>As disclosed in Note 15 to the consolidated financial statements, the Group has considered the dramatic change in the future economic conditions of the solar wafer manufacturing business towards the second half of 2016, as part of the impairment assessment and the resulting evaluation of the recoverable amount of the property, plant and equipment. As at 31 December 2016, the carrying amount of and the impairment provision on property, plant and equipment amounted to approximately RMB208 million and RMB276 million, respectively.<br><br>The recoverable amount of the property, plant and equipment has been determined based on value in use calculation. This calculation requires the use of estimates of future cash flow based on projected income and expenses of the business and working capital needs.<br><br>Management is also required to choose suitable discount rate in order to calculate the present value of such cash flow. The discount rate in measuring the value in use was 10.5%.<br><br>Changes in the key assumptions on which the recoverable amount of the assets are based could significantly affect the Group's assessment resulting in an impairment loss being recognized. | Our procedures in relation to the impairment assessment of property, plant and equipment included:<br><br>• Obtaining an understanding of the process and testing the internal controls over the impairment assessment including the Group's assessment of indicators of impairment, preparation of the cash flow forecast, setting of reasonable and supportable assumptions and inputs to the models used to estimate the recoverable amount;<br><br>• Testing the reasonableness of the inputs and assumptions used to determine the cash flow forecast against historical performance, economic and industry indicators, publically available information and the Group's strategic plans; and<br><br>• Re-performing the underlying calculation used in the Group's assessment. |

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Impairment assessment of goodwill arising from acquisition* | |
| We identified the impairment assessment of goodwill arising from acquisition of business as a key audit matter due to significance of the Group's goodwill in the context of the Group's consolidated financial statements, combined with the judgments involved in management's impairment assessment of goodwill.<br><br>As disclosed in Note 17 to the consolidated financial statements, as at 31 December 2016, the carrying amount of goodwill amounted to approximately RMB60 million.<br><br>As set out in Note 4(b) to the consolidated financial statements, the impairment assessment of goodwill is dependent on certain significant inputs and estimations that involve management's judgments. Details of such judgements are disclosed in Note 17. | Our procedures in relation to the impairment assessment of goodwill arising from acquisitions included:<br><br>• Obtaining an understanding of the process and testing the internal controls over the impairment assessment of goodwill;<br><br>• Examining the determination of recoverable amount which is the value in use of cash-generating unit to which goodwill has been allocated and obtaining an understanding of financial position and future prospect of the cash-generating unit;<br><br>• Evaluating the reasonableness of key inputs and assumptions used by management in estimations of value in use, including projections of cash flow, growth rate and weighted average cost of capital (discount rate) applied;<br><br>• Involving our valuation specialists to assess the appropriateness of the discount rate and methodologies used;<br><br>• Comparing cash flow projection to supporting evidence, such as approved budget, and evaluating the reasonableness of such budget with reference to contracts concluded or under negotiation and future prospect of the cash-generating unit as well as our knowledge of the business; and<br><br>• Re-performing the underlying calculation used in the Group's assessment. |

| Key audit matters | How our audit addressed the key audit matters |
| --- | --- |
| *Impairment assessment of inventories* | |
| We identified the impairment assessment of inventories as a key audit matter due to significance of the Group's inventories in the context of the Group's consolidated financial statements, combined with the management judgments involved.<br><br>Given the dramatic change in the future economic conditions of the solar wafer manufacturing business towards the second half of 2016, the Group's inventories are exposed to the risk of being carried in excess of net realizable value. As disclosed in Note 21 to the consolidated financial statements, as at 31 December 2016, the carrying amount of inventories amounted to approximately RMB191 million (net of inventory provision of RMB97 million). As disclosed in Note 4(e) to the consolidated financial statements, in assessing the net realizable value and making appropriate allowances to inventories, the management shall identify, using their judgement, inventories that are slow-moving or obsolete, and consider the inventories' physical conditions, age, market conditions and market prices for similar items. | Our procedures in relation to the impairment assessment of inventories included:<br><br>• Obtaining an understanding of the process and testing the internal controls over the impairment assessment of inventories;<br><br>• Attending inventory counts performed by the management to evaluate whether obsolete inventories are properly identified with which the impairment assessment is based;<br><br>• Examining the inventories aging report produced by the Group's financial system with reference to the procurement and/or production records;<br><br>• Evaluating the reasonableness of the impairment provision on inventories with reference to the aging report and subsequent movement of the inventories;<br><br>• Comparing the carrying amount of inventories at the balance sheet date, on a sample basis, to the subsequent selling price and/or publically available information relating to the future selling price trend of the inventories; and<br><br>• Evaluating the adequacy of impairment provision on inventories with reference to the information obtained above. |

| Key audit matters | How our audit addressed the key audit matters |
|---|---|

*Valuation of contingent consideration payables arising on business acquisition*

We identified the valuation of contingent consideration payables arising on business acquisition as a key audit matter due to the inherent subjectivity of management judgments involved in determining the fair value.

As disclosed in Note 29 to the consolidated financial statements, as at 31 December 2016, the fair value of the contingent consideration payables was estimated to be approximately RMB94 million resulting a fair value gain of approximately RMB19 million being recognized in the profit or loss for that year.

In estimating the fair value of the contingent consideration payables, the management has engaged an independent qualified professional valuer and worked with the valuer to establish and determine the appropriate valuation technique and inputs (as disclosed in Note 5 to the consolidated financial statements) for the fair value measurement of the contingent consideration payables at the inception date as well as at 31 December 2016.

Such works involved significant judgements and changes in the key assumptions on which the fair value is based could significantly affect the Group's assessment resulting in material fair value gain or loss being recognized in profit or loss.

Our procedures in relation to the valuation of contingent consideration payables arising on business acquisition included:

- Obtaining an understanding of the process and testing the internal controls on establishing reasonable and supportable assumptions and inputs to the models used to estimate the fair value;
- Evaluating the competence, capabilities and objectivity of the independent qualified professional valuer;
- Testing the reasonableness of the inputs and assumptions used with reference to the economic and industry indicators, publically available information and the Group's strategic plans; and
- Re-performing the underlying calculation used in the Group's assessment.

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in the independent auditor's report is Joseph Wing Ming Chan.

Deloitte Touche Tohmatsu
*Certified Public Accountants*

Hong Kong
31 March 2017

# 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 | 810,045 | 1,091,200 |
| Cost of sales | | (962,626) | (1,185,615) |
| Gross loss | | (152,581) | (94,415) |
| Other income | 7 | 4,120 | 9,508 |
| Other gains and losses, expenses and provision | 8 | (763,846) | (200,334) |
| Distribution and selling expenses | | (15,276) | (20,199) |
| Administrative expenses | | (71,094) | (114,893) |
| Finance costs | 9 | (9,112) | (14,762) |
| Loss before taxation | 10 | (1,007,789) | (435,095) |
| Taxation | 12 | 719 | 381 |
| Loss and total comprehensive expense for the year, attributable to the owners of the Company | | (1,007,070) | (434,714) |
| | | RMB cents | RMB cents |
| Loss per share | 14 | | |
| — Basic | | (69.48) | (31.23) |
| — Diluted | | (69.48) | (31.23) |

# Consolidated Statement of Financial Position

*At 31 December 2016*

| | NOTES | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 208,314 | 1,018,072 |
| Prepaid lease payments-non-current | 16 | 22,510 | 26,179 |
| Goodwill | 17 | 60,256 | – |
| Intangible assets | 18 | 63,050 | – |
| Deposits paid for acquisition of property, plant and equipment | | 1,106 | 31,370 |
| Advance to suppliers | 19 | – | 108,256 |
| | | 355,236 | 1,183,877 |
| **Current assets** | | | |
| Inventories | 21 | 191,082 | 263,645 |
| Trade and other receivables | 22 | 151,585 | 251,832 |
| Bills receivable | 22 | 10,826 | 6,971 |
| Advance to suppliers | 19 | 117,131 | 2,920 |
| Prepaid lease payments-current | 16 | 551 | 600 |
| Prepaid assignment fee | 38 | 166,190 | 175,546 |
| Short-term bank deposits | 23(A) | 126,637 | 171,084 |
| Bank balances and cash | 23(B) | 82,130 | 49,715 |
| | | 846,132 | 922,313 |
| Assets classified as held for sale | 24 | 160,638 | 19,129 |
| | | 1,006,770 | 941,442 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | 408,892 | 286,048 |
| Customers' deposits received | 26 | 237,668 | 178,676 |
| Short-term bank loans | 27 | 388,364 | 509,793 |
| Tax liabilities | | 309 | 400 |
| Deferred revenue-current | 28 | 287 | 287 |
| | | 1,035,520 | 975,204 |
| **Net current liabilities** | | (28,750) | (33,762) |
| **Total assets less current liabilities** | | 326,486 | 1,150,115 |

# Consolidated Statement of Financial Position

*At 31 December 2016*

| | NOTES | 2016 *RMB'000* | 2015 *RMB'000* |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 30 | 1,333 | 1,205 |
| Reserves | | 208,738 | 1,135,707 |
| **Total equity** | | 210,071 | 1,136,912 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 20 | 18,283 | 8,620 |
| Deferred revenue-non-current | 28 | 4,297 | 4,583 |
| Contingent consideration payables | 29 | 93,835 | – |
| | | 116,415 | 13,203 |
| | | 326,486 | 1,150,115 |

The consolidated financial statements on pages 79 to 169 were approved and authorised for issue by the Board of Directors on 31 March 2017 and are signed on its behalf by:

*DIRECTOR* *DIRECTOR*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2016*

| | Share capital RMB'000 | Share premium RMB'000 | Share options reserve RMB'000 | Special reserve RMB'000 (note a) | Statutory surplus reserve RMB'000 (note b) | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2015 | 1,205 | 1,316,968 | 29,141 | 11,012 | 84,583 | 71,606 | 1,514,515 |
| Loss and total comprehensive expense for the year | – | – | – | – | – | (434,714) | (434,714) |
| Recognition of equity-settled share-based payments | – | – | 57,087 | – | – | – | 57,087 |
| Exercise of share options | – | 35 | (11) | – | – | – | 24 |
| At 31 December 2015 | 1,205 | 1,317,003 | 86,217 | 11,012 | 84,583 | (363,108) | 1,136,912 |
| Loss and total comprehensive expense for the year | – | – | – | – | – | (1,007,070) | (1,007,070) |
| Issue of ordinary shares | 128 | 57,732 | – | – | – | – | 57,860 |
| Recognition of equity-settled share-based payments | – | – | 22,369 | – | – | – | 22,369 |
| At 31 December 2016 | 1,333 | 1,374,735 | 108,586 | 11,012 | 84,583 | (1,370,178) | 210,071 |

*Notes:*

a. Special reserve

This reserve arises on a group reorganization which took place in the year ended 31 December 2007. The difference between the nominal value of the shares acquired and the acquisition consideration arising on the group reorganization is recorded in special reserve.

b. Statutory surplus reserve

In accordance with the relevant laws and regulations for foreign investment enterprises in The People's Republic of China (the "PRC"), the PRC subsidiaries are required to transfer 10% of their profit after taxation reported in their statutory financial statements prepared under the PRC GAAP to the statutory surplus reserve. Allocation shall be approved by the shareholders. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the PRC subsidiaries' registered capital.

The PRC subsidiaries may, upon the approval by a resolution, convert their surplus reserves into capital in proportion to their then existing shareholdings. However, when converting the PRC subsidiaries' statutory surplus reserve fund into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2016*

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Operating activities | | |
| Loss before taxation | (1,007,789) | (435,095) |
| Adjustments for: | | |
| Interest income | (2,612) | (5,731) |
| Interest expenses | 9,112 | 14,762 |
| Depreciation of property, plant and equipment | 59,847 | 74,178 |
| Share-based payment expenses | 22,369 | 57,087 |
| Allowance for trade and other receivables | 5,151 | – |
| Allowance for inventories | 94,537 | 112,667 |
| Impairment losses recognized in respect of advance to suppliers | 1,369 | 152,758 |
| Impairment losses recognized in respect of assets held for sale | 339,317 | – |
| Impairment loss reversed in respect to prepaid assignment fee | – | (5,190) |
| Impairment losses recognized in respect of property, plant and equipment | 276,470 | – |
| Write off deposit paid for acquisition of property, plant and equipment | 25,775 | – |
| Losses recognized in respect of provision for termination of Malaysian plant under construction | 88,269 | – |
| Losses recognized in respect of provision for compensation to a supplier | 34,975 | – |
| Loss on disposal of property, plant and equipment | 1,548 | 35,617 |
| Other losses | – | 5,990 |
| Gain on disposal of assets held for sale | (81) | – |
| Gain on fair value change of Warrants | – | (10,600) |
| Gain on fair value change of contingent consideration payables | (19,068) | – |
| Utilization of allowance for advance to suppliers | (95,690) | (239,165) |
| Release of prepaid lease payments | 761 | 996 |
| Release of deferred revenue | (286) | (287) |
| Operating cash flows before movements in working capital | (166,026) | (242,013) |
| (Increase) decrease in inventories | (21,974) | 161,503 |
| Decrease (increase) in trade and other receivables | 95,096 | (23,610) |
| (Increase) decrease in bills receivable | (3,855) | 8,993 |
| Decrease in advance to suppliers | 88,366 | 88,030 |
| Decrease in prepaid assignment fee | 9,356 | 26,936 |
| Increase in trade and other payables | 20,393 | 86,258 |
| Increase (decrease) in customers' deposits received | 58,992 | (23,834) |
| Cash generated from operations | 80,348 | 82,263 |
| Tax paid | (112) | – |
| Tax refunded | – | 196 |
| Net cash from operating activities | 80,236 | 82,459 |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2016*

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Investing activities | | |
| Interest received | 2,612 | 5,731 |
| Proceeds from disposal of assets held for sale | 19,210 | – |
| Proceeds from disposals of property, plant and equipment | – | 13,868 |
| Placement of short-term bank deposits | (126,637) | (171,084) |
| Withdrawal of short-term bank deposits | 171,084 | 171,188 |
| Deposits paid for purchasing of property, plant and equipment | – | (31,370) |
| Purchase of property, plant and equipment | (36,182) | (41,070) |
| Additions of prepaid lease payments | (5,227) | – |
| Net cash from (used in) investing activities | 24,860 | (52,737) |
| Financing activities | | |
| Proceeds from issue of new shares | 58,797 | 59 |
| Expenses on issue of shares | (937) | (35) |
| Bank loans raised | 269,048 | 588,800 |
| Interest paid | (9,112) | (14,762) |
| Repayment of bank loans | (390,477) | (606,192) |
| Net cash used in financing activities | (72,681) | (32,130) |
| Increase (decrease) in cash and cash equivalents | 32,415 | (2,408) |
| Cash and cash equivalents at beginning of the year | 49,715 | 52,123 |
| Cash and cash equivalents at end of the year, represented by bank balances and cash | 82,130 | 49,715 |

## 1. GENERAL

The Company is a public limited company incorporated in the Cayman Island, and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 October 2009. Its parent company and ultimate holding company is Fonty Holdings Limited ("Fonty") incorporated in the British Virgin Islands with limited liability. Its ultimate controlling party is Mr. John Yi Zhang ("Mr. Zhang") who is the Chief Executive and director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the annual report.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are the manufacturing and sales of solar wafers and related products and provision of processing services for the solar products. The details of the Company's subsidiaries are set out in Note 39.

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied the following amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board ("IASB") for the first time in the current year.

| | |
|---|---|
| Amendments to IAS 1 | *Disclosure Initiative* |
| Amendments to IAS 16 and IAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortization* |
| Amendments to IFRSs | *Annual Improvements to IFRSs 2012–2014 Cycle* |

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 these consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

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

| | |
|---|---|
| IFRS 9 | Financial Instruments[1] |
| IFRS 15 | Revenue from Contracts with Customers[1] |
| IFRS 16 | Leases[2] |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration[1] |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1] |
| Amendments to IFRS 15 | Clarifications to IFRS 15 Revenue from Contracts with Customers[1] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to IAS 7 | Disclosure Initiative[4] |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealized Losses[4] |
| Amendments to IAS 40 | Transfers of Investment Property[1] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2014–2016 Cycle[5] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after January 1, 2017 or January 1, 2018, as appropriate

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

**IFRS 9 Financial Instruments**

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 are described as follows:

- All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39: Financial Instruments, Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

**IFRS 9 Financial Instruments** *(continued)*

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the adoption of IFRS 9 is not likely to have a material effect on the Group's consolidated financial statements.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

**IFRS 15 Revenue from Contracts with Customers** *(continued)*

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the financial performance and position of the Group in the initial year of adoption, however, as currently the directors of the Company is still in the midst of assessing the financial impact of the application of IFRS 15 and any reasonable quantitative estimate of the full impact of the adoption will only be available once the detailed review is completed. As a result, the above preliminary assessment is subject to change. The directors of the Company do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

**IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

**IFRS 16 Leases** *(continued)*

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of approximately RMB989,000. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group's consolidated financial statements and the directors of the Company are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation**

The Group experienced a net loss of RMB1,007 million in the year ended 31 December 2016 and had a working capital deficit (total consolidated current liabilities exceeded total consolidated current assets) of RMB29 million although a net assets of RMB210 million are maintained as of that date. These factors initially raised doubt as to the Group's ability to continue as a going concern. However, the Group has developed and implemented the following liquidity plan:

- While there can be no assurance that the Group will be able to refinance its short-term bank loans as they become due, historically, the Group has rolled over or obtained replacement borrowings from existing credit for most of its short-term bank loans upon the maturity date of the loans. The Group has assumed it will continue to be able to do so for the foreseeable future.

- The Group is adopting strict control of operating and investing activities.

Based on the business forecast, refinanced short-term bank loans plan and the liquidity plan, the accompanying consolidated financial statements have been prepared assuming the Group will continue as a going concern.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Statement of Compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

**Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The significant accounting policies are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

**Business combinations**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Business combinations** *(continued)*

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits respectively*;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

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

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Business combinations** *(continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Property, plant and equipment**

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

Depreciation is recognized to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

**Intangible assets**

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy on impairment of tangible and intangible assets below).

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)**

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

**Leasing**

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

*The Group as lessee*

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Prepaid lease payments**

Upfront prepayments made for the land use rights and leasehold land are initially recognized in the consolidated statement of financial position as lease payments and are expensed in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the periods of the respective lease.

**Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

**Inventories**

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

**Revenue recognition**

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

Revenue is recognized when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Revenue recognition** *(continued)*

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

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

Revenue from provision of service is recognized when service is provided.

Deposits received from customers prior to meeting the above criteria on revenue recognition are included in the consolidated statement of financial position under current liabilities.

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

**Government grants**

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

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group would purchase, construct or otherwise acquire non-current assets are recognized as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currency) are recorded in the respective functional currency (ies) (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss in the period in which they arise.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the year in which they are incurred.

**Retirement benefit costs**

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund are recognized as expenses when employees have rendered service entitling them to the contributions.

**Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Research and development expenditure**

Expenditure on research activities is recognized as an expense in the year in which it is incurred.

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

— the technical feasibility of completing the intangible asset so that it will be available for use or sale;

— the intention to complete the intangible asset and use or sell it;

— the ability to use or sell the intangible asset;

— how the intangible asset will generate probable future economic benefits;

— the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

— the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

**Taxation**

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Taxation** *(continued)*

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in to profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Share-based payment transactions**

*Equity-settled share-based payment transactions*

*Share options granted to the directors and employees of the Company*

Equity-settled share-based payment to directors and employees and other providing similar services are measured at fair value of the services received, unless that fair value cannot be estimated reliably. If the fair value of the services received cannot be reliably estimated, their value are measured by reference to the fair value of the equity instruments granted. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 31.

The fair values of services received in exchange for awards of share options determined by reference to the grant-date fair value of those share options is recognized as expense over the vesting period on a straight-line basis with a corresponding increase in share options reserve.

At the end of the reporting period, the Group revises its estimates of the number of share options that are expected to ultimately vest. The impact of the original revision of the estimates of the number of share options during the vesting period, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve (for share options).

At the time when the share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount of share options previously recognized in share options reserve will be transferred to retained profits.

At the time when the terms of share options are modified during the vesting period, the incremental fair value granted, which represents the excess of fair value of the share options immediately after modification over those of immediately before modification, is expensed over the remaining vesting period of the share options, in addition to the amount based on the grant date fair value of the original share options. At the time when the terms of share options are modified after the vesting period, the incremental fair value granted is recognized immediately in profit or loss.

At the time when the share options are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognizes immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period. The amount previously recognized in share options reserve will be transferred to retained profits.

*Share options granted to consultants*

Share options issued in exchange of services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognized as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments**

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

*Financial assets*

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

*Effective interest method*

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

Income is recognized on an effective interest basis for debt instruments.

*Loans and receivables*

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

Interest income is recognized by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Impairment of financial assets*

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

Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

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

— it becoming probable that the borrower will enter bankruptcy or financial reorganization.

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

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

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

*Financial liabilities*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Financial liabilities (continued)*

*Effective interest method*

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

Interest expense is recognized on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss is included in the other gains and losses' line item in profit or loss and includes any interest paid on the financial liabilities.

Financial liabilities at amortized cost

Financial liabilities at amortized cost including trade and other payables and short-term bank loans are subsequently measured at amortized cost, using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial instruments** *(continued)*

*Equity instruments*

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

*Derecognition*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognize the asset to the extent of its continuing involvement and recognizes an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

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

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

**Provision**

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

The following are the key assumptions concerning the future, and other lay 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.

**(a) Impairment of property, plant and equipment**

In assessing the impairment of property, plant and equipment, the Group requires to estimate the recoverable amount of the cash-generating units or the underlying assets. The recoverable amount, which is determined by the value-in-use calculation, requires the Group to estimate the future cash flows expected to arise from the cash-generating units or the underlying assets and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

During the year ended 31 December 2016, provision of impairment on property, plant and equipment amount to RMB276,470,000 (31 December 2015: RMB Nil).

**(b) Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amounts of goodwill are approximately RMB60,256,000 (2015: RMB Nil). Details of recoverable amount calculation are disclosed in Note 17.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

### (c) Impairment of intangible assets

The Group's management determines the estimated amortization method in determining the related amortization charges for its intangible assets. This estimate is based on the estimated period of economic benefit to be derived from the tangible asset. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of intangible assets may not be recoverable. Management will increase amortization charge where useful lives are expected to be shorter than expected, or will write off or write down obsolete assets that have been abandoned or impaired. When the actual useful lives or recoverable amounts of intangible assets differ from the original estimates, adjustment will be made and recognized in the period in which such event takes place.

As at 31 December 2016, the carrying amounts of intangible assets are approximately RMB63,050,000 (2015: RMB Nil). No impairment was recorded for the intangible assets during the year ended 31 December 2016. Details of movement in intangible assets are disclosed in Note 18.

### (d) Impairment of advance to suppliers, prepaid assignment fee and provision for onerous contracts

As detailed in Note 19, the Group makes non-refundable advance payments to raw material suppliers under non-cancellable long-term and short-term purchase agreements which are to be offset against future purchases. As detailed in Note 38, the Group had paid to an independent third party to enjoy rights and assume obligations as seller for a long-term wafer supply agreement to a customer.

In the event when the economic benefits expected to be received under these purchase agreements are less than the unavoidable costs of meeting the contractual obligations; or the financial conditions of these suppliers deteriorate, the Group would impair advance payments to these suppliers and contract assignor and make necessary provision for the present obligation under the agreements. The Group does not require collateral or other security against its advance to suppliers or prepaid assignment fees. The Group performs ongoing evaluation of impairment of advance to suppliers and prepaid assignment fees and provision for commitment that may become onerous due to a change of market conditions and the financial conditions of its suppliers. The evaluation takes into account the projected revenue, related expenses, capital spending and other costs. When the advance or prepaid assignment fee would not be settled as expected, the Group would impair the advance to suppliers and prepaid assignment fee and make necessary provision for the present obligation under the agreements.

As discussed in Note 19 and 38, as at 31 December 2016, the Group has made provision for impairment on advance to suppliers, provision for onerous contracts and provision for impairment on prepaid assignment fee amount to RMB1,369,000 (31 December 2015: RMB95,690,000), RMB Nil (31 December 2015: RMB Nil) and RMB Nil (31 December 2015: RMB Nil) respectively.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

**(e) Write-down of inventories**

Inventories are valued at the lower of cost and net realizable value. The Group inspects and reviews its inventories to identify slow-moving and obsolete inventories. When the Group identifies items of inventories which have a net realisable value that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down of inventories in that year. As at 31 December 2016, the carrying amount of inventories amounted to approximately RMB191,082,000 (31 December 2015: RMB263,645,000), net of inventory provision of approximately RMB96,599,000 (31 December 2015: RMB114,729,000).

**(f) Fair value of contingent consideration payables**

In 2016, the Group acquired a business which will be satisfied by issuing ordinary shares of the Company on earn-out basis. Such contingent consideration payables is classified as a financial instrument (financial liability at fair value through profit or loss). As at 31 December 2016, the fair value of the contingent consideration payables was estimated to be approximately RMB94 million resulting a fair value gain of approximately RMB19 million being recognized in the profit or loss for that year. The Group has engaged an independent qualified professional valuer to estimate the fair value of the contingent consideration payables at the inception date as well as at 31 December 2016. Details of the methodology and assumptions adopted are disclosed in Note 5 to the consolidated financial statements. Changes in the key assumptions on which the fair value is based could significantly affect the Group's assessment resulting in material fair value gain or loss being recognized in profit or loss.

## 5. FINANCIAL INSTRUMENTS

The Group's major financial instruments include trade and other receivables, bills receivable, short-term bank deposits, bank balances and cash, trade and other payables, short-term bank loans and contingent consideration payables. Details of these financial instruments are disclosed in respective notes. The risk associated with these financial instruments include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

## 5. FINANCIAL INSTRUMENTS *(continued)*

**Categories of financial instruments**

The carrying amounts of financial assets and financial liabilities are as follows:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Financial assets | | |
| Trade and other receivables | 91,268 | 179,634 |
| Bills receivable | 10,826 | 6,971 |
| Short-term bank deposits | 126,637 | 171,084 |
| Bank balances and cash | 82,130 | 49,715 |
| Total loans and receivables | 310,861 | 407,404 |
| Financial liabilities | | |
| Trade and other payables | 317,182 | 255,746 |
| Short-term bank loans | 388,364 | 509,793 |
| Total liabilities measured at amortized costs | 705,546 | 765,539 |
| FVTPL — Contingent consideration payables | 93,835 | – |

**Currency risk**

The primary economic environment which most of the principal subsidiaries of the Company operate is the PRC and their functional currency is RMB. However, these principal subsidiaries sometimes collect their trade receivables and settle their purchases of materials, machinery and equipment supplies and certain expenses in foreign currencies.

Details of the Group's other financial assets, short-term bank deposits, bank balances and cash, trade and other receivables, trade and other payables and short-term bank loans that are denominated in foreign currencies, mainly in Hong Kong dollars ("HK$"), United States dollars ("USD"), Japanese yen ("JPY"), Malaysian Ringgit ("MYR") and European dollars ("Euro") as at 31 December 2016 and 31 December 2015 are set out in respective notes.

The Group had foreign currency denominated monetary assets and monetary liabilities amounting to approximately RMB246,098,000 and RMB606,055,000, respectively (31 December 2015: RMB199,216,000 and RMB692,906,000) as at 31 December 2016.

## 5. FINANCIAL INSTRUMENTS *(continued)*

**Sensitivity analysis**

This sensitivity analysis details the Group's sensitivity to a 5% appreciation and depreciation in each relevant foreign currency against functional currency, RMB. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items and adjusts their translation at the end of the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in post-tax loss for the year and a negative number below indicates an increase in post-tax loss for the year where the relevant foreign currencies fluctuate 5% against RMB.

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Euro impact | | |
| — Euro strengthens against RMB | 2,069 | 2,107 |
| — Euro weakens against RMB | (2,069) | (2,107) |
| HK$ impact | | |
| — HK$ strengthens against RMB | (19) | (173) |
| — HK$ weakens against RMB | 19 | 173 |
| USD impact | | |
| — USD strengthens against RMB | 10,272 | 15,335 |
| — USD weakens against RMB | (10,272) | (15,335) |
| MYR impact | | |
| — MYR strengthens against RMB | 1,082 | 1,089 |
| — MYR weakens against RMB | (1,082) | (1,089) |
| JPY impact | | |
| — JPY strengthens against RMB | 96 | 155 |
| — JPY weakens against RMB | (96) | (155) |

**Interest rate risk**

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, deposits and loans (see Notes 23 and 27 for details of these bank balances, deposits and loans). The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

## 5. FINANCIAL INSTRUMENTS *(continued)*

**Sensitivity analysis**

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing bank balances, deposits and loans at the end of each reporting periods and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting period in the case of bank balances, deposits and loans.

A 10 basis points increase or decrease on variable-rate bank balances and deposits and 100 basis points increase or decrease on variable-rate bank loans are used when reporting interest rate risk internally to key management personnel and represents managements' assessment of the reasonably possible change in interest rates.

If interest rates on bank balances and deposits had been 10 basis points higher and all other variables were held constant, a positive number below indicates a decrease in post-tax loss for the year.

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Decrease in post-tax loss for the year | 157 | 165 |

The post-tax loss for the year would be increased by an equal and opposite amount if interest rate on bank balances and deposits had been 10 basis points lower and all other variables were held constant.

If the interest rate on bank loans had been 100 basis points higher and all other variables were held constant, a positive number below indicates an increase in post-tax loss for the year.

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Increase in post-tax loss for the year | 895 | 1,193 |

The post-tax loss for the year would be decreased by an equal and opposite amount if interest rate on variable-rate bank loans had been 100 basis points lower and all other variables were held constant.

## 5. FINANCIAL INSTRUMENTS *(continued)*

**Credit risk**

The Group's principal financial assets are trade and other receivables, bills receivable, short-term bank deposits and bank balances and cash. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amount of the respective recognized financial assets as stated in the Group's consolidated statements of financial position.

The Group's credit risk is primarily attributable to the trade and other receivables and bills receivable. In order to minimise the credit risk, the Group's management continuously monitors the credit quality and financial conditions of the customers and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

There is concentration of credit risk on bank balances and short-term bank deposits for the Group as at 31 December 2016 and 31 December 2015. As at 31 December 2016 and 2015, balances with the largest bank accounted for 50% (2015: 74%) of aggregate balance of bank balances, short-term bank deposits and other financial assets bank balances of the Group. The credit risk on liquid funds is limited because majority of counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The credit risk of the Group is concentrated on trade receivables from one of the Group's customers, which was the Group's major customers engaged in the sales and manufacturing of solar cells and modules at 31 December 2016 and 31 December 2015 which amounted to approximately RMB62,646,000 (2015: RMB81,528,000). This has good repayment history and credit quality with reference to the track records under internal assessment by the Group. In addition, the Group's credit risk on bills receivable was concentrated on counterparties which were reputable banks in the PRC. In order to minimise the credit risk, the directors of the Company continuously monitor the level of exposure by frequent review of the credit evaluation of the financial condition and credit quality of its customers and banks to ensure that prompt actions will be taken to lower exposure.

**Liquidity risk management**

The directors of the Company have adopted an appropriate liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by closely and continuously monitoring the Group's consolidated financial position. The directors of the Company maintain the sufficiency of cashflows with availability of unutilized banking facilities, internally generated funds and funds arose from financing activities, if necessary. The directors of the Company also review the forecasted cashflows on an on-going basis to ensure that the Group will be able to meet its financial obligations falling due and have sufficient capital for operation and expansion. Maturity of financial obligations will be re-negotiated with creditors and changes on capital expansion plan will be made should the need arise.

## 5. FINANCIAL INSTRUMENTS *(continued)*

**Liquidity risk management** *(continued)*

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows on financial liabilities based on the earliest date in which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the discounted amount is derived from interest rate curve at the end of the reporting period:

| | Weighted average effective interest rate | Less than 6 months | 6 months to 1 year | 1 year to 2 years | 2 years to 5 years | Total undiscounted cash flows | Carrying amounts |
|---|---|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 31 December 2016 | | | | | | | |
| Financial liabilities | | | | | | | |
| Non-interest bearing instruments | – | 153,721 | 163,460 | – | – | 317,181 | 317,181 |
| Fixed interest bearing instruments | 4.06 | 161,976 | 111,830 | – | – | 273,806 | 269,047 |
| Variable interest bearing instruments | 2.13 | 119,570 | – | – | – | 119,570 | 119,317 |
| | | 435,267 | 275,290 | – | – | 710,557 | 705,545 |
| At 31 December 2015 | | | | | | | |
| Financial liabilities | | | | | | | |
| Non-interest bearing instruments | – | 121,061 | 134,674 | – | – | 255,735 | 255,735 |
| Fixed interest bearing instruments | 5.31 | 208,055 | 128,000 | – | – | 336,055 | 329,908 |
| Variable interest bearing instruments | 1.93 | 183,731 | 2,489 | 4,978 | 7,260 | 198,458 | 179,885 |
| | | 512,847 | 265,163 | 4,978 | 7,260 | 790,248 | 765,528 |

*Note:* At 31 December 2016 and 31 December 2015, the weighted average effective interest rates were based on the variable interest rates of the bank loans outstanding at the end of each reporting period.

The amount for variable interest rate instruments for non-derivative financial liabilities is subject to changes if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

## 5. FINANCIAL INSTRUMENTS *(continued)*

**Fair value measurements**

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

| Financial assets/financial liabilities | Fair value as at 31/12/2016 | 31/12/2015 | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Warrants classified as derivative financial instruments in the consolidated statement of financial position | N/A (Note) | Liabilities — RMB28 | Level 3 | Binomial Model with parameters of the Company's shares, including share prices, expected volatility, dividend yield, etc., at the end of the reporting period and expected life of the warrants, discounted at a rate that reflected credit risk of the Company. | Expected volatility of the warrants, which is made reference to the historical volatility to the share prices of the Company | The higher the volatility, the higher the fair value |
| Contingent consideration payables classified as financial instruments in the consolidated statement of financial position | Liabilities — RMB93,835,000 | N/A | Level 3 | Income approach based on the scenario analysis with parameters including probabilities assessment to the operating results estimated by the management under each scenario. | Expected probabilities on each of the expected operating results | The higher the expected probability, the higher the fair value.<br><br>The higher the expected operating profit, the higher the fair value. |

*Note:* The Company's warrants were expired on 13 March 2016.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

## 5. FINANCIAL INSTRUMENTS *(continued)*

**Fair value measurements and valuation processes**

The board of directors of the Company has set up a team, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of the financial assets and liabilities of the Group, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation findings to the board of directors regularly to explain the cause of fluctuations in the fair value of the related financial assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of the financial assets and liabilities are disclosed above.

**Capital risk management**

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

The capital structure of the Group consists of debt, which includes the bank loans, and equity attributable to owners of the Company, which includes the share capital, various reserves and retained earnings, as disclosed in the consolidated financial statements.

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, issuance of new shares as well as raising of bank loans.

## 6. SEGMENT INFORMATION

The Group is mainly operating in manufacturing and sales of solar wafers and related products and provision of processing services for the solar products. Mr. Zhang, the chief operating decision maker of the Group, regularly reviews revenue analysis and the results of the Group as a whole for the purposes of performance assessment and making decisions about resources allocation. Accordingly, the Group has only one operating and reporting segment for financial reporting purpose. The Group's segment loss is the loss before taxation of the Group.

**Entity-wide disclosures**

*Revenue analysis*

The following table sets forth a breakdown of the Group's revenue from manufacturing and sales of solar wafers and related products and provision of processing services for the year:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Manufacturing and sales of solar products: | | |
| Monocrystalline solar wafers | 306,567 | 620,990 |
| Monocrystalline solar ingots | 29,648 | 3,631 |
| | 336,215 | 624,621 |
| Trading of solar products: | | |
| Monocrystalline silicon | 456,099 | 459,788 |
| Others | 15,942 | 224 |
| | 472,041 | 460,012 |
| Provision of processing services: | | |
| Processing service for solar products | 1,789 | 6,567 |
| Total revenue | 810,045 | 1,091,200 |

Revenue reported above represents revenue generated from external customers.

## 6. SEGMENT INFORMATION *(continued)*

**Revenue analysed by the locations of external customers**

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| PRC including Hongkong SAR | 536,671 | 418,088 |
| Philippines and Malaysia | 213,871 | 433,656 |
| USA | 39,590 | 137,884 |
| Korea | 13,971 | 10,880 |
| Japan | 2,968 | 25,368 |
| Singapore | – | 9,294 |
| Other countries *(Note)* | 2,974 | 56,030 |
| Total revenue | 810,045 | 1,091,200 |

*Note:* The customers located in other countries are mainly from other Asian countries and Canada.

**Information about major customers**

Details of the customers accounting for 10% or more of total revenue of the Group are as follows:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Customer A | 209,672 | 433,657 |

All of the Group's non-current assets, including property, plant and equipment, prepaid lease payments, goodwill, intangible assets, deposits paid for acquisition of property, plant and equipment and advance to suppliers, are located in the Group entities' countries of domicile at the end of each reporting period. The following table sets forth details:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| PRC including Hongkong SAR | 347,117 | 647,450 |
| Malaysia | 8,119 | 536,427 |
| | 355,236 | 1,183,877 |

## 7. OTHER INCOME

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Government grant *(Note)* | 1,452 | 292 |
| Compensation | 56 | 3,485 |
| Interest income | 2,612 | 5,731 |
| | 4,120 | 9,508 |

*Note:* The government grant mainly represented the amount received from the local government by an operating subsidiary of the Group to encourage activities carried out by the Group in solar business and high-technology advancement. No specific conditions were attached to the grant.

## 8. OTHER GAINS AND LOSSES, EXPENSES AND PROVISION

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Net foreign exchange losses | (10,121) | (21,759) |
| Gain on fair value changes of Warrants | – | 10,600 |
| Gain on fair value change of contingent consideration payables *(Note 29)* | 19,068 | – |
| Gain on disposal of assets held for sale | 81 | – |
| Loss on disposal of property, plant and equipment | (1,548) | (35,617) |
| Allowance for trade and other receivables (Note 22) | (5,151) | – |
| Impairment losses reversed in respect of prepaid assignment fee | – | 5,190 |
| Impairment losses recognized in respect of property, plant and equipment *(Note 15)* | (276,470) | – |
| Impairment losses recognized in respect of advance to suppliers *(Note 19)* | (1,369) | (152,758) |
| Impairment losses recognized in respect of assets held for sale *(Note 24)* | (339,317) | – |
| Write off deposit paid for acquisition of equipment *(Note 24)* | (25,775) | – |
| Losses recognized in respect of provision for termination of Malaysian plant under construction *(Note 24)* | (88,269) | – |
| Losses recognized in respect of provision for compensation to a supplier *(Note)* | (34,975) | – |
| Other losses | – | (5,990) |
| | (763,846) | (200,334) |

*Note:* In prior years, the Group entered into certain long term consumable purchase agreements with an independent supplier. During the year, an agreement was reached into between the independent supplier and the Group to reduce the consumable purchase period from 11 years to 21 months from March 2016. Due to the downside of the Group's manufacturing business, however, the directors of the Company expect that the Group would not be able to fulfill the agreed purchase amount and would incur penalties of approximately RMB34,975,000.

## 9. FINANCE COSTS

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Borrowing costs | 19,784 | 25,505 |
| Less: amounts capitalized in the cost of qualifying assets | (10,672) | (10,743) |
| | 9,112 | 14,762 |

The capitalized borrowing costs were calculated by applying the borrowing rate of 4.8% per annum to expenditure on qualifying assets.

## 10. LOSS BEFORE TAXATION

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Loss before taxation has been arrived at after charging: | | |
| Directors' remuneration *(Note (i))* | 3,794 | 4,554 |
| Other staff costs *(Note (i))* | 57,934 | 55,231 |
| Other staff's retirement benefits scheme contributions | 9,641 | 8,407 |
| Share-based payments expense for other staff *(Note (i))* | – | 4,228 |
| Total staff costs | 71,369 | 72,420 |
| Auditor's remuneration | 2,000 | 1,800 |
| Cost of inventories recognized as expense *(Note (ii))* | 962,626 | 1,185,615 |
| Depreciation of property, plant and equipment | 59,847 | 74,178 |
| Release of prepaid lease payments | 761 | 996 |
| Research and development expenses | 6,910 | 7,157 |
| Operating lease rentals in respect of rented premises | 3,154 | 1,513 |

*Notes*

i. During the year ended 31 December 2016, share-based payments expenses included in directors' remuneration of RMB62,000 (2015: RMB1,029,000), other staff costs of RMBNil (2015: RMB4,228,000) and expenses to independent consultants of RMB22,307,000 (2015: RMB51,830,000) which was recognized in administrative expenses in respect of share options of the Company recognized were approximately RMB22,369,000 (2015: RMB57,087,000). Details of transactions are set out in Note 31.

ii. Included in cost of inventories recognized as expense represented write-down of inventories of approximately RMB94,537,000 (2015: RMB112,667,000) to their net realisable values.

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Independent non-executive directors | | |
| — fees | 868 | 826 |
| Non-executive directors | | |
| — fees | 50 | – |
| Executive directors | | |
| — fees | – | – |
| — basic salaries and allowance | 2,799 | 2,685 |
| — share-based payments expense in relation to share options | 62 | 1,029 |
| — Retirement benefits scheme contributions | 15 | 14 |
| | 3,794 | 4,554 |

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, is as follows:

| | Chief Executive<br>Mr. John<br>Yi Zhang<br>("Mr. Zhang")<br>*RMB'000* | Mr. Chau<br>Kwok Keung<br>("Mr. Chau")<br>*RMB'000* | Mr. Shi<br>Cheng Qi<br>("Mr. Shi")<br>*RMB'000* | Mr.<br>Zhang Zhen<br>("Mr. Zhang")<br>*RMB'000* | Total<br>2016<br>*RMB'000* |
|---|---|---|---|---|---|
| A) EXECUTIVE DIRECTORS: | | | | | |
| Other emoluments: | | | | | |
| Basic salaries and allowance | 600 | 1,920 | 61 | 218 | 2,799 |
| Share-based payments expense | – | – | 62 | – | 62 |
| Retirement benefits scheme contributions | – | 15 | – | – | 15 |
| Sub-total | 600 | 1,935 | 123 | 218 | 2,876 |

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

| | Mr. Wang Yi Xin ("Mr. Wang") *RMB'000* | Total 2016 *RMB'000* |
|---|---|---|
| B) NON-EXECUTIVE DIRECTORS: | | |
| Fees | 50 | 50 |
| Sub-total | 50 | 50 |

| | Mr. Leung Ming Shu ("Mr. Leung") *RMB'000* | Mr. Daniel DeWitt Martin ("Mr. DeWitt") *RMB'000* | Mr. Kang Sun ("Mr. Kang") *RMB'000* | Total 2016 *RMB'000* |
|---|---|---|---|---|
| C) INDEPENDENT NON-EXECUTIVE DIRECTORS: | | | | |
| Fees | 200 | 334 | 334 | 868 |
| Sub-total | 200 | 334 | 334 | 868 |

The non-executive and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

| | |
|---|---|
| Total | 3,794 |

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

| | Chief Executive<br>Mr. Zhang<br>*RMB'000* | Mr. Chau<br>*RMB'000* | Mr. Shi<br>*RMB'000* | Total<br>2015<br>*RMB'000* |
|---|---|---|---|---|
| A) EXECUTIVE DIRECTORS: | | | | |
| Other emoluments: | | | | |
| Basic salaries and allowance | 600 | 1,920 | 165 | 2,685 |
| Share-based payments expense | – | 792 | 237 | 1,029 |
| Retirement benefits scheme contributions | – | 14 | – | 14 |
| Sub-total | 600 | 2,726 | 402 | 3,728 |

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

| | Mr. Leung<br>*RMB'000* | Mr. DeWitt<br>*RMB'000* | Mr. Kang<br>*RMB'000* | Total<br>2015<br>*RMB'000* |
|---|---|---|---|---|
| B) INDEPENDENT NON-EXECUTIVE DIRECTORS: | | | | |
| Fees | 200 | 313 | 313 | 826 |
| Sub-total | 200 | 313 | 313 | 826 |

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

| | |
|---|---|
| Total | 4,554 |

## 11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(continued)*

The five highest paid individuals included two (2015: two) directors of the Company for the year ended 31 December 2016. Details of whose emoluments are set out above. The emoluments of the remaining three (2015: three) individuals during the years are as follows:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Employees | | |
| — basic salaries and allowance | 1,147 | 1,309 |
| — share-based payments expense | 176 | 1,338 |
| | 1,323 | 2,647 |

The emoluments of the five highest paid individuals were within the following bands:

| | 2016 | 2015 |
|---|---|---|
| Nil to HK$1,000,000 | 4 | 3 |
| HK$1,000,001 to HK$1,500,000 | – | 1 |
| HK$2,000,001 to HK$2,500,000 | 1 | – |
| HK$3,000,001 to HK$3,500,000 | – | 1 |

During the year ended 31 December 2016 and 31 December 2015, no discretionary bonus was paid or payable to the directors, the Chief Executive nor the other five highest paid individuals.

During the year ended 31 December 2016 and 31 December 2015, no emoluments were paid by the Group to the directors of the Company and five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. Neither the Chief Executive nor any of the directors waived any emoluments during the year ended 31 December 2016 and 31 December 2015.

## 12. TAXATION

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax | | |
| — Current year | 21 | – |
| — Overprovision in prior years | – | (71) |
| | 21 | (71) |
| Deferred tax charge *(Note 20)* | | |
| — Current year | (740) | (310) |
| | (719) | (381) |

No Hong Kong Profits Tax was provided for the year ended 31 December 2016 and 31 December 2015 as the group entities either had no relevant assessable profits or incurred tax losses in Hong Kong.

PRC income tax is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

During the year ended 31 December 2016 and 31 December 2015, the applicable tax rate of Shanghai Comtec Solar Technology Co., Ltd. ("Comtec Solar") was 15% as it was qualified as a New High-Tech enterprise for the period of five years form 1 January 2014 to 31 December 2018.

Upon the EIT Law, dividends paid out of the net profits derived by the Company's PRC operating subsidiaries to non-PRC residents shareholders for financial years since 1 January 2008 are subject to applicable PRC withholding tax in a rate of 10% or lower rates as provided in tax treaties in accordance with relevant tax laws in the PRC. Withholding tax has been provided for based on the anticipated dividends to be distributed by the Company's PRC operation subsidiaries to non-PRC resident shareholders with relevant withholding tax rate of 10%.

The deferred tax balance has already reflected the tax rates that are expected to apply to the respective periods when the asset is realized or the liability is settled.

## 12. TAXATION *(continued)*

The taxation for the year is reconciled to loss before taxation as follows:

| | 2016 *RMB'000* | 2015 *RMB'000* |
|---|---|---|
| Loss before taxation | (1,007,789) | (435,095) |
| Tax at domestic income tax rate (25%) | (251,947) | (108,774) |
| Tax effect of expenses not deductible for tax purpose | 5,692 | 12,617 |
| Tax effect of income not taxable for tax purpose | – | (3,587) |
| Tax effect of temporary difference not recognized | 246,387 | 100,668 |
| Utilization of temporary difference previously not recognized | (111) | (286) |
| Overprovision in prior years | – | (71) |
| Overprovision on withholding tax on undistributed dividends | (740) | (948) |
| Taxation for the year | (719) | (381) |

## 13. DIVIDENDS

No dividends were paid, declared or proposed during the year ended 31 December 2016 and 31 December 2015.

The directors of the Company do not recommend the payment of a final dividend.

## 14. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

| | 2016 *RMB'000* | 2015 *RMB'000* |
|---|---|---|
| **Loss** | | |
| Loss for the year attributable to owners of the Company for the purposes of basic loss per share | (1,007,070) | (434,714) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | 1,449,485,250 | 1,391,849,832 |

The outstanding share options of the Company have not been included in the computation of diluted loss per share as they are anti-diluted to the net loss for the year ended 31 December 2016 and 31 December 2015.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Plant and machinery | Furniture, fixtures and machinery | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | | |
| At 1 January 2015 | 253,770 | 852,913 | 1,735 | 3,824 | 415,666 | 1,527,908 |
| Additions | – | 1,044 | 197 | 119 | 69,212 | 70,572 |
| Transfers | 1,948 | 14,951 | 84 | – | (16,983) | – |
| Disposals | – | (120,101) | – | (321) | – | (120,422) |
| At 31 December 2015 | 255,718 | 748,807 | 2,016 | 3,622 | 467,895 | 1,478,058 |
| Additions | – | 132 | 135 | 250 | 19,361 | 19,878 |
| Reclassifications | 588 | (1,351) | 7 | 756 | – | – |
| Classified as assets held for sale *(Note 24)* | – | (69,034) | (343) | (1,224) | (421,932) | (492,533) |
| Disposals | – | (1,005) | (74) | (309) | (687) | (2,075) |
| At 31 December 2016 | 256,306 | 677,549 | 1,741 | 3,095 | 64,637 | 1,003,328 |
| DEPRECIATION AND IMPAIRMENT | | | | | | |
| At 1 January 2015 | 82,827 | 370,805 | 1,083 | 2,030 | – | 456,745 |
| Provided for the year | 12,918 | 60,718 | 123 | 419 | – | 74,178 |
| Eliminated on disposals | – | (70,733) | – | (204) | – | (70,937) |
| At 31 December 2015 | 95,745 | 360,790 | 1,206 | 2,245 | – | 459,986 |
| Provided for the year | 12,966 | 46,317 | 87 | 477 | – | 59,847 |
| Classified as assets held for sale *(Note 24)* | – | (188) | (93) | (481) | – | (762) |
| Eliminated on disposals | – | (251) | (24) | (252) | – | (527) |
| Impairment | 5,530 | 216,224 | 495 | 908 | 53,313 | 276,470 |
| At 31 December 2016 | 114,241 | 622,892 | 1,671 | 2,897 | 53,313 | 795,014 |
| CARRYING VALUES | | | | | | |
| At 31 December 2016 | 142,065 | 54,657 | 70 | 198 | 11,324 | 208,314 |
| At 31 December 2015 | 159,973 | 388,017 | 810 | 1,377 | 467,895 | 1,018,072 |

## 15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Buildings | Over the shorter of the period of the respective land use rights in which the buildings are erected on or 20 years |
| Plant and machinery | 10 years |
| Furniture, fixtures and equipment | 5 years |
| Motor vehicles | 5 years |

The Group's buildings are located on land in the PRC which is under a lease term of 50 years.

The industry landscape for the monocrystalline silicon business deteriorated in the second half of 2016, with certain major players who use monocrystalline silicon wafers, such as those produced by the Group, scaling back or even shutting down their production. The Group thus conducted a review of the Group's property, plant and equipment and determined that a number of those assets were impaired, due to the adverse changes in the future economic conditions of the solar wafer manufacturing business in which the Group is engaging. Accordingly, impairment losses of RMB276,470,000 have been recognized in respect of plant and machinery, which are used in the Group's manufacturing and sales of solar wafers and related processing services. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate in measuring the amount of value in use was 10.5%.

**Recoverable amount of the Group's buildings**

The Group's buildings as of 31 December 2016 were valued by an independent qualified professional valuer.

The fair value of buildings was determined using the weighted average of a fair value which is assessed by cost approach and income approach with weight coefficient. The cost approach is the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence. The income approach explicitly recognizes that the current value of an asset is premised on the expected receipt of future economic benefits generated over its remaining life.

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

As at 31 December 2016, the Group pledged its buildings having net book values of approximately RMB137,817,000 (2015: RMB152,259,000) to banks to secure banking facilities granted to the Group.

## 16. PREPAID LEASE PAYMENTS

| | 2016 *RMB'000* | 2015 *RMB'000* |
|---|---|---|
| Carrying values | | |
| At 1 January | 26,779 | 46,904 |
| Additions | 5,227 | – |
| Released to profit or loss | (761) | (996) |
| Classified as assets held for sale *(Note 24)* | (8,184) | (19,129) |
| At 31 December | 23,061 | 26,779 |
| Current portion | 551 | 600 |
| Non-current portion | 22,510 | 26,179 |

The lease payments represent the land use rights situated in the PRC which are under medium-term leases.

As at 31 December 2016, prepaid lease payments with carrying amount of approximately RMB23,061,000 (2015: RMB19,640,000) was pledged to banks to secure banking facilities granted to the Group.

## 17. GOODWILL

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| At 1 January | – | – |
| Acquired during the year | 60,256 | – |
| At 31 December | 60,256 | – |

For the purposes of impairment testing, the net carrying amount of the goodwill, which arose from the acquisitions of a subsidiary, has been allocated to the cash generating unit relating to downstream solar service business.

## 17. GOODWILL *(continued)*

The recoverable amount of the cash-generating unit was determined based on the value in use calculations covering a detailed five and half-year financial budget plan and the estimated terminal value at the end of the five and half-year financial budget plan period prepared by the Group's management. There are a number of key assumptions and estimates involved in the preparation of the cash flow projection for the period covered by the Group's management prepared financial budget plans and the estimated terminal value, as follows:

Revenue — The basis used to determine the value assigned to the budgeted revenue is based on contracts which have been concluded or under negotiation and are expected to finalise in the coming year, and adopted compound annual growth rate of revenue around 15% in the forecasted revenues in its five and half-year budget plan from 2017 to 2022.

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is based on analysis of the related industries. The budgeted gross margin keeps from 70% to 80% in its five and half-year budget plan from 2017 to 2022.

Discount rate — The discount rate used is before tax and reflects specific risks relating to the relevant industry.

Based on the impairment testing conducted, the directors of the Company are of the view that no impairment loss against the goodwill was considered necessary as at 31 December 2016.

## 18. INTANGIBLE ASSETS

The balance of intangible assets are analysed as follows:

| | Cooperative agreement | Non-compete agreement | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2016 | – | – | – |
| Acquired during the year | 51,500 | 11,550 | 63,050 |
| At 31 December 2016 | 51,500 | 11,550 | 63,050 |

The intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Cooperative agreement | 4 years |
| Non-compete agreement | 5 years |

## 19. ADVANCE TO SUPPLIERS

In prior years, in order to secure a stable supply of raw materials, the Group has entered into several non-cancellable purchase agreements with two major suppliers, independent parties not related to the Group, whereby the Group committed a "take or pay" obligation to purchase the minimum annual quantity of raw materials, mainly polysilicon virgins (to be used in the manufacture of its products) at pre-determined prices over the contractual periods up to 2020. According to the terms of these agreements, the Group were required to made upfront advances to these suppliers. The advances are unsecured, interest-free and non-refundable but could be utilised to reduce the invoice amount of purchases up to those agreed minimum annual quantities. Therefore, at the end of each reporting period, the directors of the Company estimate the amount of advances that is expected to be settled by the offset of the purchases of the agreed contract quantity in the next twelve months and classify it as current asset at the end of each reporting period. The remaining balance is classified as non-current asset in the consolidated statement of financial position. In early 2016, the Group has reached into agreements with the two major suppliers, of which one has unconditionally agreed to waive the term relating to minimum annual quantity and pre-determined purchase price and the other has unconditionally agreed to reduce the pre-determined purchase price for the forthcoming purchases.

The Group has periodically performed an analysis of the sufficiency of impairment recognized in respect of advance to suppliers and provision for onerous contracts, due to volatility of the solar industry which the Group is engaged in. The analysis has made reference to the Group's budgeted annualized production capacity, the Group's product mix, recent market demand for the Group's products, updated forecasted selling prices of the products that reflected current market assessments; and the Group's committed delivery of solar products including terms governed the take or pay supply agreements referred above, etc. Based on such analysis, the Group recognized impairment provision/onerous contracts provision, which represented expected losses to be suffered or future payments that the Group is presently obliged to make under the above-mentioned non-cancellable take or pay agreements, after taking into account the revenue expected to be earned and costs to be incurred in production over the contractual periods, and the movement of which are as follow:

| | Provision for impairment on advance to suppliers | Provision for onerous contracts | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2015 | 174,521 | 7,576 | 182,097 |
| Utilise* | (239,165) | – | (239,165) |
| Transfer | 7,576 | (7,576) | – |
| Provision | 152,758 | – | 152,758 |
| At 31 December 2015 | 95,690 | – | 95,690 |
| Utilise* | (95,690) | – | (95,690) |
| Transfer | – | – | – |
| Provision | 1,369 | – | 1,369 |
| At 31 December 2016 | 1,369 | – | 1,369 |

* the provision was utilised as a reduction of cost of sales on disposal of the excessive polysilicon virgins which were purchased from the above suppliers and in turn resold to the free market.

## 19. ADVANCE TO SUPPLIERS *(continued)*

The balance of advance to suppliers are analysed as follows:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Gross amounts | 118,500 | 206,866 |
| Provision | (1,369) | (95,690) |
| | 117,131 | 111,176 |
| Less: Amounts recoverable within one year shown under current assets | (117,131) | (2,920) |
| Amounts shown under non-current assets | – | 108,256 |

## 20. DEFERRED TAX

The following is the deferred tax assets (liabilities) recognized by the Group and movements thereon during the year.

| | Write-down of inventories<br>*RMB'000* | Allowance for doubtful debts<br>*RMB'000* | Withholding tax on undistributed dividends<br>*RMB'000* | Fair value adjustment<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| At 1 January 2015 | 86 | 552 | (9,568) | – | (8,930) |
| Credit (Charge) to profit or loss | (86) | (552) | 948 | – | 310 |
| At 31 December 2015 | – | – | (8,620) | – | (8,620) |
| Credit to profit or loss | – | – | 740 | – | 740 |
| Acquisitions of a subsidiary *(Note)* | – | – | – | (10,403) | (10,403) |
| At 31 December 2016 | – | – | (7,880) | (10,403) | (18,283) |

## 20. DEFERRED TAX *(continued)*

The following is the analysis of the deferred tax balance for financial report presentation purposes.

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Deferred tax assets | – | – |
| Deferred tax liabilities | (18,283) | (8,620) |
| | (18,283) | (8,620) |

*Note:* Fair value adjustment mainly refers to the recognition of intangible assets upon the business combination arose from acquisition of a subsidiary disclosed in note 37(a).

At 31 December 2016 and 31 December 2015, except for the deferred tax liabilities provided for the undistributed profits of certain PRC operating subsidiaries of approximately RMB79 million and RMB86 million, respectively, deferred tax liabilities have not been recognized in respect of the aggregate amount of temporary differences associated with undistributed earnings of the PRC operating subsidiaries of approximately RMB104 million and RMB246 million, respectively, as the Group is in a position to control the timing of the reversal of the temporary differences and the Group has determined that this portion of the profits derived from those PRC operating subsidiaries will be retained by those subsidiaries and not distributed in the foreseeable future.

Therefore, it is probable that such differences will not reverse nor be subject to withholding tax in the foreseeable future.

At the end of the reporting period, the Group has unrecognized deductible temporary differences of approximately RMB985,548,000 (2015: RMB401,157,000), representing allowance of inventories, allowance of doubtful debts, provision of onerous contracts and impairment losses recognized in respect to advance to suppliers and prepaid assignment fee.

## 21. INVENTORIES

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Raw materials | 99,084 | 127,061 |
| Work-in-progress | 58,277 | 46,311 |
| Finished goods | 33,721 | 90,273 |
| | 191,082 | 263,645 |

As at 31 December 2016, the carrying amount of the inventories disclosed above included inventory provision of RMB96,599,000 (2015: RMB114,729,000) and the movements of which are as follows:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| At 1 January | 114,729 | 15,181 |
| Written off | (112,667) | (13,119) |
| Provision | 94,537 | 112,667 |
| At 31 December | 96,599 | 114,729 |

## 22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | 100,679 | 183,894 |
| Write off of allowance | (4,260) | – |
| Less: allowance for doubtful debts | (5,151) | (4,260) |
| | 91,268 | 179,634 |
| Utility deposits | 3,798 | 2,988 |
| Value-added-tax recoverable | 43,242 | 49,091 |
| Other receivables and prepayments | 13,277 | 20,119 |
| | 151,585 | 251,832 |
| Bills receivable | 10,826 | 6,971 |

The Group requested prepayment from customers before delivery of goods and allows a credit period of 7 to 180 days on case-by-case basis. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Age | | |
| 0 to 30 days | 21,872 | 41,402 |
| 31 to 60 days | 3,189 | 40,043 |
| 61 to 90 days | 810 | 29,849 |
| 91 to 180 days | 2,556 | 54,294 |
| Over 180 days | 62,841 | 14,046 |
| | 91,268 | 179,634 |

## 22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(continued)*

Included in the trade receivables are debtors with an aggregate carrying amount of RMB62,841,000 (2015: RMB14,046,000) which are past due at the end of the reporting period but not considered impaired. The Group does not hold any collateral over these balances. The directors of the Company, after considering the trade relationship, credit status and past settlement history of these individual trade debtors, had concluded that these outstanding balances would be recovered.

Ageing of trade receivables which are past due but not impaired:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Overdue by: | | |
| 61 to 90 days | – | 6,400 |
| 91 to 180 days | – | 7,543 |
| Over 180 days | 62,841 | 103 |
| | 62,841 | 14,046 |
| Average overdue days | 350 | 97 |

The following is an aged analysis of bills receivable presented based on the invoice date at the end of the reporting period:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Age | | |
| 0 to 30 days | 2,126 | 5,800 |
| 31 to 60 days | 4,250 | 871 |
| 61 to 90 days | 3,450 | – |
| 91 to 180 days | 1,000 | 300 |
| | 10,826 | 6,971 |

No interest is charged on the trade receivables and bills receivable. Trade receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the trade receivables, the estimated future cash flows of the trade receivables have been affected.

## 22. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE *(continued)*

Movement in the allowance for trade receivables:

| | *RMB'000* |
|---|---|
| Balance at 1 January 2015 and 31 December 2015 | 4,260 |
| Impairment losses recognized in profit or loss | 5,151 |
| Write-off of allowance | (4,260) |
| Balance at 31 December 2016 | 5,151 |

The Group's trade and other receivables and bills receivable that were denominated in USD and JPY, foreign currencies of the relevant group entities, were re-translated in RMB and stated for financial reporting purposes as:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Trade and other receivables denominated in USD | 73,593 | 175,259 |
| Trade and other receivables denominated in JPY | – | 227 |

## 23. SHORT-TERM BANK DEPOSITS/BANK BALANCES AND CASH

**(A) Short-term bank deposits**

As at 31 December 2016, the Group pledged its short-term bank deposits of approximately RMB125,792,000 (2015: RMB170,279,000) as security for short-term bank loans. The pledged bank deposits carry variable interests at rates ranging from 2.35% to 2.75% per annum (2015: 2.35% to 2.75%).

**(B) Bank balances and cash**

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carry interest at market rates ranging from 0.10% to 0.50% per annum and 0.10% to 0.50% per annum at 31 December 2016 and 31 December 2015, respectively.

The Group's bank balances and cash that were denominated in Euro, HKD ,USD, JPY and MYR, foreign currencies of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

## 23. SHORT-TERM BANK DEPOSITS/BANK BALANCES AND CASH *(continued)*

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Bank balances and cash denominated in: | | |
| Euro | 104 | 467 |
| HKD | 443 | 744 |
| USD | 40,815 | 15,077 |
| JPY | 62 | 111 |
| MYR | 1,625 | 1,637 |
| Other currencies | 11 | – |

Certain bank balances and cash of approximately RMB39,070,000 and RMB31,679,000 at 31 December 2016 and 31 December 2015, respectively, were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

## 24. ASSETS CLASSIFIED AS HELD FOR SALE

On 11 March 2016, Comtec SH has entered into a written agreement with an independent third party to dispose of the entire parcel of land it owns for a cash consideration of RMB19,210,000. Therefore, the prepaid lease payments for the parcel of land is classified as asset held for sale as of 31 December 2015. This disposal transaction was duly completed as of 31 December 2016.

On 30 December 2016, the Group entered into an agreement (the "Asset Transfer Agreement") with an independent third party, pursuant to which certain assets of the Group maintained in Malaysia comprising property, plant and equipment and prepaid lease payments with a total net book value of approximately RMB499,955,000 will be disposed of for a cash consideration of approximately RMB200,000,000. The directors of the Company estimate the cost of disposal of such assets is approximately RMB39,362,000 and therefore the Group provides a total impairment of RMB339,317,000 against the assets classified as held for sales as at 31 December 2016. The directors of the Company expect that the disposal of such assets will be completed within 2017. Therefore, such assets to be disposed are classified as assets held for sale as of 31 December 2016. Details of this assets disposal are disclosed in a circular of the Company dated 31 March 2017.

## 24. ASSETS CLASSIFIED AS HELD FOR SALE *(continued)*

As the Group will terminate its Malaysian plant under construction, a provision of approximately RMB88,269,000 in respect of retrenchment expenses to lay off Malaysian staffing and compensations to two utility suppliers is made in relation to the termination of the Malaysian plant under construction. In addition, the Group has written off a non-refundable deposit paid in prior years in connection with the acquisition of equipment to be installed to the Malaysian plant under construction amount to approximately RMB25,775,000 as the directors of the Company is of a review that this deposit is no longer recoverable giving the adverse changes and market sentiment in the relevant industry.

| | Property, plant and equipment *RMB'000* | Prepaid lease payments *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| At 1 January 2015 | – | – | – |
| Reclassified from prepaid lease payments | – | 19,129 | 19,129 |
| At 31 December 2015 | – | 19,129 | 19,129 |
| Disposal | – | (19,129) | (19,129) |
| Reclassified from property, plant and equipment *(Note 8)* | 491,771 | – | 491,771 |
| Reclassified from prepaid lease payments *(Note 9)* | – | 8,184 | 8,184 |
| Impairment | (337,833) | (1,484) | (339,317) |
| At 31 December 2016 | 153,938 | 6,700 | 160,638 |

## 25. TRADE AND OTHER PAYABLES

| | 2016 *RMB'000* | 2015 *RMB'000* |
|---|---|---|
| Trade payables | 255,509 | 202,450 |
| Payables for acquisition of property, plant and equipment | 31,927 | 52,720 |
| Provision for termination costs for termination of Malaysian plant under construction | 88,269 | – |
| Other payables and accrued charges | 33,187 | 30,878 |
| | 408,892 | 286,048 |

## 25. TRADE AND OTHER PAYABLES *(continued)*

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Age | | |
| 0 to 30 days | 63,548 | 47,758 |
| 31 to 60 days | 28,767 | 21,952 |
| 61 to 90 days | 14,752 | 16,119 |
| 91 to 180 days | 16,910 | 34,667 |
| Over 180 days | 131,532 | 81,954 |
| | 255,509 | 202,450 |

The average credit period on purchases of goods is 7 days to 180 days and certain suppliers grant longer credit period on case-by-case basis.

The Group's trade and other payables that were denominated in MYR, USD, JPY and EUR, the foreign currencies of the relevant group entities, were re-translated in RMB and stated for reporting purposes as:

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade and other payables denominated in: | | |
| MYR | 597 | 217 |
| USD | 176,585 | 164,806 |
| JPY | 2,618 | 4,486 |
| EUR | 2,883 | – |

## 26. CUSTOMERS' DEPOSITS RECEIVED

The balances of the customers' deposits received are analysed as:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Mission *(Note 38)* | 166,190 | 175,546 |
| Other customers | 71,478 | 3,130 |
| | 237,668 | 178,676 |

Customers' deposits received are unsecured, interest-free and will be settled by the delivery of the Group's products.

## 27. BANK LOANS

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Bank loans repayable within one year | | |
| — secured | 335,976 | 423,912 |
| — unsecured | 52,388 | 85,881 |
| | 388,364 | 509,793 |

Bank loans of RMB119,317,000 (2015: RMB179,885,000) as at 31 December 2016 carried interest at variable market rates benchmark to the interest rates of the People's Bank of China or London Interbank Offer Rate.

The carrying amounts of the Group's fixed-rate borrowings and their relevant contractual maturity dates (or reset dates) are as follows:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Fixed rate borrowings: | | |
| Within one year | 269,047 | 329,908 |

## 27. BANK LOANS *(continued)*

The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Effective interest rate: | | |
| Fixed-rate | 1.75% to 4.79% | 2.67% to 6.24% |
| Variable-rate | 2.13% | 1.75% to 2.78% |

The Group's bank loans that were denominated in USD and Euro, foreign currencies of the relevant group entities, were re-translated in RMB and stated for financial reporting purposes as:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Denominated in USD | 149,146 | 245,146 |
| Denominated in Euro | 52,388 | 56,647 |

## 28. DEFERRED REVENUE

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Government grants | 4,584 | 4,870 |
| Analysed for reporting purpose as: | | |
| Current liabilities | 287 | 287 |
| Non-current liabilities | 4,297 | 4,583 |
| | 4,584 | 4,870 |

In the prior years, the Group received certain government subsidies which were related to compensation of acquisition of plant and equipment in the PRC. The amounts were treated as deferred revenue and amortized to income over the useful lives of related assets upon such assets were ready for their intended use and depreciation commenced. During the year ended 31 December 2016, deferred revenue of RMB286,000 (2015: RMB287,000) was recognized as profit or loss.

## 29. CONTINGENT CONSIDERATION PAYABLES

The balances of the contingent consideration payables are analysed as:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| At 1 January | – | – |
| Initial recognition *(Note 37)* | 112,903 | – |
| Fair value change through profit or loss *(Note 8)* | (19,068) | – |
| At 31 December | 93,835 | – |
| Analysed as: | | |
| Current portion | – | – |
| Non-current portion | 93,835 | – |
| | 93,835 | – |

The contingent consideration arose from the issue of ordinary shares of the Company on earn-out basis in relation to a business acquisition as detailed in Note 37. The contingent consideration is classified as a financial instrument (financial liability at fair value through profit or loss) and recognized in the consolidated statement of financial position at fair value. The fair value of the contingent consideration at the date of initial recognition and as at 31 December 2016 are based on the valuation performed by an independent qualified professional valuer. Details of the valuation technique and key inputs adopted are disclosed in Note 5.

## 30. SHARE CAPITAL

The share capital of the Group represented the issued and fully paid share capital of the Company.

| Authorised: | Number of shares | Amount |
|---|---|---|
| | | *HK$'000* |
| **Ordinary shares** | | |
| Ordinary shares of HKD0.001 each at 1 January 2015, 31 December 2015 and 31 December 2016 | 7,600,000,000 | 7,600 |

| Issued and fully paid: | Number of shares | Amount |
|---|---|---|
| | | *HK$'000* |
| **Ordinary shares** | | |
| Ordinary shares of HK$0.001 each: | | |
| At 1 January 2015 | 1,391,831,750 | 1,393 |
| Exercise of share options *(Note 1)* | 30,000 | – |
| At 31 December 2015 | 1,391,861,750 | 1,393 |
| Issue of shares *(Note 2)* | 154,651,306 | 154 |
| At 31 December 2016 | 1,546,513,056 | 1,547 |

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Presented as RMB: | | |
| Ordinary shares | 1,333 | 1,205 |

*Notes:*

(1) During the year ended 31 December 2015, the Company issued 30,000 new shares upon exercise of share options at the exercise price of HK$0.98 per share.

(2) On 8 August 2016, the Company allotted 154,651,306 ordinary shares of HK$0.001 each for a cash consideration of HK$0.45 per share to independent third parties not related to the Group.

All the shares issued by the Company ranked pari passu in all respects.

## 31. SHARE-BASED COMPENSATION

### (a) Pre-IPO Share Option Scheme

The Company's share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a resolution passed on 2 June 2008 for the primary purpose of giving the grantees an opportunity to have personal stake in the Company and motivating the grantees to optimise their performance and efficiency, and retaining the grantees whose contributions are important to the Group's long-term growth and profitability. Under the Pre-IPO Share Option Scheme, the board of directors may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is not permitted to exceed 3% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Option granted must be taken up within 30 days from the date of grant, upon payment of HK$1.00. Subject to the vesting as detailed below, options may be exercised at any time from the grant date of the share options to the 10th anniversary of the date of grant. The exercise price of the shares in the Company shall be a price determined by the board of directors with reference to future earnings potential of the Company and notified to the eligible participants.

(1) All options granted are at an exercise price of HK$2.51 per share.

(2) All holders of options granted may only exercise their options in the following manner:

  (i) 1/12th of the share options vested on 1 November 2009 and become exercisable; and

  (ii) from 1 November 2009 onwards, for the remaining 11/12th share options, every 1/12th of the granted share options will vest at the end of each three-month period on a quarterly basis.

(3) The options will be lapsed automatically and not be exercisable (to the extent not already exercised) when the grantees ceased to be employees of the Group.

## 31. SHARE-BASED COMPENSATION *(continued)*

### (a) Pre-IPO Share Option Scheme *(continued)*

Set out below are details of movements of the outstanding options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2016 and 31 December 2015:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2015, 31 December 2015 and 1 January 2016 | Issue during the year | Exercised during the year | Forfeited in the year | Outstanding as at 31 December 2016 |
| Directors: | | | | | |
| Mr. Leung | 62,787 | – | – | – | 62,787 |
| Mr. DeWitt | 199,659 | – | – | – | 199,659 |
| Mr. Kang | 249,574 | – | – | – | 249,574 |
| | 512,020 | – | – | – | 512,020 |
| Exercisable at the end of the year | 512,020 | | | | 512,020 |
| Weighted average exercise price (HK$) | 2.510 | | | | 2.510 |

At 31 December 2016, the number of shares in respect of which options under the Pre-IPO Share Option Scheme remained outstanding was 512,020 (2015: 512,020), representing 0.03% (2015: 0.04%) of the shares of the Company in issue at that date.

## 31. SHARE-BASED COMPENSATION *(continued)*

**(b) Share Option Scheme**

Set out below are the details of movements of the outstanding options granted under the Share Option Scheme during the year ended 31 December 2016 and 31 December 2015:

*Granted on 24 May 2010*

For the year ended 31 December 2016 and 31 December 2015:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2015, 31 December 2015 and 1 January 2016 | Exercised during the year | Forfeited during the year | Lapsed in the year | Outstanding as at 31 December 2016 |
| Employees and others | 2,240,000 | – | – | – | 2,240,000 |
| Exercisable at the end of the year | 2,240,000 | | | | 2,240,000 |
| Weighted average exercise price (HK$) | 1.490 | | | | 1.490 |

At 31 December 2016, the number of shares in respect of which options granted on 24 May 2010 under the Share Option Scheme remained outstanding was 2,240,000 (31 December 2015: 2,240,000), representing 0.14% (31 December 2015: 0.16%) of the shares of the Company in issue at that date.

## 31. SHARE-BASED COMPENSATION *(continued)*

### (b) Share Option Scheme *(continued)*

*Granted on 28 June 2012*

For the year ended 31 December 2016:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2016 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2016 |
| Director: | | | | | |
| Mr. Zhang | 5,000,000 | – | – | – | 5,000,000 |
| Mr. Chau | 228,000 | – | – | – | 228,000 |
| Employees | 3,506,000 | – | – | – | 3,506,000 |
| Consultants | 50,000 | – | – | – | 50,000 |
| | 8,784,000 | – | – | – | 8,784,000 |
| Exercisable at the end of the year | 8,784,000 | | | | 8,784,000 |
| Weighted average exercise price (HK$) | 0.980 | | | | 0.980 |

## 31. SHARE-BASED COMPENSATION *(continued)*

### (b) Share Option Scheme *(continued)*

*Granted on 28 June 2012 (continued)*

For the year ended 31 December 2015:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2015 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2015 |
| Director: | | | | | |
| Mr. Zhang | 5,000,000 | – | – | – | 5,000,000 |
| Mr. Chau | 228,000 | – | – | – | 228,000 |
| Employees | 3,706,000 | – | (30,000) | (170,000) | 3,506,000 |
| Consultants | 50,000 | – | – | – | 50,000 |
| | 8,984,000 | – | (30,000) | (170,000) | 8,784,000 |
| Exercisable at the end of the year | 8,984,000 | | | | 8,784,000 |
| Weighted average exercise price (HK$) | 0.980 | | | | 0.980 |

At 31 December 2016, the number of shares in respect of which options granted on 28 June 2012 under the Share Option Scheme remained outstanding was 8,784,000 (31 December 2015: 8,784,000), representing 0.57% (31 December 2015: 0.63%) of the shares of the Company in issue at that date.

## 31. SHARE-BASED COMPENSATION *(continued)*

### (b) Share Option Scheme *(continued)*

*Granted on 27 December 2012*

For the year ended 31 December 2016 and 31 December 2015:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2015 31 December 2015 and 1 January 2016 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2016 |
| Director: | | | | | |
| Mr. Leung | 300,000 | – | – | – | 300,000 |
| Mr. DeWitt | 300,000 | – | – | – | 300,000 |
| Mr. Kang | 300,000 | – | – | – | 300,000 |
| Employees | 600,000 | – | – | – | 600,000 |
| Consultants | 6,038,000 | – | – | – | 6,038,000 |
| | 7,538,000 | – | – | – | 7,538,000 |
| Exercisable at the end of the year | 7,538,000 | | | | 7,538,000 |
| Weighted average exercise price (HK$) | 1.262 | | | | 1,262 |

At 31 December 2016, the number of shares in respect of which options granted on 27 December 2012 under the Share Option Scheme remained outstanding was 7,538,000 (31 December 2015: 7,538,000), representing 0.49% (31 December 2015: 0.54%) of the shares of the Company in issue at that date.

## 31. SHARE-BASED COMPENSATION *(continued)*

### (b) Share Option Scheme *(continued)*

*Granted on 30 September 2013*

For the year ended 31 December 2016 and 31 December 2015:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2015, 31 December 2015 and 1 January 2016 | Issue during the year | Exercised during the year | Forfeited during in the year | Outstanding as at 31 December 2016 |
| Consultants | 4,020,000 | – | – | – | 4,020,000 |
| Exercisable at the end of the year | 4,020,000 | | | | 4,020,000 |
| Weighted average exercise price (HK$) | 1.870 | | | | 1.870 |

At 31 December 2016, the number of shares in respect of which options granted on 30 September 2013 under the Share Option Scheme remained outstanding was 4,020,000, (2015: 4,020,000), representing 0.26% (2015: 0.29%) of the shares of the Company in issue at that date.

## 31. SHARE-BASED COMPENSATION *(continued)*

**(b) Share Option Scheme** *(continued)*

*Granted on 31 March 2014*

For the year ended 31 December 2016:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2016 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2016 |
| Director: | | | | | |
| Mr. Chau | 13,000,000 | – | – | – | 13,000,000 |
| Employees | 4,850,000 | – | – | – | 4,850,000 |
| Consultants | 17,800,000 | – | – | – | 17,800,000 |
| | 35,650,000 | – | – | – | 35,650,000 |
| Exercisable at the end of the year | 34,787,500 | | | | 35,650,000 |
| Weighted average exercise price (HK$) | 1.386 | | | | 1.386 |

## 31. SHARE-BASED COMPENSATION *(continued)*

### (b) Share Option Scheme *(continued)*

*Granted on 31 March 2014 (continued)*

For the year ended 31 December 2015:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2015 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2015 |
| Director: | | | | | |
| Mr. Chau | 13,000,000 | – | – | – | 13,000,000 |
| Employees | 4,850,000 | – | – | – | 4,850,000 |
| Consultants | 17,800,000 | – | – | – | 17,800,000 |
| | 35,650,000 | – | – | – | 35,650,000 |
| Exercisable at the end of the year | 29,487,500 | | | | 34,787,500 |
| Weighted average exercise price (HK$) | 1.386 | | | | 1.386 |

At 31 December 2016, the number of shares in respect of which options granted on 31 March 2014 under the Share Option Scheme remained outstanding was 35,650,000, (2015: 35,650,000), representing 2.31% (2015: 2.56%) of the shares of the Company in issue at that date.

## 31. SHARE-BASED COMPENSATION *(continued)*

### (b) Share Option Scheme *(continued)*

*Granted on 11 May 2015*

For the year ended 31 December 2016:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2016 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2016 |
| Director: | | | | | |
| Mr. Shi *(Note)* | 600,000 | – | – | – | 600,000 |
| Employees | 10,200,000 | – | – | – | 10,200,000 |
| Consultants | 49,000,000 | – | – | – | 49,000,000 |
| | 59,800,000 | – | – | – | 59,800,000 |
| Exercisable at the end of the year | 47,341,666 | | | | 59,800,000 |
| Weighted average exercise price (HK$) | 1.390 | | | | 1.390 |

*Note*: Mr. Shi Cheng Qi ("Mr. Shi") retired as a director of the Company on 23 May 2016.

## 31. SHARE-BASED COMPENSATION *(continued)*

### (b) Share Option Scheme *(continued)*

*Granted on 11 May 2015 (continued)*

For the year ended 31 December 2015:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2015 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2015 |
| Director: | | | | | |
| Mr. Shi | – | 600,000 | – | – | 600,000 |
| Employees | – | 10,200,000 | – | – | 10,200,000 |
| Consultants | – | 49,000,000 | – | – | 49,000,000 |
| | – | 59,800,000 | – | – | 59,800,000 |
| Exercisable at the end of the year | – | | | | 47,341,666 |
| Weighted average exercise price (HK$) | – | | | | 1.390 |

At 31 December 2016, the number of shares in respect of which options granted on 11 May 2015 under the Share Option Scheme remained outstanding was 59,800,000, (2015: 59,800,000), representing 3.87% (2015: 4.30%) of the shares of the Company in issue at that date.

## 31. SHARE-BASED COMPENSATION *(continued)*

### (b) Share Option Scheme *(continued)*

*Granted on 26 June 2015*

For the year ended 31 December 2016:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2016 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2016 |
| Consultants | 20,000,000 | – | – | – | 20,000,000 |
| Exercisable at the end of the year | 15,000,000 | | | | 20,000,000 |
| Weighted average exercise price (HK$) | 1.500 | | | | 1.500 |

For the year ended 31 December 2015:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2015 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2015 |
| Consultants | – | 20,000,000 | – | – | 20,000,000 |
| Exercisable at the end of the year | – | | | | 15,000,000 |
| Weighted average exercise price (HK$) | – | | | | 1.500 |

At 31 December 2016, the number of shares in respect of which options granted on 26 June 2015 under the Share Option Scheme remained outstanding was 20,000,000, (2015: 20,000,000), representing 1.29% (2015: 1.44%) of the shares of the Company in issue at that date.

## 31. SHARE-BASED COMPENSATION *(continued)*

### (b) Share Option Scheme *(continued)*

*Granted on 25 November 2015*

For the year ended 31 December 2016:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2016 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2016 |
| Consultants | 59,000,000 | – | – | – | 59,000,000 |
| Exercisable at the end of the year | 31,958,333 | | | | 59,000,000 |
| Weighted average exercise price (HK$) | 0.736 | | | | 0.736 |

For the year ended 31 December 2015:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2015 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2015 |
| Consultants | – | 59,000,000 | – | – | 59,000,000 |
| Exercisable at the end of the year | – | | | | 31,958,333 |
| Weighted average exercise price (HK$) | – | | | | 0.736 |

At 31 December 2016, the number of shares in respect of which options granted on 25 November 2015 under the Share Option Scheme remained outstanding was 59,000,000, (2015: 59,000,000), representing 3.82% (2015: 4.24%) of the shares of the Company in issue at that date.

## 31. SHARE-BASED COMPENSATION *(continued)*

### (b) Share Option Scheme *(continued)*

*Granted on 9 September 2016*

Pursuant to a board resolution dated 9 September 2016, the Company granted 89,000,000 share options of the Company, which respectively represent 5.75% of the shares of the Company in issue at the respective grant dates, to consultants of the Company under the Share Option Scheme. Set out below were details of the outstanding options granted under the Share Option Scheme on 9 September 2016:

(1) The options granted are at an exercise price of HK$0.560 per share and might only be exercised in the following manner:

(i) Half of the share options vested and exercisable on date of grant and

(ii) The remaining share options will have one-eighth to be vested every three months since the date of grant.

(2) The options will be lapsed or forfeited automatically and not be exercisable (to the extent not already exercised) to the earlier of the end of their exercisable periods or when the grantees ceased to be consultants of the Group.

Set out below are details of movements of the outstanding options granted under the Share Option Scheme on 9 September 2016 during 2016:

*Granted on 9 September 2016*

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding as at 1 January 2016 | Issue during the year | Exercised during the year | Forfeited during the year | Outstanding as at 31 December 2016 |
| Consultants | – | 89,000,000 | – | – | 89,000,000 |
| Exercisable at the end of the year | – | | | | 55,625,000 |
| Weighted average exercise price (HK$) | – | | | | 0.560 |

## 31. SHARE-BASED COMPENSATION *(continued)*

**(b) Share Option Scheme** *(continued)*

*Granted on 9 September 2016 (continued)*

At 31 December 2016, the number of shares in respect of which options granted on 9 September 2016 under the Share Option Scheme remained outstanding were 89,000,000, representing 5.75% of the shares of the Company in issue at that date.

The estimated fair value of share options granted on 9 September 2016 was approximately RMB21 million. The fair value was calculated using the Binomial model. The inputs into the model are as follows:

| | |
|---|---|
| Share price | HK$0.56 |
| Exercise price | HK$0.56 |
| Expected volatility | 60.00% |
| Expected life | 1.0 |
| Risk-free interest rate | 0.85% |

The risk-free interest rate was based on the interpolated market yield rates of Hong Kong government bond as of the valuation date. Expected volatility was determined by using the historical volatility of the Company's share prices. The suboptimal exercise multiple used in the model represents the estimated ratio of future share price over the exercise price when the grantees will exercise the options and has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. Changes in variables and assumptions may result in changes in the fair values of the share options.

The Group recognized an expense of approximately RMB22,369,000 (2015: RMB57,087,000) for the year ended 31 December 2016 in relation to the share options granted by the Company under the Share Option Scheme.

## 32. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Non-current assets | | |
| Investments in subsidiaries and amounts due from subsidiaries, net of impairment loss | 243,970 | 1,285,569 |
| Current assets | | |
| Other receivables | – | 3,455 |
| Advance to suppliers | 200 | – |
| Amounts due from subsidiaries | 7,813 | 5,479 |
| Bank balances and cash | 105,032 | 163,998 |
| | 113,045 | 172,932 |
| Current liabilities | | |
| Other payables | 4,337 | 1,302 |
| Short-term bank loans | 97,118 | 159,106 |
| | 101,455 | 160,408 |
| Net current assets | 11,590 | 12,524 |
| Total assets less current liabilities | 255,560 | 1,298,093 |
| Capital and reserves | | |
| Share capital | 1,333 | 1,205 |
| Reserves | 254,227 | 1,296,888 |
| Total equity | 255,560 | 1,298,093 |

## 32. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

*Note:* Reserves

| | The Company | | | |
|---|---|---|---|---|
| | Share premium | Share options reserve | Accumulated losses | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2015 | 1,316,968 | 29,141 | (113,325) | 1,232,784 |
| Profit and total comprehensive income for the year | – | – | 6,993 | 6,993 |
| Exercise of share options | 35 | (11) | – | 24 |
| Recognition of equity-settled share-based payments | – | 57,087 | – | 57,087 |
| At 31 December 2015 | 1,317,003 | 86,217 | (106,332) | 1,296,888 |
| Loss and total comprehensive expense for the year | – | – | (1,122,762) | (1,122,762) |
| Issue of ordinary shares | 57,732 | – | – | 57,732 |
| Recognition of equity-settled share-based payments | – | 22,369 | – | 22,369 |
| At 31 December 2016 | 1,374,735 | 108,586 | (1,229,094) | 254,227 |

## 33. OPERATING LEASE COMMITMENTS

At the end of each reporting period, the Group was committed to make the following future minimum leases payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within one year | 575 | 476 |
| In the second to fifth year inclusive | 414 | 100 |
| | 989 | 576 |

Operating lease payments represented rentals payable by the Group for certain of its office properties and factory premises. Except for the lease for the Group's factory with a term of twenty years, leases are negotiated for an average term from one to two years.

## 34. CAPITAL COMMITMENTS

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Capital expenditure in the consolidated financial statements in respect of the acquisition of property, plant and equipment | | |
| — Contracted for but not provided | – | 5,160 |
| — Authorised but not contracted for | – | 200,000 |
| | – | 205,160 |

## 35. RETIREMENT BENEFITS SCHEMES

The Group participates in a Mandatory Provident Fund Scheme in Hong Kong which was established under the Mandatory Provident Fund Ordnance in December 2000 (the "MPF Scheme"). The assets of the schemes are held separately from those of the Group and are invested in funds under the control of independent trustees. For members of the MPF Scheme, the Group contributes 5%, with maximum of HK$1,500 per person of relevant payroll costs to the MPF Scheme since June, 2014 (HK$1,250 per person before), which contribution is matched by employees.

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute 20% to 22% of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

## 36. RELATED PARTY TRANSACTIONS

The Group did not have any outstanding balances with related parties at 31 December 2016 and 31 December 2015.

**Compensation of key management personnel**

The remuneration of directors of the Company and other members of key management during the year were as follows:

| | 2016<br>*RMB'000* | 2015<br>*RMB'000* |
|---|---|---|
| Basic salaries and allowances | 5,277 | 5,695 |
| Retirement benefits scheme contributions | 120 | 174 |
| Share-based payments expense | 526 | 3,119 |
| | 5,923 | 8,988 |

The remuneration of key management is determined by the remuneration committee of the Company having regard to the performance to individual and market trends.

## 37. BUSINESS COMBINATIONS

a. On 7 July 2016, the Group entered into a sale and purchase agreement with independent third parties not related to the Group, pursuant to which the Group agreed to acquire 100% of the entire issued share capital of Joy Boy HK Limited (subsequently renamed as Comtec Renewable Energy Group Limited) and its subsidiaries (collectively referred to "Joy Boy Group") at a total maximum consideration of RMB130 million ("Maximum Consideration"). Joy Boy Group is principally engaged in the provision of project development services and the development of downstream solar power projects. The Group intends to expand into downstream solar business through Joy Boy Group.

   The maximum consideration payable by the Group shall be calculated by reference to the targeted consolidated profit before taxation of Joy Boy Group ("Profit Before Tax"). The consideration is to be satisfied by the Company by allotting and issuing new shares to the vendors as follows:

| | |
|---|---|
| First Instalment | Maximum Consideration × (Profit Before Tax for the twelve-month period ending 30 June 2017) ÷ RMB80,000,000 |
| Second Instalment | Maximum Consideration × (Profit Before Tax for the twenty-four month period ending 30 June 2018) ÷ RMB80,000,000 — the First Instalment |
| Third Instalment | Maximum Consideration × (Profit Before Tax for the thirty six-month period ending 30 June 2019) ÷ RMB80,000,000 — the First Instalment — the Second Instalment |

## 37. BUSINESS COMBINATIONS *(continued)*

a. *(continued)*

The total numbers of the Company's shares to be issued to satisfy the Maximum Consideration is 328,118,768, which is determined HK$0.46 per share at pre-determined exchange rate of RMB0.8613= HK$1.0.

The acquisition was completed on 15 September 2016. Full details of this acquisition is disclosed in a circular of the Company dated 9 August 2016.

The provisional fair values of the identifiable assets and liabilities of Joy Boy Group as at the date of acquisition were as follows:

| | *RMB'000* |
|---|---|
| Cash | 1,000 |
| Goodwill | 60,256 |
| Cooperative agreement | 51,500 |
| Non-compete agreement | 11,550 |
| Deferred tax liability | (10,403) |
| Total identifiable assets and liabilities | 113,903 |
| Satisfied by: | |
| Contingent consideration payables, represents issue of ordinary shares of the Company on earn-out basis | 112,903 |
| Cash | 1,000 |
| | 113,903 |

Goodwill arose in the acquisition of Joy Boy Group because the consideration for the combination effectively included amounts in relation to the future business growth of Joy Boy Group. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on the above acquisition is expected to be deductible for the tax purposes.

Joy Boy Group contributed no revenue nor result to the Group for the year ended 31 December 2016 as it has yet commenced operations as at 31 December 2016.

## 37. BUSINESS COMBINATIONS *(continued)*

b. On 14 November 2016, the Company entered into a sale and purchase agreement with independent third parties not related to the Group, pursuant to which the Company agreed to acquire 51% of the issued share capital of Forum (Asia) Limited at a total maximum consideration of RMB52.02 million. The maximum consideration payable by the Company shall be calculated by reference to the targeted consolidated profit before taxation of Forum (Asia) Limited and its subsidiaries. The consideration is to be satisfied by the Company by allotting and issuing new shares to the vendors as follows:

| | |
|---|---|
| First Instalment | Maximum Consideration × (Profit Before Tax for the six-month period ending 30 June 2017) ÷ RMB58,000,000 |
| Second Instalment | Maximum Consideration × (Profit Before Tax for the twelve-month period ending 31 December 2017) ÷ RMB58,000,000 — the First Instalment |
| Third Instalment | Maximum Consideration × (Profit Before Tax for the eighteen-month period ending 30 June 2018) ÷ RMB58,000,000 — the First Instalment — the Second Instalment |
| Fourth Instalment | Maximum Consideration × (Profit Before Tax for the twenty-four month period ending 31 December 2018) ÷ RMB58,000,000 — the First Instalment — the Second Instalment — the Third Instalment |
| Fifth Instalment | Maximum Consideration × (Profit Before Tax for the thirty-month period ending 30 June 2019) ÷ RMB58,000,000 — the First Instalment — the Second Instalment — the Third Instalment — the Fourth Instalment |
| Sixth Instalment | Maximum Consideration × (Profit Before Tax for the thirty-six month period ending 31 December 2019) ÷ RMB58,000,000 — the First Instalment — the Second Instalment — the Third Instalment — the Fourth Instalment — the Fifth Instalment |

The total numbers of the Company's shares to be issued to satisfy the maximum consideration is 166,479,449, which is determined HK$0.355 per share.

Pursuant to the sale and purchase agreement, the completion shall be subject to fulfilment of certain condition precedents on or before the 180th calendar day following the date of the sale and purchase agreement.

As of 31 December 2016, the Company has not fulfilled the condition precedents, including but not limited to, the shareholders' approval of the Company and the approval from the Stock Exchange.

## 38. MAJOR CONTRACTS

In prior years, a wholly-owned subsidiary of the Company, namely Comtec Solar (Hong Kong) Limited ("Comtec Solar HK"), entered into a wafer supply agreement (the "Wafer Supply Agreement") with Mission Solar Energy LLC, a Delaware limited liability company ("Mission") which is an independent third party, pursuant to which Comtec Solar HK will supply solar wafers with capacity of approximately 500MW to Mission from June 2014 to July 2017 at pre-determined delivery schedule and supply price.

In addition, Mission paid non-refundable deposits of USD35 million (equivalent to approximately RMB213,391,000) to Comtec Solar HK which will be used to offset the related consideration payable from June 2014 to July 2017 upon delivery of the solar wafers under the Wafer Supply Agreement. As a result, the Group recognized such deposits as customers' deposits received in the consolidated statement of financial position. At each reporting date, the directors of the Company estimate the amount of advances that is expected to be settled by the offset of the sales of the agreed contract quantity in the next twelve months and classify it as current liability. The remaining balance is classified as non-current liability in the consolidated statement of financial position. In early 2016, Comtec Solar HK has reached into an agreement with Mission under which neither parties under the Wafer Supply Agreement shall be bounded by the pre-determined delivery schedule and supply price terms for the forthcoming supply/purchase. As the revised delivery schedule has not been reached as to the date of these financial statements, the full amount of the deposit received from Mission is classified as current liabilities as of 31 December 2016 and 31 December 2015.

Immediately before the conclusion of the Wafer Supply Agreement between Comtec Solar HK and Mission, Comtec Solar HK entered into an agreement with an independent third party (the "Assignor" or the former seller of Mission) and paid an amount of USD35 million (equivalent to approximately RMB213,391,000) to the Assignor as an assignment fee that Comtec Solar HK assumed obligations as seller and the Assignor assigned its rights to Comtec Solar HK under the Wafer Supply Agreement over the relevant contractual period.

The Group recognized such prepaid assignment fee in the consolidated statement of financial position. At 31 December 2016 and 31 December 2015, the directors of the Company estimate the amount of assignment fee that is expected to be released to the consolidated statement of profit or loss and other comprehensive income over the sales of the agreed contract quantity in the next twelve months and classify it as current asset. The remaining balance is classified as non-current asset in the consolidated statement of financial position.

## 39. SUBSIDIARIES

Details of the Company's subsidiaries, which are all wholly-owned, at 31 December 2016 and 31 December 2015 are as follows:

| Name of company | Place and date of incorporation/ establishment/operations | Issued and fully paid share capital/ registered capital at the date of this report | Principal activities |
|---|---|---|---|
| Comtec Semiconductor (Cayman) Limited* | Cayman Islands 23 April 2007 | US$2 *(Note 1)* | Investment holding |
| Comtec Semiconductor (Hong Kong) Limited | Hong Kong 12 October 2007 | HK$31,512,001 *(Note 1)* | Investment holding |
| Comtec Solar (Cayman) Limited* | Cayman Islands 23 April 2007 | US$2 *(Note 1)* | Investment holding |
| Comtec Solar (Hong Kong) Limited | Hong Kong 12 October 2007 | HK$144,300,000 *(Note 1)* | Investment holding, provision of sourcing, invoicing and support services for group companies |
| Comtec Solar International Limited | BVI 2 January 2013 | US$50,000 *(Note 1)* | Investment holding |
| Comtec Solar International (M) Sdn. Bhd. | Malaysia 7 February 2013 | MYR266,600,002 *(Note 1)* | Manufacturing and sales of semiconductors, solar wafers and related products |
| Comtec Solar Trading Limited | Hong Kong 4 December 2013 | HK$2 *(Note 1)* | Investment holding |
| Comtec Solar (China) Investment Holdings Limited | Hong Kong 4 December 2013 | HK$2 *(Note 1)* | Investment holding |
| Comtec New Energy China Holdings Limited | Hong Kong 25 November 2013 | RMB46,972,960 *(Note 1)* | Investment holding |
| Comtec Solar Systems Limited | BVI 18 March 2014 | US$50,000 *(Note 1)* | Investment holding |
| Comtec Solar Systems China Limited | BVI 20 March 2014 | US$50,000 *(Note 1)* | Investment holding |

## 39. SUBSIDIARIES *(continued)*

| Name of company | Place and date of incorporation/ establishment/operations | Issued and fully paid share capital/ registered capital at the date of this report | Principal activities |
|---|---|---|---|
| Comtec Solar Systems International Limited | BVI 20 March 2014 | US$50,000 *(Note 1)* | Investment holding |
| Comtec Solar Systems HK Limited | Hong Kong 2 May 2014 | HK$1 *(Note 1)* | Investment holding |
| Jiangxi Comtec Solar Technology Co Limited# | PRC 22 March 2006 | US$6,064,000 *(Note 1)* | Inactive |
| Shanghai Comtec Semiconductor Co Limited# | PRC 21 December 1999 | US$4,040,000 *(Note 1)* | Manufacturing and sales of semiconductors, solar wafers and related products |
| Shanghai Comtec Solar Technology Co Limited# | PRC 5 July 2005 | US$18,500,000 *(Note 1)* | Manufacturing and sales of solar wafers and related products |
| Comtec New Energy (Shanghai) Limited# | PRC 7 January 2012 | US$16,000,000 *(Note 1)* | Manufacturing and sales of solar wafers and related products |
| Comtec Solar (Jiangsu) Co., Limited# | PRC 11 February 2012 | US$66,500,020 *(Note 1)* | Manufacturing and sales of solar wafers and related products |
| Comtec Renewable Energy Group Limited (Formerly known as Joy Boy HK Limited)Δ | Hong Kong 27 May 2016 | HK$1,158,502 | Investment holding |
| Sunny Mega Limited+ | BVI 18 August 2016 | USD $1 | Investment holding |
| Comtec Ba Min Electricity (China) Limited+ | Hong Kong 15 September 2016 | HK$1 | Investment holding |
| 福州卡姆丹克太陽能電力有限責任公司#+ | PRC 25 October 2016 | RMB10,000,000 | Manufacturing and sales of solar wafers and related products |

## 39. SUBSIDIARIES *(continued)*

| Name of company | Place and date of incorporation/ establishment/operations | Issued and fully paid share capital/ registered capital at the date of this report | Principal activities |
|---|---|---|---|
| Comtec Renewable Energy (Jiangsu) Limited#+ | PRC 17 October 2016 | US$150,000,000 | Manufacturing and sales of solar wafers and related products |
| Comtec Energy Technology (Beijing) Limited# + | PRC 31 October 2016 | RMB10,000,000 | Manufacturing and sales of solar wafers and related products |
| Wuxi Comtec New Materials Limited# + | PRC 24 October 2016 | RMB20,000,000 | Manufacturing and sales of solar wafers and related products |
| Comtec Solar Development (Wuxi) Limited# + | PRC 28 October 2016 | RMB10,000,000 | Manufacturing and sales of solar wafers and related products |
| Comtec Solar Smart Energy (Wuxi) Limited# + | PRC 7 November 2016 | RMB20,000,000 | Manufacturing and sales of solar wafers and related products |

* Directly held by the Company
\# Wholly foreign-owned enterprise
Δ Acquired on 15 September 2016
\+ Acquired through the acquisition of Joy Boy HK Limited

*Note:*

1. The issued and fully paid share capital of the entity remained unchanged as at 31 December 2016 and 31 December 2015.

None of the subsidiaries has issued any debt securities at the end of the reporting period.

## 40. SUBSEQUENT EVENT

All the condition precedents in relation to the proposed acquisition of Forum (Asia) Limited as disclosed in note 37(b) were fulfilled and the acquisition was completed on 1 March 2017. Upon the completion of the acquisition, Forum (Asia) Limited, has become a 51% owned subsidiary of the Group. The Group is still in the process to evaluate the financial impact of the acquisition, including but not limited to the related purchase price allocation.

# Five Years Summary

| Results | 2012 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2016 RMB'000 |
|---|---|---|---|---|---|
| | Year ended 31 December | | | | |
| Turnover | 1,025,615 | 937,479 | 906,620 | 1,091,200 | 810,045 |
| (Loss) Profit before interest expenses and taxation | (124,793) | (113,755) | (78,411) | (420,333) | (998,677) |
| Interest expense | (39,036) | (18,585) | (11,910) | (14,762) | (9,112) |
| (Loss) Profit before taxation | (163,829) | (132,340) | (90,321) | (435,095) | (1,007,789) |
| Taxation | (1,220) | (737) | (170) | 381 | 719 |
| (Loss) Profit and total comprehensive income for the year, attributable to the owners of the Company | (165,049) | (133,077) | (90,491) | (434,714) | (1,007,070) |

| Assets and liabilities | 2012 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2015 RMB'000 | 2016 RMB'000 |
|---|---|---|---|---|---|
| | Year ended 31 December | | | | |
| Total assets | 2,440,099 | 2,608,545 | 2,484,678 | 2,125,319 | 1,362,006 |
| Total liabilities | (975,413) | (1,083,732) | (970,163) | (988,407) | (1,151,935) |
| Net assets | 1,464,686 | 1,524,813 | 1,514,515 | 1,136,912 | 210,071 |

# Definitions

In this report, unless the context otherwise requires, the following terms shall have the following meanings:

| | |
|---|---|
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Board" or "Board of Directors" | the board of Directors |
| "Company" | Comtec Solar Systems Group Limited |
| "Controlling Shareholder(s)" | the controlling shareholders (as defined in the Listing Rules) of the Company, namely Mr. John Yi Zhang and Fonty |
| "Corporate Governance Code" or "CG Code" | code on corporate governance practices contained in Appendix 14 to the Listing Rules |
| "Directors(s)" | the director(s) of the Company |
| "Fonty" | Fonty Holdings Limited, a company incorporated under the laws of the BVI with limited liability on 5 September 2007 |
| "Global Offering" or "IPO" | the listing of the Shares on the Stock Exchange on 30 October 2009 |
| "Group" | the Company and its subsidiaries |
| "HK$" and "HK cents" | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Latest Practicable Date" | 19 April 2017, being the latest practicable date prior to the printing of this annual report for ascertaining certain information in this annual report |
| "Listing Date" | 30 October 2009, the date on which dealings in the Shares first commenced on the Stock Exchange |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Model Code" | model code for securities transactions by directors of listed issuers contained in Appendix 10 to the Listing Rules |

# Definitions

| | |
|---|---|
| "Mr. Zhang" or "Mr. John Yi Zhang" | Mr. John Yi Zhang, an executive Director, the chairman of the Board, the chief executive officer and the controlling shareholder of the Company |
| "PRC" or "China" | the People's Republic of China |
| "Prospectus" | the prospectus of the Company dated 19 October 2009 |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | the Securities and Future Ordinance, Chapter 571 of the Laws of Hong Kong |
| "Share(s)" | ordinary share(s) of HK$0.001 each in the share capital of the Company |
| "Shareholder(s)" | shareholder(s) of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "substantial shareholder(s)" | has the meaning ascribed to it under the Listing Rules |
| "U.S.A." | the United States of America |
| "%" | per cent. |