Annual Report
2016

中国优通控股
China UT Holding

China U-Ton Holdings Limited
中 國 優 通 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6168

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Jiang Changqing (姜長青) (Chairman)
Guo Aru (郭阿茹)
Li Qingli (李慶利)

Independent Non-Executive Directors

Meng Fanlin (孟繁林)
Wang Haiyu (王海玉)
Li Xiaohui (李曉慧)

Company Secretary

Chan Oi Chong (陳愛莊) (ICS, HKICS)

Compliance Officer

Li Qingli (李慶利)

Audit Committee

Li Xiaohui (李曉慧) (Chairlady)
Meng Fanlin (孟繁林)
Wang Haiyu (王海玉)

Nomination Committee

Meng Fanlin (孟繁林) (Chairman)
Li Xiaohui (李曉慧)
Wang Haiyu (王海玉)

Remuneration Committee

Wang Haiyu (王海玉) (Chairman)
Meng Fanlin (孟繁林)
Li Xiaohui (李曉慧)

Company's Website

www.chinauton.com

Authorised Representatives

Jiang Changqing
Li Qingli

Auditor

KPMG

Legal Adviser to the Company (Hong Kong Law)

Li & Partners

Registered Office

Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Head Office, Headquarters and Principal Place of Business in the PRC

Room A601, Shimeng 1925 Business Center,
Donggang Road 108,
Yuhua District, Shijiazhuang
Hebei Province
China

Principal Place of Business in Hong Kong

Room 2404
24/F, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

Principal Bankers

The Hongkong and Shanghai
Banking Corporation Limited
HSBC Main Building
1 Queen's Road Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road,
Hong Kong

China Construction Bank
Shijiazhuang Guangan Dajie Branch
No.26, Guangan Dajie, Shijiazhuang
Hebei Province
China

Industrial and Commercial Bank of China
Beijing Beitaipingzhuang Branch
No.33, North Road, Beitaipingzhuang
Beijing
China

Principal Share Registrar and Transfer Office

Estera Trust (Cayman) Ltd.
Clifton House
75 Fort Street
P.O. Box 1350
Grand Cayman KY1-1108
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
22th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

6168

CHAIRMAN'S STATEMENT

Dear shareholders,

The Company reported its audited results for the year ended 31 December 2016 with a loss attributable to the equity holders of the Company of RMB253,203,000, representing a change from profit to loss as compared with the previous financial year. Our gross profit decreased by RMB191,749,000 to loss of RMB46,015,000. The Group's revenue for the year ended 31 December 2016 decreased by approximately 36.3% to RMB302,681,000. During the year ended 31 December 2016, due to increased competition in the traditional optical fiber deployment business, the Group adjusted its allocation of resources by taking the initiative to reduce the amount of business undertaken in 2016 and foster new potential business growth drivers. The strategy adjustment lead to a significant decrease in revenue of design, deployment and maintenance services of optical fibers. The Group recorded a substantial loss attributable to the equity holders of the Company due to the following reasons, 1) decrease in revenue as a result of strategy adjustment while costs increased due to delay in construction progress for a number of projects, and some construction contracts had not reached the stage to recognise contract revenue but costs incurred were recorded, leading to significant decrease in gross margin, 2) increase in provision for trade receivables from non-operator customers that were in financial difficulties, 3) increase in financing scale and costs leading to an increase in finance costs, 4) increase in marketing expense due to development of new business which had not generated revenue in 2016, 5) devaluation of renminbi leading to an increase in exchanges losses for Hong Kong dollar debt.

BUSINESS DEVELOPMENT

The Group is principally engaged in the provision of design, deployment and maintenance services of optical fibers, and low-voltage equipment related integration and other services in the PRC. It is the Group's strategy to become a significant optical fiber deployment service provider for telecommunication operators in the PRC by (1) further strengthening our micro-ducts and mini-cable system integration deployment services of optical fibers in the PRC and (2) expanding our business of low-voltage equipment integration services in the PRC.

Our competitive strengths include (1) we provide flexible solutions to our clients with our micro-ducts and mini-cable system integration methods; and (2) we have registered a number of patents and obtained the rights to use the drainage system in various cities/districts to enhance our business development in telecommunication industry in the PRC.

In order to seek international business opportunities, after conducting several site visits, feasibility studies and business opportunity evaluations, our overseas business development departments have established wholly-owned subsidiaries in Ghana, Libya and South Africa respectively and started business operations. During the year ended 31 December 2016, the Group achieved steady growth of overseas business which are expected to generate revenue to the Group's business in 2017. Meanwhile, we have also been exploring with local partners in many countries to consider establishing joint ventures to develop the local market.

The Group has extensive experience and remarkable advantage in the application of mini-cable and micro-ducts integration technology for laying optical fiber networks in storm water conduits in China. As the Company has plans for overseas expansion, the Group has explored with a number of domestic and foreign telecommunications operators and equipment providers to enhance and construct local optical fiber networks overseas, using local drainage system conduits and mini-cable and micro-ducts technology for laying new networks, and conducting business in rental of optical fiber resources (bare optical fiber, conduits) under the business model of "operators of operators".

Based on the experience of the Group and the results of detailed analysis, it has been shown that laying optical fiber cables through combining the use of drainage system and mini-cable and mirco-ducts technology is a technology that can construct networks with the most extensive coverage in a shorter time and at a lower cost, and it is expected that no alternative technology with a lower cost will be available in the foreseeable future. As an "operator of operators", we have competitive and cost advantages in using the technology.

The business model of "operators of operators" involves a one-off cash payment by the customer to acquire the right to use optical fiber and conduits (IRU), and operation and maintenance fees are paid on an annual basis. This is expected to substantially improve the cash flow of the Group.

DIVIDENDS

The Board does not recommends the payment of dividend for the year ended 31 December 2016 (2015: Nil).

FUTURE PLANS AND PROSPECTS

The application of wireless technology by the market and the promotion of cloud computing, big data and data centres, together with upgrades in systems and skills and application of 4G and development of 5G, have resulted in a multi-fold increase in the global demand for bandwidth in the next few years. Optical fibre broadband network construction is the forerunner of all infrastructure works, and the most important ring for the economic development of countries in the surrounding areas under the One Belt and One Road initiative, as well as those in the Middle East and Africa. Upgrade of existing networks and laying of new networks are required to cope with the local needs for future development. The Group is proactively looking for business opportunities to expand its existing business overseas and conducting research on investment opportunities on the basis of its existing business, so as to tap into new drivers for business growth.

On the back of its advantages in technology and construction, the Group has explored cooperation opportunities with local telecommunications operators overseas for laying optical fibre networks and made investments to support their development for sustainable sharing of business revenues. The plan will enable the Group to expand its business from a service provider for laying optical fibre networks to an optical fibre network provider, enhancing the status of the Group as a stakeholder in the industry. The plan can increase the success rate of the business of providing services for laying of optical fibres, tap into new business for the sustainable development of the Group in future, and increase the recurring revenue of the Group. It can also provide the Group with a long-term and a more stable source of cash income and better equip it with funds for future plans.

Under the One Belt and One Road initiative of the country and its policy of supporting the construction works of countries with amicable relationships, the Group has set up broadband networks domestically and in Hong Kong and expanded overseas. As a regional leader in the industry, the Group is confident that the plan will reap, achieve and bring further business growth and substantial revenue.

The Group will pay attention to other potential telecommunication business opportunity and our Directors are cautiously optimistic on the prospect at this stage. More efforts will be made to strengthen internal control and management, strictly control production cost and operating expenses, so as to increase the overall profitability of the Group and maximize the returns for shareholders.

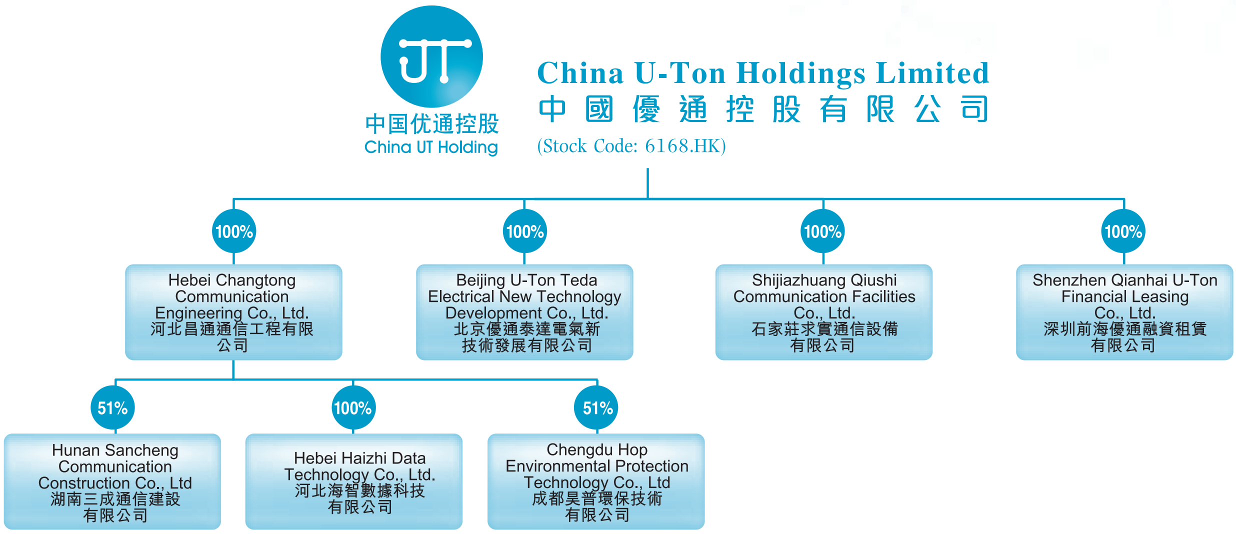
APPRECIATION

Finally, the Board would like to express sincere thanks to our customers, business partners, suppliers and shareholders for their persistent support to the Group, and our appreciation for the efforts and endeavors made by our management and employees during the past year.

Jiang Changqing
Chairman and Executive Director

Hong Kong, 31 March 2017

GROUP STRUCTURE OF MAJOR OPERATING SUBSIDIARIES



HISTORY

2015

Established overseas business development department and incorporated 2 subsidiaries in Ghana and South Africa

August 2014

Successfully transferred listing from the GEM Board to the Main Board of the Stock Exchange

2013

Further expand our coverage to Hunan and Chongqing by acquiring 2 subsidiaries namely Chongqing Wuyang and Hunan Sancheng

June 2012

Successfully listed on the GEM Board of the Stock Exchange

Being granted the Grade A certificate for Telecommunication Network System Integration Enterprise (通信信息網絡系统集成企業資質証書甲級資質), qualified to conduct all kinds of telecommunication network construction projects in the PRC

2011

Acquired Shijiazhuang Qiushi to venture into low-voltage equipment integration services business

2007 and 2008

Successfully obtained 17 patents relating to micro-duct and mini-cable deployment technology

2006

Successfully completed the first micro-ducts and mini-cables deployment project in Xingtai

2004

Secured exclusive right to use sewage system in Baoding

2001

Established in the PRC

FINANCIAL HIGHLIGHTS & SUMMARY

FINANCIAL HIGHLIGHTS

	Year ended 31 December				
in RMB'000	**2016**	2015	2014	2013	2012
Revenue	**302,681**	475,507	511,472	377,619	246,368
Cost of Sales/services	**(348,696)**	(329,773)	(349,324)	(230,004)	(137,079)
Gross Profit	**(46,015)**	145,734	162,148	147,615	109,289
Impairment	**(88,239)**	(2,923)	(5,282)	(625)	931
Listing Expenses		—	—	—	(10,411)
Profit (loss) for the year attributable to equity holders of the Company	**(253,203)**	48,732	74,695	85,234	65,708

FINANCIAL SUMMARY

	Year ended 31 December				
in RMB'000	**2016**	2015	2014	2013	2012
RESULTS					
Revenue	**302,681**	475,507	511,472	377,619	246,368
Profit before income tax	**(255,373)**	56,490	89,191	101,773	75,133
Income tax expenses	**(4,139)**	(7,861)	(13,078)	(12,490)	(9,425)
Profit for the year	**(259,512)**	48,629	76,113	89,283	65,708

	At 31 December				
in RMB'000	**2016**	2015	2014	2013	2012
ASSETS AND LIABILITIES					
Total assets	**1,427,379**	1,240,682	1,019,626	692,936	453,530
Total liabilities	**994,746**	653,577	457,753	292,916	151,281
Net assets	**432,633**	587,105	561,873	400,020	302,249

BUSINESS REVIEW

Deployment and maintenance services of optical fibers

During the year ended 31 December 2016, decrease in revenue of deployment services of optical fibers was mainly due to significant decrease in traditional deployment construction revenue in Hebei Province due to keen competition of the market and revenue in Chongqing as a result of disposal of a subsidiary, Chongqing Wuyang Communication Technology Co., Ltd. ("Chongqing Wuyang") on 26 October 2015. While costs increased as a result of delay in construction progress for a number of projects, a number of projects with relatively low gross profit margins were undertaken by the Group to maintain a certain market share. The above factors led to a decrease in revenue and gross margin of the optical fiber deployment business in 2016.

Low-voltage equipment integration and other services

During the year ended 31 December 2016, decrease in revenue was mainly due to large-scale projects undertaken in previous years which has entered into final stage in 2016, the underground common trench project in Zhengding New District, Shijiazhuang initiated in 2016 was still in the early stage of construction and only the experimental section started to recognise revenue. In order to ensure the smooth advancement of large-scale projects in 2017, the Group maintained the human resource level of this business segment. As a result, while revenue decreased, there was little change in fixed costs and gross profit margin from the low-voltage equipment integration business decreased in 2016.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

(a) Issuance of convertible bonds and guaranteed notes

On 18 January 2017, the Company announced the issuance of convertible bonds and guaranteed notes to independent third parties with principal amount of USD10,000,000 each. The issuance of both the convertible bonds and guaranteed notes were completed on 9 February 2017. The convertible bonds are guaranteed by Mr. Jiang Changqing, the controlling shareholder and the director of the Company. The occurrence of any of the following events, among others, shall constitute an event of default under the convertible bond instrument: (i) Mr. Jiang ceases to be the chairman of the Board; (ii) Mr. Jiang, in his personal capacity or through any entity controlled by him, ceases to, in aggregate own and Control more than 30% of the shares of the Company; and (iii) all or any substantial part of the assets of the Mr. Jiang is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government. The bonds are convertible at the option of the bondholders into ordinary shares in the conversion period beginning on the first anniversary of the CB Issue Date or such earlier date as may be agreed by the Investor and the Issuer in writing and ending on Maturity Date. The bondholders will have the right, but not the obligation, to convert all or any part of the outstanding principal amount of the convertible bond with the initial conversion price of HK$1.00 per conversion share, subject to any adjustment from time to time. For details, please refer to the Company's announcements dated 18 January 2017 and 10 February 2017.

(b) Potential acquisition of 10% equity interests of a third party company

On 12 December 2016, the Company announced that it entered into a non-legally binding memorandum of understanding with a state-owned environmental protection company (the "Target Company"), pursuant to which the Group may acquire up to 10% equity interests in the Target Company with a consideration estimated to be approximately RMB100,000,000. Up to the date of issuance of this report, the above transaction has yet to be finalised.

FINANCIAL REVIEW

	Year ended 31 December		
	2016	2015	Increase/
	RMB'000	RMB'000	(Decrease)%
Revenue	**302,681**	475,507	(36.3)
Gross (loss)/profit	**(46,015)**	145,734	(131.6)
EBITDA	**(181,333)**	90,376	(300.6)
EBITDA margin %	**(59.9%)**	19.0%	(78.9)
Net (loss)/profit	**(259,512)**	48,629	(633.7)
(Loss)/profit for the year attributable to the equity holders of the Company	**(253,203)**	48,732	(619.6)
Net (loss)/profit margin	**(85.7%)**	10.2%	(95.9)
	RMB cents	RMB cents	RMB cents
Basic (loss)/earnings per share	**(13.75)**	2.77	(16.52)

	As at 31 December 2016	As at 31 December 2015
Current ratio	**2.1**	2.2
Gearing ratio	**82.5%**	22.6%

Revenue

The Group's revenue for the year ended 31 December 2016 was RMB302,681,000, representing a decrease of approximately 36.3% over the corresponding period of the previous financial year. The decrease in the Group's revenue was mainly due to decrease of construction contract revenue of deployment services of optical fibers and revenue of low-voltage equipment integration services.

The following table sets out the breakdown of our Group's revenue during years:

	Year ended 31 December		
	2016	2015	Increase (Decrease)
	RMB'000	RMB'000	%
Design, deployment and maintenance of optical fibers services			
– Traditional deployment methods	**160,955**	268,571	(40.1)
– Micro-ducts and mini-cables system integration methods	**67,183**	88,785	(24.3)
Sub-total	**228,138**	357,356	(36.2)
Low-voltage equipment integration and others services	**72,715**	118,110	(38.4)
Rental income	**1,828**	41	4,358.5
Total	**302,681**	475,507	(36.3)

Design, deployment and maintenance of optical fibers

Revenue generated from our provision of design, deployment and maintenance of optical fibers services, was RMB228,138,000 and RMB357,356,000, representing approximately 75.4% and 75.2% of the total revenue of the Group for the year ended 31 December 2016 and 2015, respectively. The decrease in construction revenue for the year ended 31 December 2016 as compared to 2015 was mainly due to the decrease in the revenue derived from the provision of deployment services of optical fibers in Hebei Province due to keen competition and Chongqing as a result of disposal of a subsidiary, Chongqing Wuyang on 26 October 2015.

The following table set forth our revenue from construction contract by major locations for the years indicated.

	Year ended 31 December			
	2016		2015	
	(RMB'000)	**%**	(RMB'000)	%
Hebei Province	**157,476**	**69.0**	246,555	69.0
Beijing	**160**	**0.1**	3,043	0.9
Liaoning Province	**14,384**	**6.3**	14,521	4.0
Sichuan Province	**8,464**	**3.7**	9,198	2.6
Guizhou Province	**13,687**	**6.0**	16,984	4.8
Chongqing	**—**	**—**	40,657	11.4
Hunan Province	**675**	**0.2**	5,152	1.4
Tianjin	**2,455**	**1.1**	—	—
Henan Province	**5,775**	**2.5**	—	—
Shandong Province	**7,079**	**3.1**	—	—
Shanxi Province	**3,100**	**1.4**	—	—
Yunnan Province	**2,413**	**1.1**	—	—
Others	**12,470**	**5.5**	21,246	5.9
	228,138	**100.0**	357,356	100.0

Low-voltage equipment integration and other services

The income from low-voltage equipment integration and other services, mainly representing the income generated from the provision of integration services for low-voltage equipment and accessories to our clients, which include financial institutions, governmental departments, public facilities, road and transportation companies, and state-owned and private companies, was approximately RMB72,715,000, accounting for approximately 24.0% of our total revenue for the year ended 31 December 2016. The decrease in revenue was mainly because some of the large construction projects were at early stage as at 31 December 2016 so that criteria for recognition of revenue could not be fulfilled at the time.

Rental income

The Group's revenue from rental income RMB1,828,000, represented 0.6% of total revenue.

Cost of sales and services

The Group's cost of sales and services for the year ended 31 December 2016 was approximately RMB348,696,000, representing a increase of approximately 5.7% over the corresponding period of the previous year. The increase in the Group's cost of sales was due to increase of construction costs for deployment services of optical fibers.

Gross (loss)/profit

The following table sets forth the gross (loss)/profit of each of our services for the years indicated:

	Year ended 31 December			
	2016		2015	
	RMB'000	**%**	RMB'000	%
Gross (loss)/profit by services				
Design, deployment and maintenance of optical fibers services				
– Traditional deployment methods	**(52,661)**	**(114.4)**	72,091	49.5
– Micro-ducts and mini-cables system integration methods	**5,684**	**12.4**	36,314	24.9
Sub-total	**(46,978)**	**(102.0)**	108,405	74.4
Low-voltage equipment integration and other services	**(679)**	**(1.5)**	37,293	25.6
Rental income	**1,642**	**3.5**	36	—
	(46,015)	**100.0**	145,734	100.0

The following table sets forth the gross margin of each of our services for the years indicated:

	Year ended 31 December		
	2016	2015	Increase (Decrease)
	%	%	percent point
Gross margin by services			
Optical fibers design, deployment and maintenance			
– Traditional deployment methods	**(32.7)**	26.8	(59.5)
– Micro-ducts and mini-cables system integration methods	**8.5**	40.9	(32.4)
Overall	**(20.6)**	30.3	(50.9)
Low-voltage equipment integration and other services	**(0.9)**	31.6	(32.5)
Rental income	**89.8**	87.8	2.0
Overall gross margin	**(15.2)**	30.7	(45.9)

There was a decrease in overall gross margin for the year ended 31 December 2016 as compared with the corresponding period of the previous financial year.

The decrease in our gross margin from profit of approximately 30.7% for the year ended 31 December 2015 to loss of approximately 15.2% for the year ended 31 December 2016 was primarily due to the decrease in gross margin of construction contract revenue in relation to deployment of optical fibers from profit of approximately 30.3% in year ended 31 December 2015 to loss of approximately 20.6% in year ended 31 December 2016 and the gross loss/profit of which accounted for loss of approximately 102.0% and profit of 74.4% of total gross loss/profit in year ended 31 December 2016 and year ended 31 December 2015, respectively. In general, the gross margin of construction contract varies according to the difficulties and complexities of each project.

The gross margin of construction contracts of deployment services of optical fibers using traditional deployment methods decreased from profit of approximately 26.8% for the year ended 31 December 2015 to loss of approximately 32.7% for the year ended 31 December 2016. It was mainly due to the following reasons, a) increased costs as a result of delay in construction progress and engineering change for a number of projects, b) increased competition of business in Hebei Province, c) some construction contracts had not reached the stage to recognise construction revenue but costs incurred were recorded and d) the fixed cost had remained while the revenue decreased. Therefore, there was a negative impact on the gross margin.

The gross profit margin of construction contracts of deployment services of optical fibers using micro-ducts and mini-cables system integration methods decreased from approximately 40.9% for the year ended 31 December 2015 to approximately 8.5% for the year ended 31 December 2016. The decrease was primarily attributable to the less complex projects generating relatively lower gross profit margin, in particular the projects in Hebei Province.

The gross margin of low-voltage equipment integration and other services decreased from profit of approximately 31.6% for the year ended 31 December 2015 to loss of approximately 0.9% for the year ended 31 December 2016. Such decrease was mainly attributable to less complex project undertaken in current year and increased cost for large-scale projects which has entered into final stage in 2016. In addition, the fixed cost had remained while the revenue decreased.

Major customers and service network

Based in Hebei Province, the Group principally provides one-stop optical fiber deployment solutions for telecommunication operators and provides low-voltage equipment integration services in China. Our major customers include China Mobile Communications Corporation ("China Mobile"), a major telecommunication operator in China which contributed approximately 38.15% of total revenue, and other regional telecommunication operators. As the Group maintains a favourable position in terms of resource in the industry of both micro-ducts and mini-cables system deployment technology, we obtain our contracts of that kind mainly through negotiated tender, while for traditional deployment business we mainly compete for contracts through open tender.

As at 31 December 2016, the Group's service network included Hebei Province, Shandong Province, Liaoning Province, Henan Province, Sichuan Province, Guizhou Province, Shanxi Province and Yunnan Province and etc.

Other income

Other income mainly included the interest income and government grants received by the Group.

Selling expenses and administrative expenses

The Group's selling expenses and administrative expenses for the year ended 31 December 2016 were RMB90,725,000, representing an increase of RMB17,023,000 from RMB73,702,000 for the corresponding period of the previous year. The increase was mainly because of expansion of new business of the Group which had not generated revenue in 2016.

Impairment losses

Impairment losses mainly included impairment losses of RMB41,146,000 on trade receivables, impairment losses of RMB42,326,000 on other receivables and impairment losses of RMB4,767,000 on goodwill. The substantial increase in impairment losses on trade receivables was mainly due to certain non-operator customers occurred financial difficulties in 2016 and management assessed that only a portion of the receivables are expected to be recovered. The significant increase in impairment losses on other receivables was mainly due to recognition impairment of RMB23,700,000 on the difference between original consideration and amended consideration for disposal of Nanjing Newlixon Electric Appliance Co., Ltd. ("Nanjing Newlixon"). For details for the disposal, please refer to the paragraph "Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies – Disposal of Nanjing Newlixon" in this Section.

Finance cost

Finance cost mainly included interest charged from bank and other borrowings bonds and guaranteed notes and net foreign exchange loss on debts. The finance cost increased was mainly due to the average principal of borrowings, was higher in the year ended 31 December 2016 and significant increase in net foreign exchange loss related to Hong Kong dollar debt.

Net result of disposal of subsidiary

Net result of disposal of subsidiaries representing disposal gain of Nanjing Newlixon. The Group completed the disposal of aggregate 90% equity interest of Nanjing Newlixon on 31 March 2016. Upon the completion of the disposal, the Group recognised a disposal gain of RMB37,700,000, being the difference between the original consideration and the cost of investment in Nanjing Newlixon.

(Loss)/profit attributable to equity holders of the Company

The Group recorded net loss attributable to equity holders of the Company of RMB253,203,000 for the year ended 31 December 2016 compared to net profit of RMB48,732,000 for the corresponding period in 2015, representing a decrease of approximately 619.6%. The decrease in (loss)/profit attributable to equity holders of the Company was mainly due to the net effect of the increase in impairment losses of RMB85,316,000, the increase in selling expenses and administration expenses of an aggregate amount of RMB17,023,000, increase of finance costs of RMB39,340,000, decrease in gross profit of approximately RMB191,749,000 and the increase in net result of disposal of subsidiary of RMB26,919,000.

Trade and bill receivables

There was a decrease in trade and bills receivables as at 31 December 2016 of approximately RMB44,544,000 as compared to 31 December 2015, which was mainly due to the net effect of the settlement from customers, impairment losses recognised and new trade receivables provided by the Group during the year ended 31 December 2016.

Amount due from customers for contract works

There was a decrease in the amount due from customers for contract works as at 31 December 2016 of RMB71,790,000 as compared to 31 December 2015, which was mainly due to the net effect of decrease in revenue and construction revenue recognized in year 2016 but not certified by customers.

Available-for-sale financial assets

Available-for-sale financial assets mainly included investment of RMB64,110,000, representing 5.65% of equity interest of Sino Partner Global Limited ("Sino Partner"). Sino Partner principally engaged in the design, development, manufacturing and sales of high performance supercars under the brand "Apollo".

Bank and other borrowings

The Group had short-term and long-term bank and other borrowings as at 31 December 2016 amounted to RMB237,275,000 and RMB133,726,000 respectively. No financial instruments were used for hedging purposes. The Group's bank loans were made in Hong Kong dollars and Renminbi, RMB78,726,000 of bank loans are carried at floating rates, and the remaining bank and other borrowings are carried at fixed rates.

Convertible bonds

On 7 June 2016, the Company issued convertible bond with a nominal value of HK$50,000,000 and a maturity period of 2 years. Interest bearing at 8% per annum and is repayable semi-annually. The convertible bond is guaranteed by Mr. Jiang Changqing, the chairman of the Company. In addition, the occurrence of any of the following events, among others, shall constitute an event of default under the convertible bond instrument: (i) Mr. Jiang ceases to be the chairman of the Board; (ii) Mr. Jiang, in his personal capacity or through any entity controlled by him, ceases to, in aggregate own and control more than 50% of the shares of the Company, which was further amended to 30% as agreed with the investor on 14 December 2016; and (iii) all or any substantial part of the assets of the Mr. Jiang is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government. The bonds are convertible at the option of the bondholders into ordinary shares in the conversion period beginning on the first anniversary of the issue Date and ending on maturity Date of the convertible bond. The bondholders will have the right, but not the obligation, to convert all or any part of the outstanding principal amount of the convertible bond with the initial conversion price of HK$1.00 per conversion share, subject to any adjustment from time to time. For details, please refer to the Company's announcements dated 16 May 2016 and 7 June 2016.

As at 31 December 2016, the carrying amounts of liability and derivative components of the convertible bond are RMB42,716,000 and RMB6,423,000 respectively. No conversion or redemption of the convertible bond has occurred up to 31 December 2016.

Related Party Balances and Transactions

(a) During the reporting period, the following parties are identified as related party to the Group and the respective relationships are set out below:

Name of related party	Relationship
Mr. Li Qingli	Beneficial shareholder and director of the Company
Mr. Jiang Changqing	Beneficial shareholder and director of the Company
Ms. Guo Aru	Beneficial shareholder and director of the Company
Hebei Qiushi Olin Funiture Sales Co., Ltd. ("Qiushi Olin")	Owned by Mr. Li Qingli

(b) At the end of the reporting period, the Group has amounts payable to the following related parties and the detail is set out below:

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Non-trade nature:		
Ms. Guo	**575**	500
Qiushi Olin	**—**	1,000
	575	1,500

(c) Bank borrowings of RMB 72,945,000 (31 December 2015: RMB25,000,000) are secured by personal guarantee from Mr. Jiang Chanqing and Ms. Guo Aru, directors of the Company. The guaranteed notes of RMB45,132,000 (31 December 2015: Nil) and convertible bonds of RMB49,139,000 (31 December 2015: Nil) are guaranteed by Mr. Jiang Changqing, director of the Company.

(d) The remuneration paid and payable to the key management of the Company who are also the Directors for the year amounted to RMB3,708,000 (31 December 2015: RMB8,896,000).

Liquidity and financial resources

As at 31 December 2016, the Group had current assets of approximately RMB1,229,635,000 (31 December 2015: RMB1,148,348,000) which comprised cash and cash equivalents amounted to approximately RMB128,057,000 as at 31 December 2016 (31 December 2015: RMB63,595,000). As at 31 December 2016, the Group had non-current liabilities and current liabilities amounted to approximately RMB415,750,000 and RMB578,996,000 (31 December 2015: RMB142,099,000 and RMB511,478,000), consisting mainly of payables, corporate bonds, bank and other borrowings arising in the normal course of operation. Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 2.1 as at 31 December 2016 (31 December 2015: 2.2).

The Group finances its operation primarily with the use of internally-generated cashflows, banking facilities and issuance of bonds.

Gearing ratio

The gearing ratio of the Group is calculated on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt which includes bank and other borrowings, corporated bonds, convertible bonds and guaranteed notes less cash at bank and on hand and restricted bank deposits. Capital comprises all components of equity. The gearing ratio was approximately 82.5% as at 31 December 2016 (31 December 2015: approximately 22.6%).

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Foreign exchange exposure

For the year ended 31 December 2016, we had partial bank balances and corporate bonds which are denominated in foreign currencies and consequently we have foreign exchange risk exposure from translation of amount denominated in foreign currencies as at the report date. During the year ended 31 December 2016, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign exchange risk.

Capital structure

The shares of the Company were listed on Main Board of the Stock Exchange. The capital of the Company mainly comprises ordinary shares and capital reserves.

Capital commitments

As at 31 December 2016, the Group had no capital commitments (31 December 2015: RMB17,000).

Dividend

The Board does not recommends the payment of dividend for the year ended 31 December 2016 (2015: Nil).

Information on employees

As at 31 December 2016, the Group had 503 employees (31 December 2015: 656), including the executive Directors. Total employee costs (including Directors' emoluments) were approximately RMB54,073,000 for the year ended 31 December 2016 as compared to approximately RMB65,226,000 for the year ended 31 December 2015. Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

On top of basic salaries, bonuses will be paid with reference to the Group's performance as well as individual's performance. Other employee benefits include contributions to Mandatory Provident Fund scheme in Hong Kong and various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the existing policy requirements of the local PRC authorities as well as share options.

Significant investments held

Except for investment in subsidiaries, available-for-sale financial assets and financial assets during the year ended 31 December 2016, the Group did not hold any significant investment in equity interest in other company.

Future Plans for Material Investments and Capital Assets

Except as disclosed in the Company's voluntary announcement dated 12 December 2016 that the Group may acquire up to 10% interest in a state-owned environmental friendly energy conservation company by using around RMB100 million, the Group did not have any plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

Disposal of Nanjing Newlixon

On 31 March 2016, the Group entered into share transfer agreements to dispose of the 90% equity interest in Nanjing Newlixon at an aggregate consideration of RMB52,700,000 to the non-controlling shareholder of Nanjing Newlixon and an entity controlled by the non-controlling shareholder of Nanjing Newlixon. For further details, please refer to the Company's announcement dated 31 March 2016. The Group provided substantial funding for a major project undertaken by Nanjing Newlixon in 2015 and 2016. Without the support of the Group as a result of disposal of Nanjing Newlixon, the project cannot be completed and the actual profit generated from the project was far less than the initial estimated profit. To reflect the actual profit of the project, on 31 March 2017, the Company and the non-controlling shareholder entered into a supplementary agreement to adjust the consideration from RMB52,700,000 to RMB29,000,000. Upon the completion of the disposal on 31 March 2016, the Group recognised a disposal gain of RMB37,700,000, being the difference between the original consideration and the cost of the investment in Nanjing Newlixon. As at 31 December 2016, an impairment loss of RMB23,700,000 has been provided for the receivables due from Nanjing Newlixon, being the difference between the original consideration and amended consideration.

Acquisition of Sino Partner

In order to explore and make strategic investments in other new business opportunities, the Group acquired 5.65% of equity interest in Sino Partner at a consideration of HK$74,400,000 by issuing 80,000,000 new ordinary shares of the Company. The acquisition is completed on 24 June 2016, upon fulfilment of all the conditions precedent set out in the sale and purchase agreement ("SPA"). The payment of the consideration shares is payable within ten business days after the Completion and the consideration shares were issued on 6 July 2016. Sino Partner principally engaged in the design, development, manufacturing and sales of high performance supercars in the PRC, Europe and other overseas countries. For details, please refer to the announcement of the Company dated 16 June 2016.

During the year ended 31 December 2016, save as disclosed above the Group did not have any other material acquisitions or disposals of subsidiaries and affiliated companies.

Charges on assets

As at 31 December 2016, the Group had pledged bank deposit with carrying amount of RMB170,697,000 to secure the bank and other borrowings (31 December 2015: RMB136,885,000).

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2016 (31 December 2015: Nil).

DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS

Our Board of Directors is responsible and has general powers for the management and conduct of the business. The following table sets forth information regarding members of the Board as at the date of this report:

Name	Appointment Date	Age
Executive Directors		
Jiang Changqing (姜長青) (Chairman)	31 March 2011	51
Guo Aru (郭阿茹)	31 March 2011	51
Li Qingli (李慶利)	31 March 2011	48
Independent Non-executive Directors		
Meng Fanlin (孟繁林)	27 May 2012	72
Wang Haiyu (王海玉)	27 May 2012	64
Li Xiaohui (李曉慧)	27 May 2012	49

Chairman & Executive Director

Mr. Jiang Changqing (姜長青), aged 51, is our founder, chairman, and was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012. He joined Hebei Changtong as a director since its incorporation in June 2000 and joined Beijing U-Ton in July 2010 when he was firstly appointed as the manager, and has been appointed as the director of Beijing U-Ton since April 2011 and has been primarily responsible for overall corporate strategies, planning, management and business development of our Group. Mr. Jiang was a director of Hebei Deer between April 2005 and October 2010 and a director of Partnerfield since December 2010. Mr. Jiang has approximately 20 years' working experience in the telecommunications industry specialising in optical fiber deployment technology and has over five years' experience in in-sewer deployment methods such as in-sewer, pipe jacking and cable troughing which utilise miro-ducts, mini-cables and related techniques. Prior to the establishment of our Group, Mr. Jiang worked at Hengshui Technology Intelligence Office (衡水科技情報所) from March 1998 to June 2000 responsible for the management of the operation. Mr. Jiang worked in a department of People's Liberation Army of the PRC from October 1981 to June 1993 and was mainly responsible for coaching telecommunication equipment maintence and construction. Mr. Jiang obtained a diploma in law through self-studying from the Hebei University (河北大學) in June 1996.

Executive Directors

Ms. Guo Aru (郭阿茹), aged 51, is the spouse of Mr. Jiang. Ms. Guo was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012 and is primarily responsible for the research and development of new equipment and technology for our Group. Ms. Guo joined our Group as a manager in 2007. Ms. Guo was a director of Beijing U-Ton between July 2010 and April 2011 and a director of Partnerfield since December 2010. From July 1986 to September 2006, Ms. Guo worked as a mathematics teacher in No. 4 and No. 7 Middle School of Hengshui City in Hebei Province. Ms. Guo is certified as a senior communications engineer (通信高級工程師) by Gansu Province Title Reform Organisation (甘肅省職稱改革工作小組) in November 2008. Ms. Guo obtained a diploma in mathematics from the Hengshui University (衡水學院) in July 1986. Through self-studying and with the support of Mr. Jiang, Ms. Guo has invented several connectors for the purposes of protecting optical fibers, of which seven were granted patents in the PRC and are being transferred to our Group (please see the section headed "Further information about the business of our Group — Intellectual property rights of our Group" in Appendix IV to the Prospectus for further details about such patents).

Mr. Li Qingli (李慶利), aged 48, joined our Group and was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012 and is mainly responsible for the management of the low-voltage equipment integration services of our Group. Mr. Li has been a director of Shijiazhuang Qiushi responsible for its daily operations and management since its incorporation in March 1999. Mr. Li has been a director of Hebei Deer since its incorpration in October 2003 and a director of Partnerfield since September 2005. Mr. Li worked at Shijiazhuang Changan Xunbo Telecommunication Equipment Operation Office (石家莊市長安迅波通信器材經營處) from March 1994 to March 1999. Mr. Li worked as an external welfare officer at Plant 4511 (4511廠) from September 1991 to March 1994. Mr. Li obtained a diploma in wireless construction from the Guilin University of Electronic Technology (桂林電子科技大學) (formerly known as Guilin Institute of Electronic Technology (桂林電子工業學院)) in June 1991. Mr. Li obtained a Qualification Certificate of Junior Professional Rank (初級專業技術職務任職) from The Title Reform Leading Group Office of Shijiazhuang (石家莊職稱改革領導小組辦公室) in December 1994 qualifying him as an assistant engineer specialising in electrons.

Independent Non-executive Directors

Mr. Meng Fanlin (孟繁林), aged 72, was appointed as our independent non-executive Director on 27 May 2012. Prior to joining our Group, Mr. Meng worked for China Mobile Communications Corporation's Hebei branch Qinhuangdao office (河北移動通信秦皇島分公司) as a senior consultant from December 2003 to January 2005 and as a general manager from July 1999 to December 2003. Mr. Meng had also worked for China Telecom Group's Langfang city telecommunication office (中國電信廊坊市電信局) as the director from November 1998 to July 1999. Mr. Meng had worked for Post and Telecommunication Administration of Hebei Qinhuangdao (秦皇島市郵電局) as vice head and acting head from September 1983 to October 1998 primarily responsible for production management, and as the head of the telecommunication department from October 1980 to February 1983 and was a technician from July 1966 to September 1980. Mr. Meng obtained a bachelor's degree in local telecommunications (市內電話通信) from Jilin University (吉林大學) (formerly known as Changchun Post and Telecommunication Institute (長春郵電學院)) in July 1966.

Mr. Wang Haiyu (王海玉), aged 64, was appointed as our independent non-executive Director on 27 May 2012. Mr. Wang is a registered qualification certificate constructor (中華人民共和國一級建造師) by Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) with expertise in communication, a senior engineer (高級工程師) and telecommunication and national bid evaluation expert (通信建設評標專家) by the Ministry of Information Industry. Mr. Wang had worked for Fifth Construction Bureau of China International Telecommunication Construction Corporation ("CITCC") (中國通信建設集團有限公司第五工程局) which does not have any current or prior relationship with our Group, as the bureau's chief from November 2007 to March 2011; as a senior consultant from March 2011 to September 2012. Mr. Wang had also worked as a general manager of the domestic engineering department of China International Telecommunication Construction Corporation from February 2006 to November 2007 and as a general manager of the engineering and marketing department of CITCC from September 2001 to February 2006. Mr. Wang had also worked for Second Construction Bureau of CITCC (中國通信建設集團有限公司第二工程局) as a senior engineer, director and assistant of bureau chief from February 1978 to December 2000. Mr. Wang received his bachelor's degree in telecommunications from the Nanjing University of Posts and Telecommunications (南京郵電大學) in 1978. Mr. Wang retired in October 2012 and he is not engaging in any daily business operation activities or decision making in CITCC.

Ms. Li Xiaohui (李曉慧), aged 49, was appointed as our independent non-executive Director on 27 May 2012. Ms. Li is a Certified Public Accountant in China and is a non-practising member of the Chinese Institute of Certified Public Accountants. Ms. Li has been a lecturer since 2004 and the vice dean since July 2006 of the department of accountancy of the Central University of Finance and Economics (中央財經大學). Ms. Li had worked for the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) from July 2001 to August 2003 with the responsibilities of researching and formulating independent auditing principles. From 1999 to 2004, Ms. Li wrote books and other publications in relation to auditing, accounting and risk management. Ms. Li had also worked for the Hebei Province Finance Department (河北省財政廳) from January 1997 to August 1998. Ms. Li had worked at Canshi Certified Public Accountants (滄獅會計師事務所) as a partner from August 1996 to January 1997 and Canzhou Certified Public Accountants (滄洲會計師事務所) as an external affairs manager from April 1993 to July 1996. Ms. Li is a member of the Technical Consultation Committee (技術指導委員會) of the Chinese Institute of Certified Public Accountants, the Professional Supervision Committee (監督專業委員會) of the Accounting Society of China (中國會計學會), the CERM (China) Committee of the Asia Association of Risk and Crisis Management ("AARCM") (亞洲風險與危機管理協會), a certified senior enterprise risk manager by AARCM, and the Practice Guidance Committee (執業指導委員會) of the Beijing Institute of Certified Public Accountants (北京註冊會計師協會). Ms. Li obtained her bachelor's degree in economics from Yangzhou University (揚州大學) (formerly known as Yangzhou Normal Institute (揚州師範學院)) in June 1989. Ms. Li obtained her master's degree in economics from Renmin University of China (中國人民大學) in January 1993. Ms. Li was awarded the degree of Doctor of Economy by the Central University of Finance and Economics (中央財經大學) in July 2001. Ms. Li is an independent non-executive director of Poly Culture Group Corporation Limited, a company listed on the Stock Exchange (stock code: 3636), independent director of Jiangsu Welle Environmental Co., Limited, a company listed on Shenzhen Stock Exchange (stock code: 300190), independent director of Kailuan Energy Chemical Co., Limited, a company listed on Shanghai Stock Exchange (stock code: 600997) and independent director of Bank of Beijing Co., Ltd., a company listed on Shanghai Stock Exchange (stock code: 601169). Ms. Li also served as an independent non-executive director of China Titans Energy Technology Group Co., Limited, a company listed on the Stock Exchange (Stock code: 2188), from November 2009 to May 2013.

Senior Management

Mr. Dong Baoyi (董寶義), aged 68, joined our Group as our technical director in November 2006 and was promoted as our chief technical officer in March 2011 and is mainly responsible for technology development and management of our Group. Mr. Dong worked for China Netcom's Tangshan branch as an assistant manager from March 2005 to November 2006 and was primarily responsible for management assistance. Mr. Dong had worked for the Post and Telecommunication Administration of Tangshang city (唐山市郵電局) as a vice department head of long-distance machinery department (長遠機械科), vice manager and manager of telecommunication department from April 1981 to March 2005 and was primarily responsible for telecommunication equipment management and monitoring of its maintenance and repair. Mr. Dong worked for the local telecommunication bureau in Xingyi City, Guizhou Province, as a technician from December 1968 to March 1981 and was primarily responsible for telecommunication equipment maintenance and repair. Mr. Dong obtained a diploma in telecommunication enterprise and power source facilities (電信企業動力和電源設備) from Shijiazhuang Post and Telecommunication School (石家莊郵電學校) in July 1968 and obtained a diploma in economic management (經濟管理) through distance learning from the Hebei Provincial Committee Party School of Correspondence Education (河北省委黨校函授學院) in July 2005.

Ms. Fu Jie (傅捷), aged 38, was appointed as the chief financial officer of the Group on April 2016 and is mainly responsible for the Group's financial management, investment and financing and investor relations. Ms. Fu is a member of the China Institute of Certified Public Accountants and the Association of Chartered Certified Accountants (ACCA). Ms. Fu worked for Ernst & Young Hua Ming LLP from August 2004 to March 2016, and served as the senior manager of audit department from October 2012 to March 2016. She participated in the audit work for a number of Hong Kong listed companies and A-share listed companies in China. She was the certified public accountant who signed the audit report of ZTE Corporation from 2012 to 2015. Ms. Fu graduated from the Finance Major of The Central University of Finance and Economics in 2000 with a bachelor's degree in economics.

Our executive Directors and senior management are responsible for the day-to-day management of our business. The following table sets out certain information concerning our senior management as at the date of this report:

Name	Age	Positions within the Company
Dong Baoyi (董寶義)	68	Chief Technical Officer of the Group
Fu Jie (傅捷)	38	Chief Financial Officer of the Group

Company Secretary

Ms. Chan Oi Chong ("陳愛莊") has been appointed as the Company Secretary with effect from 1 December 2015. Ms. Chan has more than 15 years of financial, auditing and company secretarial experience. Ms. Chan received her bachelor's degree in business administration in accounting from the Hong Kong University of Science and Technology in the year of 1998. She is currently a director of JRK Secretarial Limited. She has been admitted as fellow members of the Hong Kong Institute of Company Secretaries and Institute of Chartered Secretaries and Administrators for more than 10 years.

CORPORATE GOVERNANCE REPORT

Corporate Governance Code

Adapting and adhering to recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The board of directors of the Company (the "Board") believes that good corporate governance is one of the areas that lead to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

During the year ended 31 December 2016, the Company had complied with the code provisions ("Code Provisions") set out in the Corporate Governance Code contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") since the Transfer of Listing, except code provision A.2.1 as more particularly described below. Since the Company's shares were successfully listed on the Main Board of the Stock Exchange on 1 August 2014, the Group continues and will continue to ensure compliance with the corresponding code provisions set out in Appendix 14 to the Listing Rules.

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Board considers that the Company is still in its growing stage and it would be beneficial to the Group for Mr. Jiang Changqing ("Mr. Jiang") to assume both roles as the chief executive officer and chairman of the Company, since the two roles tend to reinforce each other and are mutually enhancing in respect of the Group's continual growth and development. When the Group has developed to a more sizeable organization, the Board will consider splitting the two roles to be assumed by two individuals. With the strong business experience of the Directors, they do not expect any issues would arise due to the combined role of Mr. Jiang. The Group also has in place an internal control system to perform the check and balance function. There are also three independent non-executive Directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place.

Code of Conduct for Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules for the period where the Company's shares were listed on GEM. Since the Company's shares were successfully listed on the Main Board of the Stock Exchange on 1 August 2014, the Group continues and will continue to ensure compliance with the corresponding provisions set out in Appendix 10 of the Listing Rules. Having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the year ended 31 December 2016.

The Board of Directors

Composition

The Board currently comprises six Directors, of which three are executive Directors, and three are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:
Jiang Changqing (姜長青) (Chairman)
Guo Aru (郭阿茹)
Li Qingli (李慶利)

Independent Non-executive Directors:
Meng Fanlin (孟繁林)
Wang Haiyu (王海玉)
Li Xiaohui (李曉慧)

During the year ended 31 December 2016, there was no change in the composition of the Board.

The biographical details of each Director are set out in the section "Directors and Senior Management Profile" on pages 22 to 25 in this annual report.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. During the year ended 31 December 2016, 5 Board meetings were held and the attendance records of individual Directors are set out below:

	Number of Meetings Attended in person/Held
Executive Directors	
Jiang Changqing (姜長青) (Chairman)	5/5
Guo Aru (郭阿茹)	5/5
Li Qingli (李慶利)	5/5
Independent Non-executive Directors	
Meng Fanlin (孟繁林)	5/5
Wang Haiyu (王海玉)	5/5
Li Xiaohui (李曉慧)	5/5

There are 3 independent non-executive Directors and it represents more than one third of the Board, and all of them have appropriate professional qualifications.

Appropriate notices are given to all Directors in advance for attending regular and other Board meetings. Meeting agendas and other relevant information are provided to the Directors in advance of Board meetings. All Directors are consulted to include additional matters in the agenda for Board meetings.

Directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed.

Both draft and final versions of the minutes are sent to all Directors for their comment and records. Minutes of Board meetings are kept by the company secretary and such minutes are open for inspection at any reasonable time on reasonable prior notice by any Director.

General Meetings

An annual general meeting was held on 10 June 2016, all the executive directors and independent non-executive directors attended.

Responsibilities of the Board and Management

The Board primarily oversees and manages the Company's affairs, including the responsibilities for the adoption of long-term strategies and appointment and supervision of senior management to ensure that the operation of the Group is conducted in accordance with the objective of the Group. The Board is also responsible for determining the Company's corporate governance policies which include: (i) to develop and review the Company's policies and practices on corporate governance; (ii) to review and monitor the training and continuous professional development of Directors and senior management; (iii) to review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (iv) to review the Company's disclosure in the Corporate Governance Report. During the year ended 31 December 2016, the Board had appointed an internal auditor to, amongst others, conduct a review on existing corporate governance policies and raise recommendation to improve the corporate governance.

While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, certain responsibilities are delegated to various Board committees which have been established by the Board to deal with different aspects of the Company's affairs. Unless otherwise specified in their respective written terms of reference as approved by the Board, these Board committees are governed by the Company's articles of association as well as the Board's policies and practices (in so far as the same are not in conflict with the provisions contained in the articles of association). With the new composition of members of the nomination committee, remuneration committee and audit committee, the independent non-executive Directors will be able to effectively devote their time to perform the duties required by the respective Board committees.

The Board has also delegated the responsibility of implementing its strategies and the day-to-day operation to the management of the Company under the leadership of the executive Directors. Clear guidance has been given as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, finance and financial reporting, internal controls, communication with shareholders, Board membership, delegation of authority and corporate governance.

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view in accordance with International Financial Reporting Standards 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. The financial statements set out on pages 63 to 152 were prepared on the basis set out in Note 2 to the Consolidated Financial Statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditors of the Company on the Company's financial statements is set out in the Independent Auditors' Report on pages 71 to 73.

Having made reasonable enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

There is no non-compliance with rules 3.10(1), (2) and 3.10A of the Listing Rules. Except as disclosed in the section "Directors and Senior Management Profile" above, there is no financial, business family or other material relationship among members of the Board.

Confirmation of Independence

Each of the independent non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company, on the basis of the aforesaid annual confirmations, is of the view that all independent non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

Continuous Professional Development

For the year ended 31 December 2016, all Directors namely Mr. Jiang Changqing, Ms. Guo Aru, Mr. Li Qingli, Mr. Meng Fanlin, Mr. Wang Haiyu and Ms. Li Xiaohui have been given relevant guideline materials and physically attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. Particulars of which are as follows:

Directors	**Type of trainings**
Executive Directors	
Jiang Changqing	A,B
Guo Aru	A,B
Li Qingli	A,B
Independent Non-Executive Directors	
Meng Fanlin	A,B
Wang Haiyu	A,B
Li Xiaohui	A,B

A: attending seminars and/or conferences

B: reading materials relevant to the business of the Group or to the Director's duties and responsibilities

Such induction materials and briefings will also be provided to newly appointed Directors shortly upon their appointment as Directors. Continuing briefings and professional development to Directors will be arranged whenever necessary.

All Directors have provided record of training attendance and the Company will continue to arrange and/or fund the training in accordance with paragraph A.6.5 of the Code Provisions.

Appointment, Re-election and Removal

All independent non-executive Directors have entered into letters of appointment with the Company for a specific term of three years, subject to re-election.

In accordance with the articles of association of the Company, at each annual general meeting ("AGM") one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the name of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by It. Such retiring Directors may, being eligible, offer themselves for re-election at the same AGM. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

Nomination Committee

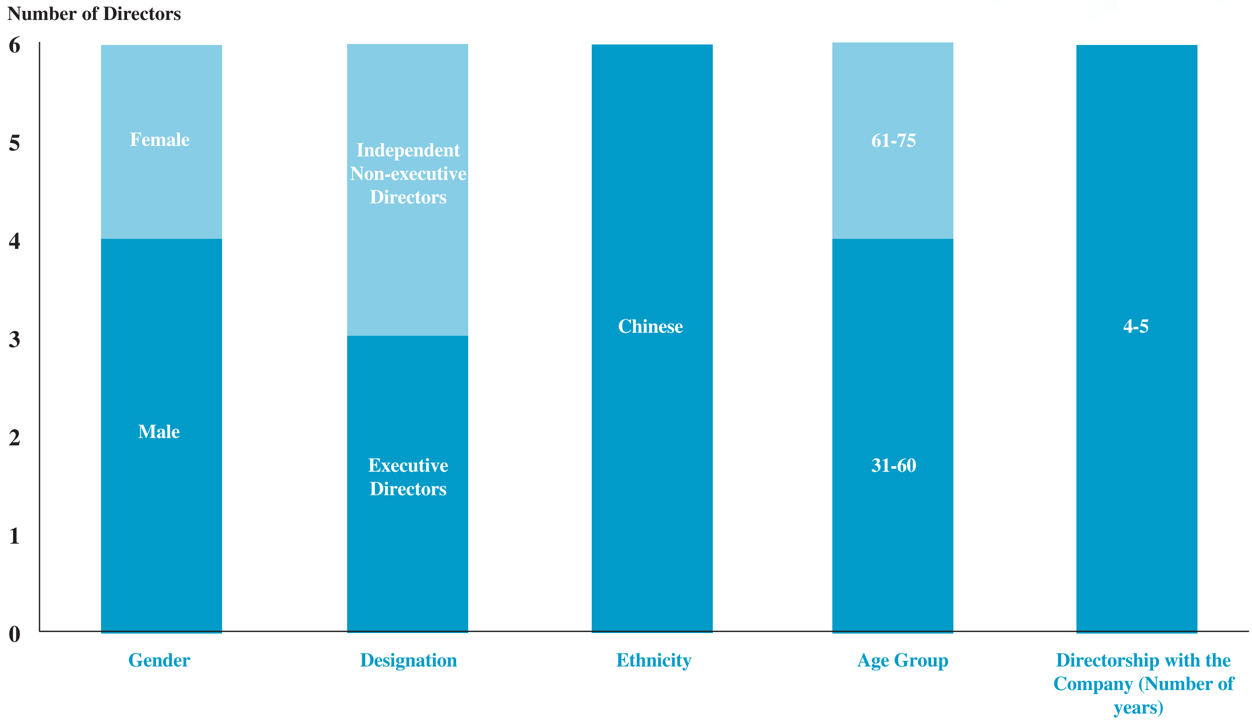
The Company established a nomination committee pursuant to a resolution of the Directors passed on 27 May 2012. The terms of reference of the nomination committee are in compliance with paragraph A.5.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the nomination committee are to review the structure, size and composition of the Board on regular basis; to identify individuals suitably qualified to become Board members; to access the independence of independent non-executive Directors; and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors. The nomination committee comprises three independent non-executive Directors, namely Mr. Meng Fanlin (Chairman), Ms. Li Xiaohui and Mr. Wang Haiyu.

During the year ended 31 December 2016, 1 nomination committee meeting was held and all nomination committee members attended.

The Company has adopted the board diversity policy in September 2013 and will strive to select the most appropriate candidate to be appointed as a member of the Board. When identifying suitable candidates for directorship, the nomination committee will carry out the selection process by making reference to not only the skills, experience, education background, professional knowledge, personal integrity and time commitments but also the gender, age, cultural background and ethnicity of the proposed candidates, and also the Company's needs and other relevant statutory requirements and regulations required for the positions. The decision will be made in accordance with the strength of and contribution to the Board by the candidate. All candidates must be able to meet the standards as set forth in Rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules. Qualified candidates will then be recommended to the Board for approval.

The following is a chart showing the diversity profile of the Board:



For the purpose of implementation of the board diversity policy, the following measurable objectives were adopted:

(1) at least one-third of the members of the Board shall be independent non-executive directors;

(2) at least one of the members of the Board shall have obtained accounting or other professional qualifications;

(3) at least 50% of the members of the Board shall have more than five years of experience in the industry he/she is specialized in; and

(4) at least two of the members of the Board shall have China-related work experience.

Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 27 May 2012. The terms of reference of the remuneration committee are in compliance with Rule 3.25 and Rule 3.26 of the Listing Rules and paragraph B1.2. of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and to ensure none of the Directors determine their own remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration of the Company's performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that the independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. As at 31 December 2016, the remuneration committee consists of three independent non-executive Directors namely Mr. Wang Haiyu (Chairman), Ms. Li Xiaohui and Mr. Meng Fanlin.

Details of remuneration of Directors are set out in Note 9 to the consolidated financial statements.

Save as disclosed in Note 32 to the Consolidated Financial Statements, for the year ended 31 December 2016, no payment was made or benefit provided in respect of termination of service of directors, whether in the capacity of directors or in any other capacity while as directors.

Save as disclosed in this report, no Director had a material interest in transactions, arrangements or contracts entered into by the Company or another company in the Group.

During the year ended 31 December 2016, there was no loan, quasi-loan or other dealing in favour of directors of the Company and of a holding company of the Company, bodies corporate controlled by such directors, and entities connected with such directors.

During the year ended 31 December 2016, no consideration was provided to or receivable by third parties for making available the services of any person as director or in any other capacity while as a director.

During the year ended 31 December 2016, 1 remuneration committee meeting was held and all remuneration committee members attended.

Pursuant to code provision B.1.5 of the Corporate Governance Code, the remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

In the band of	**Number of individuals**
Nil to HK$1,000,000	2
HK$1,000,001 to HK$1,500,000	—
HK$1,500,001 to HK$2,000,000	—
HK$2,000,001 to HK$2,500,000	—
HK$2,500,001 to HK$3,000,000	—

Audit Committee

The Company established an audit committee pursuant to a resolution of the Director passed on 27 May 2012. The terms of reference of the audit committee are in compliance with Rule 3.21 and Rule 3.22 of the Listing Rules and paragraph C3.3 and C3.7 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the audit committee are, among other things, to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, review the financial statements and to render material advice in respect of financial reporting and overseas internal control procedures of the Company. As at 31 December 2016, the audit committee consists of three independent non-executive Directors, namely Ms. Li Xiaohui (Chairlady), Mr. Wang Haiyu and Mr. Meng Fanlin.

The audit committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the Group's financial reporting process and internal controls.

During the year, the audit committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The audit committee also met with the external auditors and reviewed the annual, interim and quarterly reports of the Company.

During the year ended 31 December 2016, two audit committee meetings were held and the attendance records of individual committee members are set out below:

	Number of Meetings Attended/Held
Li Xiaohui (Chairlady)	2/2
Wang Haiyu	2/2
Meng Fanlin	2/2

Our Group's annual results for the year ended 31 December 2016 have been reviewed by the audit committee. The audit committee has discussed with KPMG regarding the matters disclosed in "Qualified opinion" and "Basis for qualified opinion" in the Independent Auditor's Report and had no disagreement with the management's or KPMG's position on the same. The audit committee is of the opinion that except for the matters dislosed in the paragraphs "Qualified opinion" and "Basis for qualified opinion" in the Independent Auditor's Report, the financial statements of the Company and the Group for the year ended 31 December 2016 complied with applicable accounting standards, Listing Rules and the legal requirements, and that adequate disclosures have been made.

During the year ended 31 December 2016, the board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

Auditors' Remuneration

During the year, the Company engaged KPMG as the external auditors.

As at 31 December 2016, the fees paid and payable to the Group's auditors in respect of their assurance services (including audit and interim review services) provided to the Group were as follows:

	Amount (RMB)
Types of services	
Audit services	2,400,000
Non-audit services	180,000
Total	2,580,000

The reporting responsibilities of KPMG are set out in the Independent Auditors' Report on pages 72 to 73.

Company Secretary

Ms. Chan Oi Chong (陳愛莊), being our Company Secretary, is primarily responsible for the company secretarial work of our Group. The Company Secretary has received relevant professional training which fulfilled the requirement of Rule 3.29 of the Listing Rules.

Risk Management and Internal Control

During the year, the Group has complied with Principle C.2 of the Corporate Governance Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted in 2016, no significant risk was identified.

Internal Control System

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- Risk Assessment: A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- Control Activities: Action established by policies and procedures to help ensure that management directives to migitgate risks to the achievement of objectives are carried out.
- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- Monitoring: Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality agreements are in place when the Group enters into significant negotiations.

- The Executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted in 2016, no significant control deficiency was identified.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's reviews, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

The Board, through its review and the reviews made by external internal control auditor and Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, 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. It is also considered that the resources, employee qualifications and experience of relevant employee were adequate and the training programs and budget provided were sufficient.

Shareholders' Rights

The following procedures for shareholders of the Company to convene an extraordinary general meeting ("EGM") of the Company are prepared in accordance with the Company's articles of association as follows:

(1) One or more shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings, shall have the right, by written notice, to require an EGM to be called by the Directors of the Company for the transaction of any business specified in such requisition.

(2) Such requisition shall be made in writing to the Board or the company secretary of the Company at the following addresses:

Principal place of business of the Company in Hong Kong

Address:	Room 2404, 24/F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong
Email:	ir@chinauton.com
Attention:	Ms. Chan Oi Chong

Registered office of the Company

Address:	Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Attention:	Ms. Chan Oi Chong

(3) The EGM shall be held within two months after the deposit of such requisition.

(4) 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.

The requisition will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the requisition is proper and in order, the Board will be asked to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the shareholders.

The notice period to be given to all the shareholders in respect of the EGM varies according to the nature of the resolutions as follows:

(1) At least 14 days' notice in writing if no special resolution is to be considered at the EGM.

(2) At least 21 days' notice in writing if a special resolution is to be considered at the EGM.

For matters in relation to the Board, the shareholders can contact the Company at the following:

Address:	Room 2404, 24/F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong
Email:	ir@chinauton.com
Tel:	3460 3561
Fax:	3460 3590
Attention:	Ms. Chan Oi Chong

Investor Relations and Communication

The Board recognises the importance of good communications with all shareholders. The Company believes that maintaining a high level of transparency is a key to enhance investor relations. The Company is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public.

The Company updates its shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's activities for the year ended 31 December 2016 has been provided in this Annual Report. While the AGM provides a valuable forum for direct communication between the Board and its shareholders, the Company also maintains its website (www.chinauton.com) to provide an alternative communication channel for the public and its shareholders. All corporate communication and Company's latest updates are available on the Company's website for public's information.

During the year ended 31 December 2016, there has been no significant change in the Company's constitutional documents.

Hong Kong, 31 March 2017

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT ESG REPORT

The Environmental, Social and Governance Report (the "ESG Report") elaborates on the various work of China U-Ton Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group" or "us") to fully implement the concept of sustainable development and perform its corporate social responsibility, and its performance of social governance in 2016.

1.1 Scope of the report

The ESG Report covers the environmental and social performance of the core business of the Group in the People's Republic of China (the "PRC") and Hong Kong Special Administrative Region during 1 January 2016 to 31 December 2016 (the "current year"). As for the information of corporate governance, please refer to the "Corporate Governance Report" in this annual report.

1.2 Reporting framework

The ESG Report was prepared based on the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Main Board Listing Rules issued by The Stock Exchange of Hong Kong Limited ("the Stock Exchange").

1.3 Stakeholder engagement

The preparation of the ESG Report, which was supported by employee from the Group's different departments, enabled us to have a better understanding of our current environmental and social development. The information the ESG Report gathered is not only the summary of the environmental and social work carried out by the Group during 2016, but also the basis for us to develop short and long term sustainable development strategies.

1.4 Information and feedbacks

For detailed information about the environmental and corporate governance of the Group, please refer to the official website (www.chinauton.com.hk) and the annual report of the Group. Your opinions will be highly valued by the Group. If you have any advices or suggestions, please send email to ir@chinauton.com.

2. ENVIRONMENT AND RESOURCES

Environment and resources are the basic conditions for the survival of human beings. The Group insists on managing every aspect of production operations with the concept of sustainable development, strictly abides by the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on Environmental Impact Assessment, the Cleaner Production Promotion Law of the People's Republic of China, the Emission Standard of Environment Noise for Boundary of Construction Site, the Provisions on Safety, Health and Environmental Management of Electric Power Construction and relevant national laws and local regulations on pollutant emission and environmental protection, committed to reducing the impact of production operation on environment through effective environmental protection and energy conservation measures, actively promote the construction of a resource-saving, environment- friendly society.

2.1 Waste discharge and treatment

The Group is principally engaged in the construction of communication pipelines and the laying of communication optical fiber cables. Generally, there are no emissions and wastewater during the construction process. The natural soil dug out and the waste soil produced by the cavity of construction well on municipal road are the main waste. The natural soil is generally backfilled to the underground while the waste soil produced by the construction well is delivered by the construction side to the designated backfill place of the local government.

The Group's engineering vehicles are used for the transportation of cables, poles, woods and other materials required for construction. In order to improve the use efficiency of vehicles and reduce environmental pollution by exhaust emissions, on the one hand, the Group constantly optimizes the maintenance and management of vehicles, periodically checks the tire inflation situation, provides maintenance for the fleet, provides driving training for the drivers and optimizes transportation routes; on the other hand, we encourage our employees to travel by public transport, by bike or on foot.

There is a small amount of domestic sewage in the work place of the Group, and the sewage is discharged into the municipal sewage treatment plant through the municipal pipe network. Waste from work place mainly includes waste paper, waste cartons, old tables and chairs, disused computers, waste ink cartridges and general household garbage. In order to facilitate the management of waste, we installed a refuse sorting device in our office space. Apart from documents involving confidential information, all the waste paper is handled by waste paper recycling companies. Waste cartons and old tables and chairs are transported to the local waste recycling station, used computers are collected by electronics companies, waste ink cartridges are collected by ink cartridges suppliers and general household garbage is passed to municipal departments for central handling.

2.2 Saving resources

To improve efficient use of illuminating system and reduce energy consumption, the Group has installed Light Emitting Diode ("LED") and other energy-efficient luminaires in office premises, divided office premises into different lighting areas with independent lighting control, and encourages employee to use natural light illumination and turn off lighting facilities when not using office premises.

The air-conditioning system adopted by the Group is a central air-conditioning with energy-saving label, which regulates the actual requirements of the speed of pumps and fans through the variable-speed driving technology and air conditioning to achieve the purpose of reducing energy consumption. In the use and management of air conditioning system, we have implemented a number of energy-saving measures, which include regularly inspecting and replacing pressure gage, pressure hose and the connector of air compressor to avoid refrigerant leakage, setting the air-conditioned room temperature at 25.5°C or above, allowing employees to wear casual clothing in hot weather, avoiding installing air conditioning at the place with direct sunlight, cleaning air conditioner filters regularly and sealing doors and windows to improve the work efficiency of air conditioner.

In order to realize the sustainable use of electronic equipment and electrical appliances, the Group encourages employees to turn off the equipment such as electric kettles and microwave ovens during non-working hours, set automatic standby or hibernation mode when not using the computers. The Group has also centralized multiple servers on a single high-capacity server to reduce energy consumption, and applied computer virtualization technology to reduce hardware installation and improve the utilization of servers. In order to better monitor the electricity consumption situation, we conduct monthly statistic of the electricity consumption of office premises.

In light of the increasing shortage of water resources, the Group attaches great importance to the conservation and protection of water resources. The Group not only calls on and advocates employees to cherish water resources and reduce waste, but also to improve the use efficiency of water by using water-saving slogans, using grey water to clean and irrigate, periodically checking water meter readings and water pipes for water leakage, and installing taps and urinals with water-saving labels and other measures.

To reduce paper consumption, the Group has adopted a set of digital office platform and is making every effort to fully implement the Office Automation (OA) system. As to the documents for internal circulation, we advocate the use of recycle paper, double-sided printing and recycling. For the notice and work log, we encourage employees to use electronic communication technology to circulate as much as possible. We not only post notices at printing devices to remind employees to save paper and check the file before printing, but also promote the use of multimedia for conference presentation, install electronic hand drier to reduce tissue use, and periodically count the consumption of paper to achieve the goal of reducing paper use year by year.

The Group also attaches importance to the recycling and comprehensive utilization of resources. The Group not only buys recyclable ink cartridges and rechargeable batteries, but also calls on employees to reuse office supplies, and reduce the use of disposable products and over-packaged products.

The Group understands the importance of employees' support and participation. To this end, a number of measures have been taken to enhance employees' awareness of environmental protection and improve employees participation. For example, we advocate employees to use stairs instead of taking escalator unless necessary. We also spread energy saving and emission reduction and environmental protection knowledge by e-mail, posters, internal network and other ways, and encourage employees to participate in activities organized by environmental protection organizations.

Hebei Changtong Communication Engineering Co., Ltd ("Hebei Changtong"), the Group's wholly-owned subsidiary, has obtained ISO14001: 2008 Environmental Management System Certification, while Shijiazhuang Qiushi Communication Facilities Co., Ltd ("Shijiazhuang Qiushi Communication") and Beijing U-Ton Teda Electrical New Technology Development Co., Ltd. ("Beijing U-Ton Teda") have obtained ISO14001: 2004 Environmental Management System Certification. In the future, the Group will continue to improve its management and continue to promote green development.

2.3 Green innovation

The development of enterprises faces increasingly serious challenges resulting from climate change. In face of challenges, the Group actively taps potential, sustains innovation, and integrates green concepts into research and development, in order to bring low-carbon and environmental-friendly products and technology to customers.

To solve the problems that traditional round plastic pipe does not have halogen-free flame retardant properties, is easily flammable and produces toxic and harmful gas, Shijiazhuang Qiushi Communication developed "A Kind Of Special Pipe Used For Optical Fiber Deployment Of Indoor Communication". The outer casing of the special pipe is flame retardant material, so that the special pipe has low smoke zero halogen characteristics, which is in line with environmental requirements, and reduces the release of toxic and harmful gases when fire occurs.

Chengdu Hop Environmental Protection Technology Co., Ltd. ("Hop Environmental"), owned by Heibei Changtong is mainly engaged in energy-saving product development, energy-saving system integration and energy-saving engineering transformation. Its vision is to maximize energy efficiency and protect the environment. It uses its professional experience in energy saving and control field so as to provide customers with products and technologies that are energy-saving, emission-reducing, and meet the environmental requirements for customers to create the best social, economic and environmental benefits. Hop Environmental possesses strong research and development capabilities, and currently has a number of patents with energy-saving and environmental protection benefits, such as:

- Patent of "A Method and System Based on the Evaporative Cooling and Heat Removal of the Engine Room", lowers the temperature of the engine room through the evaporative cooling and heat removal system of the engine room, and reduces the energy consumption of the engine room to 15% to 30% of the original energy consumption of the air conditioning of the engine room;

- Patent of "Air Conditioner Integrated Natural Cooling by Scroll Filter System", has solved the problem of low efficiency and uneven air flow of the heat exchanger and high maintenance cost of the filter which cannot be recycled by improving the design of fan and air flue and adopting scroll filter, so that the equipment can stay in optimal energy saving condition in the process of running;

- Patent of "Wet Film Heat Pipe System", uses micro-gravity heat pipe to realize air-cycle refrigeration instead of compressor refrigeration, so as to reduce the energy consumption of refrigeration of the engine room.

3. EMPLOYEES' RIGHTS

Employees are the core forces to maintain the survival and development of enterprises. The Group respects and treats every employee equally, focuses on the development needs of employees, safeguards the legitimate rights and interests of employees, and provides diversified development channels for employees while promoting the development of the Group to help them realize their personal values.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3.1 Employment policy

The Group conscientiously abides by the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and the Employment Ordinance of the Hong Kong Special Administrative Region and other the laws and regulations on labour, and adheres to the concept of fair competition and merit-based employment. The Group only takes candidates' personal ability, qualifications and experience as the evaluation criteria in recruiting. The candidates and employees will not be treated differently merely because of factors like gender, age, religion, or ethnic. We also advocate the diversification of employees and the establishment of a diversified team to enhance our competitiveness and creativity. In order to avoid the employment of child labour, we comply with stipulations of the Provisions on the Prohibition of Using Child Labour, and strictly check the age of candidates when going through the employment and filing procedures. Those who do not meet the requirements will not be admitted. We have the right to terminate our employment relationship with employees who are in serious violation of the Group's discipline or committed a crime.

The Group follows the principle of giving priority to benefits with due consideration to fairness to manage the remuneration. Employee's compensation consists of three parts, namely structural salary, performance commission and equity incentive. We also take job responsibilities, working ability, job tasks and work efficiency as a measure. The overall compensation package depends on the social and economic development level, the profitability and the payment ability of the Group. We formulate different remuneration sequences for the compensation of employees of different types of work and different positions according to the wage management of functional level policy. We carry out annual assessment of our employees each year, and the position and salary adjustment of employees are based on the annual assessment.

In accordance with the relevant regulations, the Group implements flexible working schedules to meet the needs of different departments and positions. We adopt a five-day workweek system for office management employee with working hours not exceeding eight hours a day. The working hours of the project department and the engineering team are flexible, but subject to the approval of the local labour security administration department, which means where they can take working days off provided that they can ensure the normal operation of the production and operation. The Group eliminates the occurrence of compulsory labour. If employees need to work overtime, the Group shall pay overtime subsidies according to applicable provisions. Employees enjoy legal holidays, marriage leave, funeral leave, maternity leave, sick leave, casual leave and annual leave according to applicable laws.

In respect of benefits and welfare, the Group pays social insurance and housing provident fund to employees of Mainland China and will bear 50% premium of accident insurance for frontline employee in accordance with the provisions of the national and local governments. Moreover, the Group pays Mandatory Provident Fund for Hong Kong employees under the Mandatory Provident Fund Schemes Ordinance. In addition, we also provide all kinds of allowances (including seniority allowance, academic allowance and professional and technical title allowance) and subsidies (including communication subsidy and subsidy for outside workers) for employees, and provide rental subsidies and transportation subsidies for outside personnel management.

As at the end of 2016, the Group has 503 employees in total, among which there are 449 employees in mainland China, 4 employees in the Hong Kong Special Administrative Region and 50 overseas employees.

3.2 Talent development

Talent development not only improves our employees' learning ability and their knowledge, and help them develop their career, but also create a good environment and condition for the promotion of our employee and the Group's development. Our Human Resources Department prepares training plans and arranges training sessions annually. New employees are required to study the "Employee Manual" by themselves for at least 4 hours, and participate in on-board training, which includes introduction of our corporate culture and policies, position-specific training, case study and practice, and only qualified candidates are allowed to take their positions. For existing employees, we provide position-specific training, transfer training, promotion training and professional training for free. Training programmes are mainly conducted by us, with some of the trainings conducted by external trainers. We select trainers from outstanding department heads, employees, veterans with professional skills, and engage professional and technical experts from other companies or hire professional training institutions to train our employees. The examination results will be put into the personal files of our employees, and be used as an important indicator for formal employment, promotion/demotion and transfer.

During the current year, the Group organized a number of training sessions based on its business operations and the needs for employee development. For example, during the current year, Hebei Changtong organized trainings on ISO systems for its employees as well as project management, emergency handling and certificates qualification.

4. PRODUCT LIABILITY

Good reputation and reliable operation and management is the assurance for long-term healthy development of enterprises. The Group has always adhered to the responsible operation mode in serving the telecommunication industry, and rewarding its customers and the community.

4.1 Safety production

Safety production is essential in the day-to-day operations of enterprises. Our operations involve civil construction, aerial work and operation of electrical equipment. During the process of production and operation, we strictly abide the Work Safety Law of the People's Republic of China, Measures for the Supervision and Administration of Power Work, Regulations on the Administration of Labour Protective Products, the Special Rules on the Labour Protection of Female Employees and Regulations on Work-related Injury Insurance and other relevant laws and regulations of the country and the areas in which we operate. To ensure the health and safety of our employees and avoid accidents which may cause casualties and economic losses, we have formulated the "Compilation of Occupational Health and Safety Systems", including the electricity management system, traffic safety management system, protective products management system, hazardous goods management system, management system for dangerous operation approval and supervision, occupational disease prevention and control and labour protection system for female workers as well as fire management system, which not only clearly defines the responsibilities division of safety supervisory work, but also requires the relevant personnel to maintain records in accordance with the requirements of the management system.

In view of the characteristics of the Group's production and operation, dust, noise and radiation are the main factors that harm the health and safety of our employees. In order to avoid the occupational hazards to our employees, on the one hand, we require the special operators to obtain certificates and provide them with protective products produced by the qualified manufacturers and approved by local labour authorities. Our employees are required to carefully check their protective equipment before entering the construction site and use them in strict accordance with the instructions. On the other hand, we have dust and noise monitors installed and ensure the site has met the relevant standards before starting construction. In addition, we arrange an occupational health examination for employees who are exposed to occupational hazards at least once a year. If an employee is found sick, he or she will be relieved from the post, given proper treatment and insured in accordance with the relevant regulations. In order to protect the health of our female employees, the Group also prohibits our female employees from taking jobs like cable-running at a high level, scaffolding and other special work prohibited by the Special Rules on the Labour Protection of Female Employees. Pregnant employees are prohibited from doing the painting work, the jobs in which they may contact harmful gas or the jobs with intensity of Grade 4 or above as provided in the Physical Labour Intensity Grading (GB3869-1997).

In order to ensure the smooth and safe progress of the projects, the Group also signs the Safety Construction Agreement when signing the construction contract with the customers. According to the Safety Construction Agreement, the construction must be carried out in strict compliance with the mandatory standards for the construction of the communication projects and the safety production practices. The construction site must be equipped with construction lighting, fences, warning signals and security guards. The people working on site should have a clear idea of the fire sensitive locations and how to use the fire fighting equipment, and be prepared for the supervision and inspection of the regulatory and supervisory authorities and customers at any time. Before carrying out the blasting operations or working near the power equipment, power transmission lines, underground pipes, sealed anti-shock workshop, flammable and explosive areas and adjacent roads, the approval of the customers and local safety authorities must be obtained. In the event of a security incident, people working on site must follow emergency handling procedures and try to repair the equipment and resume production as soon as possible.

Hebei Changtong, Shijiazhuang Qiushi Communication and Beijing U-Ton Teda have obtained the GB/T28001-2011 Occupational Health and Safety Management System Certification and Safe Production License. During the current year, there were no significant security incidents occurring to the Group.

4.2 Supply chain management

We purchase construction materials such as PVC pipe, fittings and mini-cables for construction. The Group has formulated a Procurement Management System, which imposes requirements for the material procurement process and supplier management as follows: Before inputting the information of a supplier to the database, the purchasing department must conduct a comprehensive evaluation of the supplier's quality and environmental management qualification, personnel composition, equipment conditions, product characteristics, production capacity, quality assurance, price and payment terms, after-sales service, etc., and report to the Materials Procurement Leading Group for approval, and ensure that the information in the database is correct and valid. All employees of the Group have the right to recommend excellent suppliers, which will be incorporated into the material procurement information database upon approval.

Generally, we select suppliers from the supplier database, and carry out procurement by the following means, i.e. inviting tender, negotiating tender, purchase by inquiry and signing purchase contract directly (with long-term strategic partners). We may resort to open tender, if necessary. For typical regional materials or special substances, we may choose suppliers from outside. If we are to subcontract part of the project to a third party, we will evaluate and select the third party supplier based on three criteria, i.e. a valid business license, a healthy financial condition and the ability to make advances, and a reasonable subcontracting price. To reduce the risk and ensure that the supplied products meet the requirements, we regularly dispatch our technical employee and management personnel to the factory or construction site for inspection, and our procurement employee also regularly assess or update the information of the suppliers.

The ordinary cables, poles, woods and other materials required for the construction are generally provided by the customer, and we are to inspect the materials provided by the customers in accordance with the requirements and technical specifications set forth in the contract. If the contract provides that such part of the materials is to be provided by the Group, we will carry out procurement in accordance with the relevant requirements, and obtain the product certification from the supplier. In addition to the above materials, for the procurement of office supplies and protective products, the Group advocates the integration of the sustainable development concept into procurement strategies, processes and supplier management to ensure sustainability of the supply chain.

4.3 Products and services

The Group obtains construction projects mainly through tendering or direct negotiation. In the bidding process, we strictly abide by the laws and regulations such as the Tendering and Bidding Law of People's Republic of China, the Implementation Regulations for the Tendering and Bidding Law of People's Republic of China provide certificates related to safety production and accept commercial and technical assessments on, qualification level, results of similar projects, local coordination capacity, financial conditions for the past two years, comprehensive integrity evaluation, localization service capability, project leaders and managers, quality and safety management measures, construction organization scheme, vehicle and mechanical configuration, instrument and tool configuration and quality of tender documents.

The quality of the projects to be undertaken by the Group shall meet the prevailing standards of the country, the region of the project and the communication industry as well as the requirements of the customers, In the construction process, we communicate directly with the customers to understand their needs, and carry out construction in strict accordance with the standards, norms and design requirements provided in the contract. We provide the customers with construction organization design and progress reports in time, accept the inspection of the customers and their representatives, and ensure that the projects are completed on time with satisfactory quality. If the contract allows the projects to be subcontracted to a third party, the Group shall dispatch supervisory officer to the subcontractor's site to ensure proper performance of the subcontract and assume joint liability for default or negligence by the subcontractor.

During the acceptance phase of projects, with reference to applicable standards and norms, the project department and the engineering team check whether each project on the list meets the acceptance standard or not one by one, and record the acceptance status in the quality management system in detail. If a non-standard phenomenon is found, the settlement of the construction party is deducted according to the deduction standard and rework is required until meets the standards. During the warranty period of projects, the Group also conducts work warranty and maintenances according to the contract requirements under the contract requirements, applicable standards and norms, the Regulations on the Quality Management of Construction Projects and other provisions.

Hebei Changtong has obtained Grade A Qualification of Telecommunications Information Network Integration Enterprises, Grade Three Qualification of Contract in Construction Industry, and ISO9001: 2008 Quality Management System Certification. Shijiazhuang Qiushi Communication and Beijing U-Ton Teda have obtained ISO9001: 2008 Quality Management System Certification. In the future, the Group will continue to uphold the strategic objective of "Build Higher, Bigger Stronger Well-known Enterprise", constantly enhance the strength and status in industry by adhering to the high-quality projects and in services place, build a premium brand of the enterprises of telecommunication engineering in China, and strive to become a first-class service provider in telecommunication operation.

4.4 Intellectual property

The development of enterprises rely on innovation. The Group attaches importance to cultivate the employees' ability to innovate and encourages them to carry out inventions. The Group not only provides publicity and education on patent law and patent knowledge to our employees on a regular basis, but also formulates the Regulations on Intellectual Telecommunication Property Management, the Regulation on Patent Management and the Regulations on Intellectual Property Incentives, based on the Intellectual Property Law of the People's Republic of China, the Patent Law of the People's Republic of China, the Trademark Law of the People's Republic of China and other laws and regulations to strengthen the protection of the Group's intellectual property, standardize the management of intellectual property, encourage employees' enthusiasm of invention and creation and facilitate the promotion and application of scientific and technological achievements.

In accordance with the above-mentioned regulations and the relevant national provisions, we not only offer bonus and promotion, title assessment and other forms of material and spiritual rewards to the employees who have made outstanding achievements in the application, protection, management of appraise intellectual property and the transformation of scientific and technological achievements, or have effectively stopped the infringement and protected the rights of the Group's intellectual property, but also annually appraise the "Invention Award" for the authorised patent of high creativity and good practical value, and the "Excellent Patent Workers "to motivate outstanding employees.

In order to avoid infringement of others' intellectual property, the Group always carries out retrieval and analysis of patent documents before setting up the project of product and technology to avoid duplication of research and infringement. Meanwhile, the Group applies the rules of the patent system to put forward the relevant technical route and technical solutions which can maximize the market interest. The Group also conducts follow-up and search on and after the development of a research. In order to avoid infringement disputes, we also require that terms of intellectual property protection should be set out in the contracts of entrusted or cooperated research and development signed with other parties. In case of violation of the provisions, or infringement of the Group's intellectual property, we shall pursue his or her duty, and report to judiciary in case of constituteing a crime.

The Group has a strong research and development capability and a number of patented technologies. By the end of 2016, 58 patents have been obtained. We have significant technical and resource advantages in the development of micro-ducts and mini-cable system integration methods that used storm water conduits as a path to provide the most cost-effective and time-saving cases of network expansion, capacity expansion and upgrade for areas with high population or insufficient pipe resources and solved the access problem troubling telecommunication operators for many years, which is unique among the counterparts.

4.5 Advertising ad Promotion

In respect of advertising ad promotion, the Group strictly abides by the laws and regulations on advertisements and trademarks such as the Advertising Law of the People's Republic of China and the Trademark Law of the People's Republic of China. The Group promises that all the information relating to products and technologies are subject to strict examination before publication, and false advertisements and instructions misleading customer are never used.

4.6 Privacy Protection

The Group respects and values the privacy of its customers, strictly abides the laws and regulations on privacy protection in the countries and the confidentiality agreements signed with the customers in the countries and regions where it operates. It prohibits employees from disclosing the customers' information to a third party without permission and ensure the customer from information will not be stolen or destroyed.

The Group also emphasizes the protection of internal privacy, and stipulates that leaving employees shall not work with an employer is in competition with the Group in a specified period. Management and circulation of important documents should be timely, accurate, safe and confidential. Confidential documents can only be borrowed when getting official approval, and employees shall not take out or copy privately. The skills and information acquired and accumulated during the employee training shall be kept confidential and cannot be copied, or transferred to other companies or people.

In order to improve the management of archives, the Group has also formulated the Company's Archives Management System on the basis of the Archives Law of the People's Republic of China and the Measures for the Implementation of the Archives Laws of the People's Republic of China. The archives are managed in unity and kept by levels. Without permission of the document administrator, archives cabinets shall not be used by others. The borrower shall fill out the Archives Borrowing Registration Form and strictly keep the contents contained in the archives. If loss occurs, it shall be promptly reported and held accountable. For archives need to be handed over, the document administrator shall fill out the Archives Borrowing Registration Form, report to the person in charge for approval and designate the supervisor before handing over. For expired materials or unused materials, the document administrator is required to apply for destruction. Every year, documents reading the storage deadline are recorded in papery and electronic memo by document administrator.

4.7 Anti-corruption

The Group has always adhered to the attitude of zero tolerance of corruption, sticked to the integrity of operation, established a code of conduct and an anti-corruption mechanism and regularly organized anti-corruption education activities to improve the legal awareness of all employees. We also sign the anti-corruption agreement with customers to restrain the deals between employees and customers, and prevent the occurrence of improper behavior.

In order to improve the employees' awareness of anti-money laundering and prevent and combat crime effectively, the Group has formulated the Anti-Money Laundering Training and Publicity System based on the Law of the People's Bank of China on Anti-Money Laundering, the Regulations on Anti-Money Laundering of Financial Institutions, and the Measures for the Administration of Financial Institutions, not only organizes anti-money laundering training at least once a quarter for all employees, but also provides training of the basis knowledge of anti-money laundering for new recruits. In addition, we conduct a comprehensive training and communication for all financial employees each year. In case of the amendment and issue of the relevant systems and laws, we will increase the training according to its actual situation.

In order to prevent the abuse of authority and bribery, the Group has formulated the Anti-Corruption and Anti-bribery Procedures, which stipulates that the General Management Department, in accordance with the relevant laws and regulations such as the Criminal Law of the People's Republic of China, the Prevention of Bribery in the Hong Kong Special Administrative Region, and the SA8000 Social Responsibility Standards, is responsible to conduct investigation, handling, and timely prevention of any bribery behavior that may occurs. For the serious crime, the person will be handed over to the judiciary. The Group's management shall consciously abide by the relevant laws and regulations and the provisions of the Group, and shall not use their position advantages for personal gain. In the procurement process, the procurement employees shall not accept or request the property from the supplier; in suppliers' annual evaluation and bidding process, the procurement employees shall not play favoritism and commit irregularities.

During the current year, the Group strictly abided by the relevant regulations, and there were no irregularities.

5. COMMUNITY CONTRIBUTIONS

While focusing on its own development, the Group has also actively fulfilled corporate social responsibility. It not only mekes earnest efforts to education by organizing activities of caring and assisting the students in Hengshui Middle School in Hebei, but also helps Hong Kong's social welfare institutions by donating of HK $ 1 million to The Community Chest of Hong Kong to provide assistance for those in need.

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") have pleasure in presenting their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 (the "Consolidated Financial Statements").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of the principal subsidiaries of the Company are set out in Note 14 to the Consolidated Financial Statements.

Further discussion and analysis of the Group's principal activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 10 to 21 of this annual report. This discussion forms part of this director's report.

Compliance with Laws and Regulations

The Group continues to update the requirement of the relevant laws and regulations in various countries and regions, particularly in the Hong Kong and the PRC, applicable to it to ensure compliance. Substantially majority of the Group's assets are located and the Group's revenue is mainly derived from operations in both the Hong Kong and PRC. The Group was listed on the Stock Exchange on 12 June 2012. During the year under review, the Group complied with the relevant laws and regulations in Hong Kong and the PRC in all material respects.

Key Relationships

(i) Employees

The Group offers competitive remuneration packages to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business. During the year under review, the Group considered the relationship with employees was well and the turnover rate is acceptable.

(ii) Suppliers

The Group have developed long-standing relationships with a number of our vendors and take great care to ensure they share our commitment to quality and ethics. The Group select the manufacturers carefully and require them to satisfy certain assessment criteria including experience, financial strength, reputation, ability to produce high-quality products and quality control effectiveness.

(iii) Customers

The Group are committed to offer a broad and diverse range of inspiring, value-for money, good-quality services to our customers. We also stay connected with our customers in order to meet their need. We have ongoing communications with them through various channels like telephone, email and marketing materials.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2016 are set out in Note 14 of the Consolidated Financial Statements.

BUSINESS REVIEW

A review and analysis on the Group's business for the year ended 31 December 2016 and a discussion on the Group's future development are set out in page 10-21, 5-6 which form part of the Report of the Directors.

COMPARISON BETWEEN FUTURE PLANS AND PROSPECTS AND ACTUAL BUSINESS PROGRESS AND USE OF PROCEEDS

Comparison of Future Plans with the Actual Business Progress

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress for the year ended 31 December 2016. Capitalised terms used herein shall have the same meanings as those defined in the Prospectus unless the content requires otherwise.

Business plan as set out in the Prospectus	Actual business progress up to 31 December 2016
1. Further strengthening our deployment services of optical fibers in the PRC	
(i) Investment in equipment	The Group has purchased various equipment, spare parts of equipment and motor vehicles for construction projects.
(ii) Market expansion	The Group has built sixteen experimental sections and purchased motor vehicles for marketing purposes. In addition, the Group has established three representative office in Chongqing, Tianjin and Shenzhen.
(iii) Securing strategic assets/rights	The Group has signed one co-operation memorandum with a government department and the Group is communicating with various relevant governmental departments in various cities of the PRC.

Business plan as set out in the Prospectus	Actual business progress up to 31 December 2016
(iv) Acquisition	The Group completed four acquisitions which are located in Hunan Province, Sichuan, Chongqing and Hebei Province.
(v) Human resources	The Group has employed additional technical and management employee and provided relevant training to new and existing employee.
(vi) Research and development	The Group has continued to conduct research and development on technology related to micro-ducts and mini-cables system integration methods, especially the application in sewer system.
2. Expanding our business of low-voltage equipment integration services in the PRC	
(i) Sales and marketing	The Group has employed additional employee to strengthen sales and marketing network. In addition, the Group is conducting research on appropriate sales and marketing activities to promote reputation.

As of the date of this annual report, the Directors had no intention to make any changes to the business plan.

Use of Proceeds

The net proceeds from the Placing on 12 June 2012 (the "Listing Date") were approximately HK$108.7 million (equivalent to approximately RMB88.7 million). The net proceeds from the Listing Date to 31 December 2016 had been applied as follows:

	Use of proceeds from the Listing Date to period ended 31 December 2016 as shown in the Prospectus HK$ (million)	Actual use of proceeds from the Listing Date to 31 December 2016 HK$ (million)
1. Further strengthening our deployment services of optical fibers in the PRC		
(i) Investment in equipment	26.18	11.02
(ii) Market expansion	15.50	15.50
(iii) Securing strategic assets/rights	23.42	23.42
(iv) Acquisition	12.20	12.20
(v) Human resources	2.60	2.60
(vi) Research and development	3.70	3.70
Sub-total	83.60	68.44
2. Expanding our business of low-voltage equipment integration services in the PRC		
(i) Sales and marketing	2.40	2.40
3. Repayment of bank and other borrowings	14.30	14.30
4. General working capital (Note)	8.40	8.40
Total	108.70	93.54

Note: The amount of general working capital had been reduced from HK$11.1 million to HK$8.4 million to reflect the difference of the estimated amount of net proceeds shown in the Prospectus amounted to HK$111.4 million and the final net proceeds of HK$108.7 million.

The future plans and prospects as stated in the Prospectus were derived from the Group's reasonable estimation of the future market conditions based on the information available at the time of preparing the Prospectus. According to the Company's announcement dated 24 July 2014, the Company intended to adjust the allocation of the unutilised net proceeds in the sum of approximately HK$55.1 million. As of the date of this announcement, the Directors are not aware of material change to the planned use of the proceeds from the plan as stated in such announcement.

On 29 September 2014, subscription of 62,500,000 new shares was completed and net proceeds were approximately HK$96.75 million (equivalent to approximately RMB76.70 million). On 11 February 2016, subscription of 50,000,000 new shares was completed and net proceeds were approximately HK$47.6 million (equivalent to approximately RMB 40.26 million). The net proceeds from the completion date of the aforesaid subscription to 31 December 2016 had been applied as follows:

		Planned use HK$ (million)	Actual use HK$ (million)
1.	Acquisition	21.30	21.30
2.	General working capital	123.05	123.05
		144.35	144.35

SHARE OPTION SCHEME

The Company's existing Share Option Scheme was approved for adoption pursuant to the written resolutions of all of our Shareholders passed on 27 May 2012 for the purpose of providing our Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to eligible participants and for such other purposes as the Board shall approve from time to time.

Subject to the terms of the Share Option Scheme, the board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: (a) any employee, supplier service provider, customer, partner or joint-venture partner of the Group (including any director, whether executive and whether independent or not, of the Group) who is in full-time or part-time employment with the Company or any subsidiaries, (b) any person who have contributed or may contribute to the Group.

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.

The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on 12 June 2012 unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and General Information" in Appendix IV to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 27 May 2012 and remains in force until 26 May 2022. The Company may, by resolution in general meeting or at such date as the Board determined, terminate the Share Option Scheme without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

(1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option (the "Date of Grant") which must be a trading day;

(2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant; and

(3) the nominal value of the shares on the Date of Grant.

Upon acceptance of the options, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 168,000,000 shares, which represents 10% of the shares in issue of the Company as at the Listing Date of the Company.

The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The purpose of the Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution or future contribution to the Group.

During the year, no options were granted or excised under the Share Option Scheme and there's no outstanding share options as at 31 December 2016.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2016, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Appendix 10 of the Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Company

Name of Director	Name of Group member/ associated corporation	Capacity/nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Jiang Changqing (Note 2 and note 3)	Our Company	Interest of a controlled corporation	644,307,000 Shares (L)	34.13%
	Our Company	Interest of Spouse	10,195,000 Shares (L)	0.54%
Ms. Guo Aru (Note 3)	Our Company	Interest of Spouse	644,307,000 Shares (L)	34.13%
	Our Company	Beneficial owner	10,195,000 Shares (L)	0.54%
Mr. Li Qingli (Note 4)	Our Company	Interest of a controlled corporation	104,065,000 Shares (L)	5.51%
	Our Company	Beneficial owner	6,640,000 Shares (L)	0.35%

Notes:

1. The letter "L" denotes the Directors' long position in the shares of our Company or the relevant associated corporation.

2. The 644,307,000 Shares are held by Bright Warm Limited, the entire issued capital of which is beneficially owned by Mr. Jiang Changqing, one of the controlling shareholders of our Company and an executive Director.

3. Ms. Guo Aru is the spouse of Mr. Jiang Changqing. Therefore, Ms. Guo Aru is deemed to be interested in the 644,307,000 Shares owned by Mr. Jiang Changqing in the Company and 1 share owned by Mr. Jiang Changqing in Bright Warm Limited by virtue of the SFO. Moreover, Ms. Guo Aru held 10,195,000 Shares directly. Mr. Jiang Changqing is deemed to be interested in the 10,195,000 Shares held by Ms. Guo Aru.

4. The 104,065,000 Shares are held by Ordillia Group Limited, the entire issued capital of which is beneficially owned by Mr. Li Qingli, an executive Director.

Save as disclosed above, as at 31 December 2016, none of the Directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules Appendix 10 of the Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2016, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Name of Group member	Capacity/ nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Bright Warm Limited (Note 2)	Our Company	Beneficial owner	644,307,000 Shares (L)	34.13%
China Fund Limited	Our Company	Beneficial owner	346,443,000 Shares (L)	18.35%
Ordillia Group Limited (Note 3)	Our Company	Beneficial owner	104,065,000 Shares (L)	5.51%
Ms. Ren Yanping (Note 4)	Our Company	Interest of spouse	110,705,000 Shares (L)	5.86%
Mr. Zheng Jinqiao (Note 5)	Our Company	Interest of controlled corporations	95,000,000 Shares (L)	5.03%

Notes:

1. The letter "L" denotes the person's long position in the shares of our Company or the relevant Group member.

2. Bright Warm Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Jiang Changqing, one of the controlling shareholders of our Company and an executive Director. Therefore, Mr. Jiang Changqing is also deemed to be interested in the 644,307,000 Shares owned by Bright Warm Limited by virtue of the SFO.

3. Ordillia Group Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Li Qingli, one of the substantial shareholders of our Company and an executive Director. Therefore, Mr. Li Qingli is also deemed to be interested in the 104,065,000 Shares owned by Ordillia Group Limited by virtue of the SFO.

4. Ms. Ren Yanping is the spouse of Mr. Li Qingli. Therefore, Ms. Ren Yanping is deemed to be interested in the 110,705,000 Shares owned by Mr. Li Qingli by virtue of the SFO.

5. Richlink International Capital Co. Ltd ("Richlink International") is interested in 50,000,000 Shares. Richlink International is owned as to 100% by Mr. Zheng Jinqiao and therefore Mr. Zheng Jinqiao is deemed to be interested in the 50,000,000 Shares owned by Richlink International by virtue of the SFO. Moreover, Beijing Richlink Private Equity Management Co. Ltd ("Beijing Richlink PE") is interested in 45,000,000 Shares. Beijing Richlink PE is owned as to 58% by Beijing Richlink International Capital Co. Ltd, which in turn is owned as to 51% by Mr. Zheng Jinqiao, and therefore Mr. Zheng Jinqiao is also deemed to be interested in the 45,000,000 Shares owned by Beijing Richlink PE by virtue of the SFO.

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any other persons/entities (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

COMPETING INTERESTS

Save and except for interests in the Group, none of the Directors and controlling shareholders of the Company nor their respective associates (as defined under the Listing Rules) had any interest in any other companies as at 31 December 2016 which may, directly or indirectly, compete with the Group's business.

SERVICE CONTRACTS

Each of the Directors has entered into a letter of appointment with the Company for a term of three years from the date of Listing, and can be terminated by not less than three months' notice in writing served by either party on the other. None of the Directors has a service contract which is not determinable by the Company or any of its subsidiaries within 1 year without payment of compensation, other than statutory compensation.

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

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

PERMITTED INDEMNITY

Pursuant to the Company's Articles of Association, subject to the Companies Law, every Director shall be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in the execution of his/her office or otherwise in relation thereto. The Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Rule 8.08 of the Listing Rules requires there to be an open market in the securities for which listing is sought and a sufficient public float of an issuer's listed securities to be maintained. This normally means that at least 25% of the issuer's total issued share capital must at all times be held by the public.

Based on the information that is publicly available to the Company and to the knowledge of the Directors as of the latest practicable date prior to the issue of this annual report, the Directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules since the Listing Date.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rule 5.48 to Rule 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the GEM Listing Rules") for the period where the Company's shares were listed on GEM. Since the Company's shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014, the Group continues and will continue to ensure compliance with the corresponding provisions set out in Appendix 10 of the Listing Rules. Having made specific enquiries to all the Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors throughout the year ended 31 December 2016.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, throughout the year ended 31 December 2016 the Company has complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules and contained in Appendix 14 to the Listing Rules since the Transfer of Listing, except Code Provision A.2.1 as more particularly described below. Since the Company's shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014, the Group continues and will continue to ensure compliance with the corresponding code previsions set out in Appendix 14 to the Listing Rules.

Code Provision A2.1 provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The Board considers that the Company is still in its growing stage and it would be beneficial to the Group for Mr. Jiang Changqing to assume both roles as the chief executive officer and executive chairman of the Company, since the two roles tend to reinforce each other and are mutually enhancing in respect of the Group's continual growth and development. When the Group has developed to a more sizeable organization, the Board will consider splitting the two roles. With the strong business experience of the Directors, they do not expect any issues would arise due to the combined role of Mr. Jiang Changqing. The Group also has in place an internal control system to perform the check and balance function. There are also three independent non-executive Directors on the Board offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place.

ANNUAL GENERAL MEETING ("AGM")

The AGM will be held on Monday, 26 June 2017. The circular of the Company containing details of the AGM together with the notice of AGM and form of proxy will be issued and disseminated to the shareholders in due course.

CLOSURE OF THE REGISTER OF MEMBERS

To determine the eligibility of the shareholders of the Company to attend the AGM to be held on Monday, 26 June 2017, the register of members will be closed from Wednesday, 21 June 2017 to Monday, 26 June 2017, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4 p.m. on Tuesday, 20 June 2017.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 to C3.7 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the audit committee are mainly to make recommendations to the Board on the appointment and removal of external auditors; review the financial statements and provide material advice in respect of financial reporting; and oversee internal control procedures of the Company. The audit committee comprises three independent non-executive Directors, namely Ms. Li Xiaohui (chairlady of the audit committee), Mr. Meng Fanlin and Mr. Wang Haiyu. Since the Company's shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014, the Company has established an audit committee with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The written terms of reference of the audit committee was adopted in compliance with paragraph C3.3 to C3.7 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The audit committee had reviewed the final results for the year ended 31 December 2016 together with the Company's external auditor and provided advice and comments thereon and the audit committee has agreed to the figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2016.

AUDITORS

Deloitte Touche Tohmatsu Certified Public Accountants ("Deloitte") who had been the auditor of the Company since 2012 resigned as the auditor of the Company with effect from 28 December 2016, as the Company and Deloitte could not reach an agreement on the audit fee for the financial year ending 31 December 2016. KPMG was appointed as the auditor of the Company with effect from 6 January 2017 to fill the casual vacancy following the resignation of Deloitte and will hold office until the conclusion of the next annual general meeting of the Company. A resolution to appoint the auditor, KPMG, is to be proposed at the forthcoming annual general meeting of the Company

PUBLICATION OF THE ANNUAL RESULTS AND THE ANNUAL REPORT

This results announcement is published on the website of The Stock Exchange of Hong Kong Limited at http://www.hkexnews.hk and the website of the Company at www.chinauton.com, respectively.

The Company's 2016 annual report containing all the information required under the Listing Rules will be despatched to the relevant shareholders and will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

By order of the Board
China U-Ton Holdings Limited
Jiang Changqing
Chairman and Executive Director

Hong Kong, 31 March 2017

As at the date of this report, the executive Directors of the Company are Mr. Jiang Changqing, Ms. Guo Aru and Mr. Li Qingli; the independent non-executive Directors of the Company are Mr. Meng Fanlin, Mr. Wang Haiyu and Ms. Li Xiaohui.

TO THE SHAREHOLDERS OF CHINA U-TON HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Qualified opinion

We have audited the consolidated financial statements of China U-Ton Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 74 to 152, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for qualified opinion

Note 2(a) discloses that in May 2015 the Group acquired 90% equity interests in Nanjing Newlixon Electric Appliance Co., Ltd. ("Nanjing Newlixon") and that subsequent to this acquisition, the Group and the non-controlling equity holder of Nanjing Newlixon (the "Newlixon NCEH") had disagreements in different areas including business development strategy, business revenue model and allocation of resources. According to Note 2(a), the directors of the Company had planned the disposal of the Group's 90% equity interests in Nanjing Newlixon to the Newlixon NCEH prior to 31 December 2015. As at 31 December 2015, cost of investment in Nanjing Newlixon was classified as "assets held-for-sale" and the related liability was classified as "liabilities held-for-sale" in the consolidated statement of financial position. Given these circumstances, in preparation of the Group's consolidated financial statements for the year ended 31 December 2015, the directors of the Company excluded the financial position as at 31 December 2015, the financial performance and cash flows from Nanjing Newlixon for the period from the date of acquisition of Nanjing Newlixon to 31 December 2015. In their report dated 31 March 2016, the predecessor auditors qualified their opinion on the consolidated financial statements for the year ended 31 December 2015 on the basis that this accounting treatment was not in accordance with IFRS 3, Business Combinations, and IFRS 10, Consolidated financial statements.

Note 2(a) to these financial statements further discloses that in March 2016, the Group entered into an agreement with the Newlixon NCEH to dispose of its 90% equity interests in Nanjing Newlixon (the "Disposal"). The Disposal was completed on 31 March 2016. Upon the completion of the Disposal, the Group recognised a disposal gain of RMB37,700,000 in the consolidated statement of profit or loss for the year ended 31 December 2016, being the difference between the consideration received/receivable and the original cost of the investment in Nanjing Newlixon.

These events and actions taken by the directors of the Company, further details of which are set out in Note 2(a) to the consolidated financial statements, have given rise to the following matters which form the basis for our qualified opinion:

(a) Insufficient audit evidence in respect of the transactions and balances in connection with the acquisition of Nanjing Newlixon, impairment of balances due from Nanjing Newlixon and Newlixon NCEH and the gain on the Disposal

As set out in Notes 2(a), 20 and 31 to the consolidated financial statements, the Group recorded the following balances and amounts in connection with the acquisition and disposal of Nanjing Newlixon:

	2016	2015
	RMB'000	RMB'000
Assets held-for-sale	**—**	39,000
Other receivables, deposits and prepayments	**88,833**	25,281
Liabilities held-for-sale	**—**	11,000
Net gain on disposal of a subsidiary	**37,700**	—
Impairment loss on advances to Nanjing Newlixon and Newlixon NCEH	**(5,400)**	—
Impairment loss on consideration receivable	**(23,700)**	—

We were first appointed auditors of the Company on 6 January 2017. Because we were unable to obtain the books and records of Nanjing Newlixon and review the acquisition of Nanjing Newlixon retrospectively, we were unable to obtain sufficient appropriate audit evidence to determine (i) the commercial substance of the acquisition and disposal of Nanjing Newlixon; (ii) whether the Group obtained control of the 90% equity interests in Nanjing Newlixon in 2015; and (iii) whether the balances with Nanjing Newlixon as at 31 December 2016 and 2015 and the transactions with Nanjing Newlixon for the years ended 31 December 2016 and 2015 were free from material misstatement. In addition, we were not able to obtain sufficient appropriate evidence to determine whether (i) the recoverability, and hence impairment losses (if any), of the amounts due from Nanjing Newlixon and Newlixon NCEH; and (ii) the gain on the Disposal, were free from material misstatement.

Any adjustment that may have been necessary to the balances and transactions related to the acquisition and disposal of Nanjing Newlixon would have had a consequential impact on the Group's consolidated financial statements for the years ended 31 December 2016 and 2015.

(b) Departure from IFRS 3 and IFRS 10

As set out in part (a) above, we were unable to obtain sufficient appropriate audit evidence to determine whether the Group obtained control of the 90% equity interests in Nanjing Newlixon in 2015. However, if we had satisfied ourselves that the Group had obtained control over Nanjing Newlixon upon the completion of the acquisition until the time of disposal, we would have qualified our opinion on the basis that the exclusion of the financial position, finance performance and cash flows of Nanjing Newlixon from the consolidated financial statements, the presentation of the investment in Nanjing Newlixon at cost less impairment, and the recognition of disposal gain based on the difference between the consideration received/receivable and the cost of investment are departures from the requirements of IFRS 3 and IFRS 10. Given the events and circumstances as described in part (a) above, we were unable to ascertain the financial impact of the non-consolidation of Nanjing Newlixon on the consolidated financial statements for the year ended 31 December 2016.

(c) Comparative information

The comparative figures disclosed in the consolidated financial statements are based on the audited consolidated financial statements of the Group for the year ended 31 December 2015. As stated above, in their report dated 31 March 2016 the predecessor auditor expressed a qualified opinion in respect of the non-consolidation of Nanjing Newlixon, being the same unresolved issues which are set out above. Therefore the comparative figures shown may not be comparable and any adjustments to the opening balances as at 1 January 2016 would have consequential effect on the financial performance of the Group for the year ended 31 December 2016 and/or the financial position of the Group as at 31 December 2016.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matters described in the *Basis for qualified opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report:

Recognition of construction contract revenue

Refer to Note 4 to the consolidated financial statements and the accounting policies in Notes 2(n) and 2(w) (ii).

The Key Audit Matter

The Group is primarily engaged in the design, deployment and maintenance of optical fibers and the installation and sale of low-voltage system equipment and related accessories. The Group normally enters into construction contracts with major state-owned telecommunication network and equipment operators and independent third parties.

The Group recognises construction contract revenue based on the percentage of completion ("POC") of individual contracts, calculated based on the proportion of total contract costs incurred at the end of the reporting period compared with the estimated total budgeted contract costs to complete the contract.

The measurement of the POC and revenue therefore relies on estimations of total budgeted contract costs. Changes to estimated total budgeted contract costs could give rise to material variances in the amount of revenue recognised.

Contracts entered into by the Group are mostly fixed price contracts, although there may be variations which are instructed by the customers for changes in the scope of the work to be performed under the construction contracts. A variation is included in contract revenue when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured.

We identified the recognition of construction contract revenue as a key audit matter because there is a high degree of risk and associated management judgement in estimating total budgeted contract costs and the timing of recognition of variation orders and, consequently, the amount of revenue to be recognised by the Group.

How the matter was addressed in our audit

Our procedures to assess the recognition of construction contract revenue included the following:

- assessing the design, implementation and operating effectiveness of key internal controls over the budgeting process for construction contracts;
- scrutinising the key clauses of construction contracts, on a sample basis, and assessing whether these key clauses had been appropriately reflected in the estimation of total budgeted contract costs and contract variations applied in calculating contract revenue;
- challenging the Group's estimates of budgeted costs to complete contracts, on a sample basis, by considering the Group's historical records of gross profit margins for similar contracts and comparing budgeted costs with sub-contracts, where relevant;
- assessing whether major costs incurred were accounted for in the appropriate accounting period by comparing major costs incurred during the current year with purchase invoices and other relevant underlying documentation on a sample basis;
- performing a re-calculation of revenue recognised for individual contracts based on the estimated total budgeted contract costs, the costs incurred to date and the agreed contract price (including variations);
- performing site visits for selected major contracts in progress, physically observing the stage of completion of the contract and discussing the status of the contract with the site supervisor;

Recognition of construction contract revenue

Refer to Note 4 to the consolidated financial statements and the accounting policies in Notes 2(n) and 2(w) (ii).

The Key Audit Matter	How the matter was addressed in our audit
	• discussing material contract variations with management and challenging their estimation of the recoverability of contract variations and timing of recognition of the related revenue by inspecting correspondence with customers, bank statements and other relevant underlying documentation indicating subsequent settlement, where applicable; and • assessing the disclosures in the consolidated financial statements in respect of construction contract revenue with reference to the requirement of the prevailing accounting standards.

Valuation of trade and bill receivables (both current and non-current) and amounts due from customers for contract work

Refer to Notes 18 and 19 to the consolidated financial statements and the accounting policies in Notes 2(l), 2(n) and 2(o).

The Key Audit Matter

Trade and bill receivables and amounts due from customers for contract work amounted to RMB160,228,000 (current and non-current) and RMB505,819,000 as at 31 December 2016, respectively; and mainly comprised amounts due from major state-owned telecommunication network and equipment operators and other independent third parties.

The recoverability of the Group's trade and bill receivables and amounts due from customers for contract work is very dependent on the financial viability of the Group's customers. Management's assessment of the provision for trade and bill receivables and amounts due from customers for contract work includes a specific element based on individual debtors and a collective element based on groups of debtors with similar credit risk characteristics. Provisions are determined based on management's estimate of the expected credit losses to be incurred, which is estimated by taking into account a number of factors including the ageing of the balances, the credit-worthiness of the customers, historical write-off experience and relevant current factors relating to the collectively assessed debtors. All of these factors involve a significant degree of management judgement.

We identified assessing the recoverability of trade and bill receivables and amounts due from customers for contract work as a key audit matter because of the significance of the balances of trade and bill receivable and amounts due from customers for contract work to the consolidated financial statements and because of the inherent uncertainty in management's exercise of judgement in determining the provisions for doubtful debts.

How the matter was addressed in our audit

Our audit procedures to assess the recoverability of trade and bill receivables and amounts due from customers for contract work included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls relating to progress billings, credit control, debt collection and making provisions for doubtful debts;
- assessing the completeness and accuracy of the trade receivables ageing report by reconciling the total amount in the ageing report to the trade receivable ledger and comparing, on a sample basis, the ageing information of individual amounts with relevant underlying documents, which included sales contracts and project completion documents confirmed by the customers;
- obtaining an understanding of the basis of the management's judgement about the recoverability of individual debtor balances and evaluating these judgements with reference to the debtors' financial condition, the ageing of overdue balances and the historical settlement or progress billing experience;
- assessing the assumptions and estimates made by the management for the provisions for doubtful debts calculated based on a collective assessment by performing a retrospective review of the historical accuracy of these estimates and recalculating the Group's provision with reference to the Group's policy for collective assessment;

Valuation of trade and bill receivables (both current and non-current) and amounts due from customers for contract work

Refer to Notes 18 and 19 to the consolidated financial statements and the accounting policies in Notes 2(l), 2(n) and 2(o).

The Key Audit Matter	How the matter was addressed in our audit
	• comparing cash receipts from customers subsequent to the financial year end relating to trade receivable balances as at 31 December 2016 with bank statements and other relevant underlying documentation; • comparing progress billings to customers issued after the financial year end with the balances of amounts due from customers for contract work as at 31 December 2016; and • assessing the disclosures in the consolidated financial statements in respect of assessing impairment of trade and bill receivables and amounts due from customers for contract work and credit risk management with reference to the requirements of the prevailing accounting standards.

Assessing potential impairment of goodwill

Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 2(f) and 2(l).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2016, goodwill amounted to RMB32,769,000. Goodwill is assessed annually for potential impairment. Management performs impairment assessments of the separately identifiable cash generating units ("CGUs") to which goodwill has been allocated by considering the value-in-use of these CGUs. The value-in-use was determined by preparing discounted cash flow forecasts for the relevant CGUs. This involves a significant degree of management judgement, particularly in determining the key assumptions adopted, which include the value of contracts still to be delivered to customers, the expected timetable for those contracts, contract prices, estimated costs and the discount rates applied. We identified assessing potential impairment of goodwill as a key audit matter because the impairment assessment involves a significant degree of management judgement in relation to the key assumptions adopted in the impairment assessment model some of which are inherently uncertain and may be subject to management bias.	Our audit procedures to assess potential impairment of goodwill included the following: • evaluating management's identification of CGUs and the amounts of goodwill and other assets allocated to those CGUs; • evaluating the methodology used by the management in its preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards; • evaluating the discount rates applied in the discounted cash flow forecasts by assessing whether they were within the range of those adopted by other companies in the same industry; • assessing and challenging the key assumptions adopted by management in its discounted cash flow forecasts, which included the value of contracts still to be delivered to customers, the expected timetable for those contracts, contract prices and estimated costs, with reference to historical profit margins of the individual CGUs, the financial budgets approved by the directors and our expectations based on our knowledge of the industry in which the Group operates; • performing a retrospective review of the prior year's discounted cash flow forecasts and comparing the forecast revenue and profit with the current year's actual results to assess the reliability of management's forecasting process;

Assessing potential impairment of goodwill

Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 2(f) and 2(l).

The Key Audit Matter	How the matter was addressed in our audit
	• obtaining from management sensitivity analyses of the key assumptions, which included the contract prices, estimated costs and the discount rates applied, adopted in the discounted cash flow forecasts and assessing the impact on the conclusion of the impairment assessment, the impairment charge for the year, and whether there were any indicators of management bias; and • considering the disclosures in the consolidated financial statements in respect of assessing impairment of goodwill with reference to the requirements of the prevailing accounting standards.

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional 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 the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wan Chi Yau, Charles.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(Expressed in (“RMB”))

	Note	2016 RMB’000	2015 RMB’000
Revenue	4	**302,681**	475,507
Cost of sales/services		**(348,696)**	(329,773)
Gross (loss)/profit	4(b)	**(46,015)**	145,734
Other income	5	**3,859**	4,258
Selling expenses		**(29,931)**	(12,347)
Administrative expenses		**(60,794)**	(61,355)
Research and development expenses		**(6,447)**	(2,001)
Impairment losses	6	**(88,239)**	(2,923)
(Loss)/profit from operations		**(227,567)**	71,366
Finance costs	7(a)	**(65,506)**	(26,166)
Net gain on disposal of subsidiaries	2(a),31	**37,700**	10,781
Share of gain of an associate		**—**	509
(Loss)/profit before taxation	7	**(255,373)**	56,490
Income tax	8	**(4,139)**	(7,861)
(Loss)/profit for the year		**(259,512)**	48,629
Attributable to:			
Equity shareholders of the Company		**(253,203)**	48,732
Non-controlling interests		**(6,309)**	(103)
(Loss)/profit for the year		**(259,512)**	48,629
(Loss)/earnings per share	11		
Basic and diluted (RMB cents)		**(13.75)**	2.77

The notes on pages 81 to 152 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(Expressed in ("RMB"))

	2016	2015
	RMB'000	RMB'000
(Loss)/profit for the year	**(259,512)**	48,629
Other comprehensive income for the year (after tax):		
exchange differences on translation of financial statements into presentation currency	**671**	—
Total comprehensive income for the year	**(258,841)**	48,629
Attributable to:		
Equity shareholders of the Company	**(252,532)**	48,732
Non-controlling interests	**(6,309)**	(103)
Total comprehensive income for the year	**(258,841)**	48,629

The notes on pages 81 to 152 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

(Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	12	**47,590**	27,808
Intangible assets	13	**5,074**	6,692
Goodwill	15	**32,769**	37,536
Available-for-sale financial assets	16	**86,598**	12,488
Prepayments for investments in financial assets	16	**16,790**	—
Non-current trade receivables	18	**7,933**	7,279
Deferred tax assets	28(b)	**990**	531
		197,744	92,334
Current assets			
Available-for-sale financial assets	16	**—**	20,000
Inventories	17	**11,459**	7,019
Trade and bill receivables	18	**152,295**	196,839
Amounts due from customers for contract work	19	**505,819**	577,609
Other receivables, deposits and prepayments	2(a),20	**261,308**	107,401
Restricted bank deposits	21	**170,697**	136,885
Cash at bank and on hand	22	**128,057**	63,595
Assets held-for-sale	2(a),31	**—**	39,000
		1,229,635	1,148,348

The notes on pages 81 to 152 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

(Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Current liabilities			
Trade and other payables	23	**315,776**	280,113
Bank and other borrowings	24	**237,275**	186,041
Corporate bonds	25	**3,578**	6,471
Income tax payables	28(a)	**21,761**	27,338
Provision for warranties		**606**	515
Liabilities held-for-sale	2(a),31	**—**	11,000
		578,996	511,478
Net current assets		**650,639**	636,870
Total assets less current liabilities		**848,383**	729,204
Non-current liabilities			
Bank and other borrowings	24	**133,726**	—
Corporate bonds	25	**186,847**	140,884
Convertible bonds	26	**49,139**	—
Guaranteed notes	27	**45,132**	—
Deferred tax liabilities	28(b)	**906**	1,215
		415,750	142,099
NET ASSETS		**432,633**	587,105
Capital and reserves	29		
Share capital		**154,242**	143,139
Reserves		**279,479**	438,745
Equity attributable to equity holders of the Company		**433,721**	581,884
Non-controlling interests		**(1,088)**	5,221
TOTAL EQUITY		**432,633**	587,105

Approved and authorised for issue by the board of directors on 31 March 2017

Jiang Changqing
Chairman and Executive Director

Li Qingli
Executive Director

The notes on pages 81 to 152 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

(Expressed in RMB)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 (Note 29(c))	Share premium RMB'000 (Note 29 (d) (i))	Other reserve RMB'000 (Note 29 (d) (ii))	Statutory surplus reserve RMB'000 (Note 29 (d) (iii))	Exchange reserve RMB'000 (Note 29 (d) (iv))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2015	143,139	100,179	10,142	53,081	–	242,579	549,120	12,753	561,873
Changes in equity for 2015:									
Profit/(loss) and total comprehensive income for the year	–	–	–	–	–	48,732	48,732	(103)	48,629
Effect on equity in connection with acquisition of a subsidiary	–	–	–	–	–	–	–	3,259	3,259
Effect on equity in connection with disposal of a subsidiary	–	–	–	(783)	–	783	–	(12,787)	(12,787)
Dividends paid in respective of the previous year (Note 29 (b) (ii))	–	–	–	–	–	(13,869)	(13,869)	–	(13,869)
Appropriation to reserve	–	–	–	4,061	–	(4,061)	–	–	–
Reclassification	–	–	–	–	–	(2,099)	(2,099)	2,099	–
Balance at 31 December 2015 and 1 January 2016	143,139	100,179	10,142	56,359	–	272,065	581,884	5,221	587,105
Changes in equity for 2016:									
Loss for the year	–	–	–	–	–	(253,203)	(253,203)	(6,309)	(259,512)
Other comprehensive income	–	–	–	–	671	–	671	–	671
Total comprehensive income for the year	–	–	–	–	671	(253,203)	(252,532)	(6,309)	(258,841)
Issuance of shares (Note 29(c)(i))	11,103	93,266	–	–	–	–	104,369	–	104,369
Balance at 31 December 2016	154,242	193,445	10,142	56,359	671	18,862	433,721	(1,088)	432,633

The notes on pages 81 to 152 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

(Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Operating activities			
(Loss)/profit before taxation		**(255,373)**	56,490
Adjustments for:			
Depreciation and amortisation	7(c)	**8,534**	7,720
Impairment losses	6	**88,239**	2,923
Net loss on disposal of property, plant and equipment	5	**40**	10
Finance costs	7(a)	**65,506**	26,661
Interest income	5	**(3,469)**	(3,354)
Net gain on disposal of subsidiaries		**(37,700)**	(10,781)
Share of gain of an associate		**—**	(509)
Changes in working capital:			
Increase in inventories		**(4,440)**	(2,022)
Decrease/(increase) in trade and bill receivables		**2,744**	(46,538)
Decrease/(increase) in amounts due from customers for contract work		**71,790**	(132,132)
Increase in other receivables, deposits and prepayments		**(89,291)**	(23,613)
Increase in trade and other payables		**42,585**	23,261
Net cash used in operations		**(110,835)**	(102,379)
Income tax and withholding taxes paid	28(a)	**(10,484)**	(12,326)
Net cash used in operating activities		**(121,319)**	(114,705)

The notes on pages 81 to 152 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

(Expressed in RMB)

	Note	2016 RMB'000	2015 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment and intangible assets		**(27,925)**	(7,554)
Proceeds from disposal of property, plant and equipment		**1,187**	873
Advance to an associate		**—**	(2,000)
Purchases and prepayments of available-for-sale financial assets	16	**(26,790)**	(20,000)
Proceeds from sale of available-for-sale financial assets	16	**20,000**	—
Net increase in loans to third parties	20(b)	**(53,390)**	—
Net cash outflow on acquisition of subsidiaries		**—**	(10,491)
Net cash inflow on disposal of subsidiaries	31	**18,000**	4,822
Net cash outflow to Nanjing Newlixon and Newlixon NCEH		**(15,852)**	(49,281)
Net increase in restricted bank deposits		**(33,812)**	(82,885)
Interest received		**3,469**	2,184
Net cash used in investing activities		**(115,113)**	(164,332)
Financing activities			
Proceeds from issuance of shares	29(c) (i)	**40,259**	—
Proceeds from bank and other borrowings		**416,002**	222,636
Repayments of bank and other borrowings		**(231,042)**	(116,975)
Net proceeds from issuance of corporate bonds	25	**25,339**	101,248
Repayments of corporate bonds	25	**(6,583)**	(7,892)
Net proceeds from issue of convertible bonds	26	**42,240**	—
Net proceeds from issue of guaranteed notes	27	**41,727**	—
Net (decrease)/increase in amounts due to related parties		**(925)**	1,500
Dividends paid		**—**	(13,869)
Interest paid		**(28,272)**	(13,197)
Net cash generated from financing activities		**298,745**	173,451
Net increase/(decrease) in cash and cash equivalents		**62,313**	(105,586)
Cash and cash equivalents at 1 January	22	**63,595**	167,578
Effect of foreign exchange rate changes		**2,149**	1,603
Cash and cash equivalents at 31 December	22	**128,057**	63,595

The notes on pages 81 to 152 form part of these financial statements.

1 CORPORATE INFORMATION

China U-Ton Holdings Limited (the "Company") was incorporated in the Cayman Islands on 7 March 2011 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 June 2012. On 1 August 2014, the shares of the Company were transferred from the GEM to the Main Board of the Stock Exchange. The Company and its subsidiaries (hereinafter referred to as the "Group") principally engages in the design, deployment and maintenance of underground optical fibers, and the installation and sale of low-voltage system equipment and related accessories.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations issued by International Accounting Standards Board (the "IASB"), and the applicable disclosure requirements of the Hong Kong Companies Ordinance, with the exception of the matters described below for which the Company's auditor has issued a qualified opinion. Also, except for the matters described below, these financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

In May 2015, the Group acquired 90% equity interests in Nanjing Newlixon Electric Appliance Co., Ltd. ("Nanjing Newlixon"). As disclosed in Note 31 to the consolidated financial statements for the year ended 31 December 2015, subsequent to the above acquisition of Nanjing Newlixon by the Group, the Group and the non-controlling equity holder of Nanjing Newlixon (the "Newlixon NCEH") had disagreements in different areas including business development strategy, business revenue model and allocation of resources. The directors of the Company had planned the disposal of the Group's 90% equity interests in Nanjing Newlixon to the Newlixon NCEH prior to 31 December 2015. Given these circumstances, in preparation of the Group's consolidated financial statements for the year ended 31 December 2015, the directors of the Company have excluded the results and cash flows from Nanjing Newlixon for the period from the acquisition of Nanjing Newlixon to the date when the Group classified Nanjing Newlixon as assets and liabilities held-for-sale in the consolidated statement of financial position.

In March 2016, the Group entered into an agreement with the Newlixon NCEH to dispose of its 90% equity interests in Nanjing Newlixon (the "Disposal"). The Disposal was completed on 31 March 2016. Upon the completion of the Disposal, the Group recognised a disposal gain of RMB37,700,000 in the consolidated statement of profit or loss for the year ended 31 December 2016, being the difference between the consideration received/receivable and the original cost of the investment in Nanjing Newlixon.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

As set out in Notes 20 and 31 to the consolidated financial statements, the Group recorded the following balances and amounts in connection with the acquisition and disposal of Nanjing Newlixon:

	2016 **RMB'000**	2015 RMB'000
Assets held-for-sale	**—**	39,000
Other receivables, deposits and prepayments	**88,833**	25,281
Liabilities held-for-sale	**—**	11,000
Net gain on disposal of a subsidiary	**37,700**	—
Impairment loss on advances to Nanjing Newlixon and Newlixon NCEH	**(5,400)**	—
Impairment loss on consideration receivable	**(23,700)**	—

The exclusion of the financial position, results and cash flows of Nanjing Newlixon from the consolidated financial statements, the presentation of the investment in Nanjing Newlixon at cost less impairment, and the recognition of disposal gain based on the difference between the consideration received/receivable and the cost of investment are departures from the requirements of IFRS 3, *Business Combinations* and IFRS 10, *Consolidated Financial Statements*.

The comparative figures disclosed in the consolidated financial statements are based on the audited consolidated financial statements of the Group for the year ended 31 December 2015 in respect of which the auditor's report dated 31 March 2016 issued by the predecessor auditor expressed a qualified opinion. The matters which resulted in that qualified opinion were the non-consolidation of Nanjing Newlixon on the basis that this was a departure from the relevant IFRSs.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

Significant accounting policies adopted by the Group are disclosed below.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale (Note 2(g)) and derivative financial instruments (Note 2(h)) are stated at their fair values.

Non-current assets held-for-sale are stated at the lower of carrying amount and fair value less costs to sell (Note 2(z)).

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's financial performance and financial position for the current or prior periods have been prepared or presented.

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

(d) Presentation currency

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the Group's presentation currency.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity interests in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those equity interests which would result in the Group as a whole having a contractual obligation in respect of those equity interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2(r).

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(l) (ii)), unless the investment is classified as held-for-sale (Note 2(z)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses (Note 2(l) (ii)). Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 2(l) (ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments in debt and equity securities

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

Investments in debt and equity securities classified as available-for-sale securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (Note 2(l)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in Notes 2(w) (v) and 2(w) (vi), respectively.

When the investments are derecognised or impaired (Note 2(l)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Derivative financial instruments

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

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 2(l) (ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads and borrowing costs (Note 2(y)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Leasehold land and buildings	20-30 years
Leasehold improvements	5 years
Motor vehicles	4-10 years
Machinery	3-12 years
Office equipment	3-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the estimated useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (Note 2(l) (ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Customer relationships	3-5 years
Patents	5-10 years
Software	5 years

Both the period and method of amortisation are reviewed annually.

(k) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets

(i) Impairment of investments in debt and equity securities and receivables

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

– significant financial difficulty of the debtor;

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

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and receivables *(Continued)*

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated discounted future cash flows (i.e. discounted at the financial asset's original effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

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

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

(ii) Impairment of other assets

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

– property, plant and equipment;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (Notes 2(l) (i) and 2(l) (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost formula. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs of completion and the estimated cost necessary to make the sale.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in Note 2(w) (ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the statement of financial position as "Amounts due from customers for contract work" (as an asset) or "Amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade and bill receivables". Amounts received before the related work is performed are presented as "Receipt in advances from customers" under "Trade and other payables".

(o) Trade and other receivables

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

(p) Convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible bonds is measured at fair value as derivative financial instruments (Note 2(h)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with Note 2(h). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Interest-bearing borrowings

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

(r) Trade and other payables

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

(s) Cash and cash equivalents

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

(t) Employee benefits

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

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

(ii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax *(Continued)*

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

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

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows.

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts.

(ii) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Service income

Service income is recognised when the related service is rendered

(v) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Revenue recognition *(Continued)*

(vii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and consequently recognised in profit or loss over the useful life of the related asset.

(x) Translation of foreign currencies

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

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

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

(y) Borrowing costs

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Assets held-for-sale

A non-current asset is classified as held-for-sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

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

Immediately before classification as held-for-sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held-for-sale and until disposal, the non-current assets (except for certain assets as explained below) are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets and financial assets (other than investments in subsidiaries). These assets, even if held-for-sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

Impairment losses on initial classification as held-for-sale, and on subsequent remeasurement while held-for-sale, are recognised in profit or loss. As long as a non-current asset is classified as held-for-sale, the non-current asset is not depreciated or amortised.

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group.

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(bb) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

3 KEY SOURCES OF ESTIMATION UNCERTAINTY

Notes 15 and 30 contain information about the assumptions and their risk factors relating to goodwill impairment and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Construction contracts

As explained in the accounting policies set out in Notes 2(n) and 2(w) (ii), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached, the amounts due from customers for contract work as disclosed in Note 19 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(b) Impairment of trade and other receivables and amounts due from customers for contract work

The management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the customers and debtors to make the required payments. The management bases the estimates on the assessment of recoverability of individual customer or debtor balance, customer and debtor credit-worthiness, and historical write-off experience. If the financial condition of the customers or debtors were to deteriorate, actual write-offs would be higher than estimated.

3 KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(c) Impairment of tangible and intangible assets and investments in unquoted equity securities

If circumstances indicate that the carrying amount of a tangible, an intangible asset or an investment in unquoted equity securities carried at cost may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of tangible, intangible assets and investments in unquoted equity securities as described in Note 2(l). These assets are tested for impairment whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use or the discounted estimated future cash flows, where applicable. In determining the value in use or discounted estimated future cash flows, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future years, where applicable.

(d) Deferred tax

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

The principal activities of the Group are the provision of design, deployment and maintenance of optical fibers services, and the installation and sale of low-voltage system equipment and related accessories.

Revenue mainly represents contract revenue from the design, deployment and maintenance of optical fibers services, and contract revenue from the installation and sale of low-voltage system equipment and related accessories. The amount of each significant category of revenue recognised during the year is as follows:

	2016	2015
	RMB'000	RMB'000
Revenue from the provision of design, deployment and maintenance of optical fibers services	**228,138**	357,356
Revenue from the installation and sales of low-voltage system equipment and related accessories	**72,715**	118,110
Rental income	**1,828**	41
	302,681	475,507

For the year ended 31 December 2016, revenues from transactions with two (2015: two) customers have exceeded 10% of the Group's revenue. Revenue from these customers amounted to RMB154,260,000 for the year ended 31 December 2016 (2015: RMB237,249,000).

Further details regarding the Group's principal activities are discussed below.

4 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information

The Group manages its businesses by lines of business. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segment.

— Optical fibers: this segment provides design, deployment and maintenance of optical fibers services.

— Low-voltage system: this segment installs and sells low-voltage system equipment and related accessories.

— Rental: this segment leases out machinery and equipment.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment results is gross (loss)/profit. No inter-segment sales have occurred for the years ended 31 December 2016 and 2015. The Group's other income and expense items, such as other income, selling expenses, administrative expenses, research and development expenses, impairment losses, finance costs, net gain on disposal of subsidiaries and share of gain of an associate, and assets and liabilities, are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure and interest income is presented.

4 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below.

	2016			
	Optical fibers RMB'000	**Low-voltage system RMB'000**	**Rental RMB'000**	**Total RMB'000**
Revenue from external customers and reportable segment revenue	**228,138**	**72,715**	**1,828**	**302,681**
Reportable segment gross (loss)/profit	**(46,978)**	**(679)**	**1,642**	**(46,015)**

	2015			
	Optical fibers RMB'000	Low-voltage system RMB'000	Rental RMB'000	Total RMB'000
Revenue from external customers and reportable segment revenue	357,356	118,110	41	475,507
Reportable segment gross profit	108,405	37,293	36	145,734

4 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Reconciliations of reportable segment results to consolidated (loss)/profit before taxation:

	2016	2015
	RMB'000	RMB'000
Segment results	**(46,015)**	145,734
Other income	**3,859**	4,258
Selling expenses	**(29,931)**	(12,347)
Administrative expenses	**(60,794)**	(61,355)
Research and development expenses	**(6,447)**	(2,001)
Impairment losses	**(88,239)**	(2,923)
Finance costs	**(65,506)**	(26,166)
Net gain on disposal of subsidiaries	**37,700**	10,781
Share of gain of an associate	**—**	509
Consolidated (loss)/profit before taxation	**(255,373)**	56,490

(iii) Geographic information

The Group operates mainly in the People's Republic of China (the"PRC"). At 31 December 2016 and 2015, all of the Group's property, plant and equipment, intangible assets and goodwill are either physically located or allocated to operations located in the PRC. Over 95% of the Group's revenue were generated from external customers located in the PRC during the years ended 31 December 2016 and 2015.

5 OTHER INCOME

	2016	2015
	RMB'000	RMB'000
Interest income	**3,469**	3,354
Government grants	**430**	914
Net loss on disposal of property, plant and equipment	**(40)**	(10)
	3,859	4,258

6 IMPAIRMENT LOSSES

	2016 RMB'000	2015 RMB'000
Impairment losses on trade and bill receivables (Note 18(b))	**41,146**	1,495
Impairment losses on other receivables (Note 2(a) and 20(b))	**42,326**	—
Impairment losses on goodwill (Note 15)	**4,767**	—
Impairment losses on available-for-sale financial assets (Note 16)	**—**	1,428
	88,239	2,923

7 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after changing

(a) Finance costs

	2016 RMB'000	2015 RMB'000
Interest on bank loans and other borrowings	**14,527**	9,752
Finance charges on corporate bonds (Note 25)	**18,726**	10,835
Finance charges on convertible bonds (Note 26)	**2,544**	—
Finance charges on guaranteed notes (Note 27)	**3,120**	—
Total borrowing costs*	**38,917**	20,587
Net foreign exchange loss	**23,441**	5,579
Changes in fair value on the derivative component of convertible bonds (Note 26)	**3,148**	—
	65,506	26,166

* No borrowing costs have been capitalised for the year ended 31 December 2016 (2015:Nil).

7 (LOSS)/PROFIT BEFORE TAXATION *(Continued)*

(Loss)/profit before taxation is arrived at after changing *(Continued)*

(b) Employee costs

	2016	2015
	RMB'000	RMB'000
Salaries, wages and other benefits	**51,486**	61,934
Contributions to defined contribution retirement plans	**2,587**	3,292
	54,073	65,226

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in defined contribution retirement benefit schemes managed by the local government authorities, whereby these subsidiaries are required to contribute to the schemes at rates ranging from 19% to 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (other than Hong Kong), from the above mentioned retirement schemes at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed by the Group's subsidiaries incorporated in Hong Kong under a trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the MPF Scheme vest immediately.

The Group has no further obligation for payment of other retirement benefits beyond the above annual contributions.

7 (LOSS)/PROFIT BEFORE TAXATION *(Continued)*

(Loss)/profit before taxation is arrived at after charging *(Continued)*

(c) Other items

	2016 RMB'000	2015 RMB'000
Cost of inventories (Note 17(b))	**34,412**	67,814
Depreciation and amortisation (Notes 12 and 13)	**8,534**	7,720
Operating lease charges in respect of office premises and sewer usages	**6,727**	5,322
Auditor's remuneration	**2,400**	2,330

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2016 RMB'000	2015 RMB'000
Current taxation: (Note 28(a))		
– PRC Corporate Income Tax	**4,907**	11,794
– PRC Withholding Tax	**—**	5,500
	4,907	17,294
Deferred taxation: (Note 28(b))		
– Origination and reversal of temporary differences	**(768)**	(9,433)
	4,139	7,861

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2016	2015
	RMB'000	RMB'000
(Loss)/profit before taxation	**(255,373)**	56,490
Income tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i) and (ii))	**(7,055)**	(1,544)
Tax effect of taxable income on revenue (Note (iv))	**4,289**	7,341
Tax effect of non-deductible expenses	**44**	1,927
Tax effect of unused tax losses not recognised	**6,861**	3,787
Share of results of an associate	**—**	(127)
Reversal of withholding tax on undistributed profits of PRC entities	**—**	(3,523)
Actual tax expense	**4,139**	7,861

Notes:

(i) The Company and the subsidiaries of the Group incorporated in the British Virgin Islands are not subject to any income tax pursuant to the rules and regulations in their respective jurisdictions of incorporation.

The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2016 (2015: 16.5%).

(ii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2016 (2015: 25%).

(iii) Certain subsidiaries of the Group established in the PRC have obtained approvals from the tax bureaux to be taxed as enterprises with advanced and new technologies. As a result, these subsidiaries enjoyed a preferential PRC Corporate Income Tax rate of 15% for the three years ending 31 December 2017 or 31 December 2018.

(iv) Pursuant to the approvals obtained from the tax authorities, certain subsidiaries of the Group established in the PRC are being taxed at fixed percentages of the respective subsidiaries' revenue for the year, ranging from 7% to 10% (2015: 7% to10%).

9 DIRECTORS EMOLUMENTS

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

	2016				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors:					
Jiang Changqing	800	136	344	7	1,287
Guo Aru	600	144	258	8	1,010
Li Qingli	600	100	344	7	1,051
Independent non-executive directors:					
Meng Fanlin	120	—	—	—	120
Wang Haiyu	120	—	—	—	120
Li Xiaohui	120	—	—	—	120
	2,360	380	946	22	3,708

	2015				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors:					
Jiang Changqing	800	120	2,878	6	3,804
Guo Aru	600	125	1,647	6	2,378
Li Qingli	600	100	1,647	7	2,354
Independent non-executive directors:					
Meng Fanlin	120	—	—	—	120
Wang Haiyu	120	—	—	—	120
Li Xiaohui	120	—	—	—	120
	2,360	345	6,172	19	8,896

There were no amounts paid during the year ended 31 December 2016 to the directors or any of the five highest paid individuals set out in Note 10 as an inducement to join or upon joining the Group or as compensation for loss of office.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2015: three) are directors whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the other two (2015: two) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	1,064	3,141
Retirement scheme contributions	19	15
	1,083	3,156

The emoluments of the two (2015: two) individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	2016 Number of individuals	2015 Number of individuals
Hong Kong dollar ("HK$") Nil to HK$1,000,000	2	1
HK$2,500,001 to HK$3,000,000	—	1

11 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The basic loss per share for the year ended 31 December 2016 is calculated based on the loss attributable to the equity shareholders of the Company of RMB253,203,000 (2015: profit of RMB48,732,000) and the weighted average of 1,841,145,000 ordinary shares (2015: 1,757,620,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares:

	2016	2015
	'000	'000
Issued ordinary shares at 1 January	**1,757,620**	1,757,620
Effect of shares issued to equity shareholders of the Company in February 2016 (Note 29(c)(i))	**44,399**	—
Effect of shares issued to equity shareholders of the Company in July 2016 (Note 29(c)(i))	**39,126**	—
Weighted average number of ordinary shares at 31 December	**1,841,145**	1,757,620

(b) Diluted loss per share

There were no dilutive potential shares outstanding during the year ended 31 December 2016 and 2015. The Group's convertible bonds (Note 26) could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted loss per share because they are antidilutive during the year ended 31 December 2016.

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Machinery RMB'000	Office equipment RMB'000	Total RMB'000
COST:						
At 1 January 2015	3,286	909	15,773	13,806	4,889	38,663
Additions	–	126	2,014	4,636	620	7,396
Additions through acquisition of a subsidiary	–	–	17	–	45	62
Decrease through disposal of a subsidiary	–	–	(190)	(196)	(186)	(572)
Disposals	–	–	(209)	(1,687)	(39)	(1,935)
At 31 December 2015	3,286	1,035	17,405	16,559	5,329	43,614
ACCUMULATED DEPRECIATION:						
At 1 January 2015	352	172	4,299	3,416	2,821	11,060
Charge for the year	107	337	2,744	2,046	1,044	6,278
Written back on disposal of a subsidiary	–	–	(163)	(151)	(166)	(480)
Written back on disposals	–	–	(97)	(933)	(22)	(1,052)
At 31 December 2015	459	509	6,783	4,378	3,677	15,806
CARRYING AMOUNT:						
At 31 December 2015	2,827	526	10,622	12,181	1,652	27,808
COST:						
At 1 January 2016	3,286	1,035	17,405	16,559	5,329	43,614
Additions	23,329	195	191	3,788	348	27,851
Disposals	–	–	–	(1,248)	(30)	(1,278)
At 31 December 2016	26,615	1,230	17,596	19,099	5,647	70,187
ACCUMULATED DEPRECIATION:						
At 1 January 2016	459	509	6,783	4,378	3,677	15,806
Charge for the year	238	421	2,762	2,600	821	6,842
Written back on disposals	–	–	–	(30)	(21)	(51)
At 31 December 2016	697	930	9,545	6,948	4,477	22,597
CARRYING AMOUNT:						
At 31 December 2016	25,918	300	8,051	12,151	1,170	47,590

13 INTANGIBLE ASSETS

	Customer relationships RMB'000	Patents RMB'000	Software RMB'000	Total RMB'000
COST:				
At 1 January 2015	3,300	—	184	3,484
Additions through acquisition of a subsidiary	1,790	3,000	—	4,790
Additions	—	—	158	158
Written-off	(90)	—	—	(90)
At 31 December 2015 and 1 January 2016	5,000	3,000	342	8,342
Additions	—	—	74	74
At 31 December 2016	5,000	3,000	416	8,416
ACCUMULATED AMORTISATION:				
At 1 January 2015	220	—	78	298
Charge for the year	1,128	261	53	1,442
Written-off	(90)	—	—	(90)
At 31 December 2015 and 1 January 2016	1,258	261	131	1,650
Charge for the year	1,227	391	74	1,692
At 31 December 2016	2,485	652	205	3,342
CARRYING AMOUNT:				
At 31 December 2016	2,515	2,348	211	5,074
At 31 December 2015	3,742	2,739	211	6,692

The amortisation charge for the year is included in "cost of sales and services" in the consolidated statement of profit or loss.

14 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of subsidiaries	Place and date of establishment	Registered and paid up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
Shijiazhuang Qiushi Communication Facilities Co., Ltd. (石家莊求實通信設備有限公司)*	The PRC 25 March 1999	RMB30,180,000	100%	–	100%	Installation and sale of low-voltage system equipment and related accessories
Hebei Changtong Communication Engineering Co., Ltd. (河北昌通通信工程有限公司)*	The PRC 22 June 2001	RMB50,000,000	100%	–	100%	Design, deployment and maintenance of underground optical fibers
Beijing U-Ton Teda Electrical New Technology Development Co., Ltd. (北京優通泰達電氣新技術發展有限公司)*	The PRC 22 January 2007	RMB30,000,000	100%	–	100%	Design, deployment and maintenance of underground optical fibers
Hebei Haizhi Data Technology Co.,Ltd. (河北海智數據科技有限公司)*	The PRC 24 May 2007	RMB6,100,000	100%	–	100%	Design, deployment and maintenance of underground optical fibers
Chengdu Hop Environmental Protection Technology Co. Ltd. (成都昊普環保技術有限公司)*	The PRC 13 August 2010	RMB8,000,000	51%	–	51%	Provision of environment protection related services
Hunan Sancheng Communication Construction Co., Ltd. (湖南三成通信建設有限公司)*	The PRC 10 May 2012	RMB5,000,000	51%	–	51%	Design, deployment and maintenance of underground optical fibers

* The English translation of the names are for reference only. The official names of these entities are in Chinese.

The directors of the Company consider that the Group's non-controlling interests are not material to the consolidated financial statements for the years ended 31 December 2016 and 2015.

15 GOODWILL

	RMB'000
Cost:	
At 1 January 2015	36,423
Additions	1,113
At 31 December 2015, 1 January 2016 and 31 December 2016	37,536
Accumulated impairment losses:	
At 1 January 2015, 31 December 2015 and 1 January 2016	—
Impairment losses (Note 6)	(4,767)
At 31 December 2016	(4,767)
Carrying amount:	
At 31 December 2016	32,769
At 31 December 2015	37,536

Impairments tests for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill has been allocated to the following cash generating units ("CGUs") identified according to the location of operations and major type of services as follows:

	Note	**2016** **RMB'000**	2015 RMB'000
Installation and sale of low-voltage system equipment operations located in:			
Shijiazhuang, the PRC	(i)	**30,099**	30,099
Sichuan Province, the PRC	(ii)	**—**	4,767
Design, deployment and maintenance of optical fibers operations located in:			
Hebei Province, the PRC	(iii)	**2,343**	2,343
Hunan Province, the PRC	(iii)	**327**	327
		32,769	37,536

15 GOODWILL *(Continued)*

(i) The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 0% to 3% (2015: 0% to 3%). The growth rate used does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 18% (2015: 18%). The discount rate used is pre-tax and reflect specific risks relating to the relevant segment.

(ii) The impairment loss recognised during the year relates to the Group's installation and sale of low-voltage equipment system operations located in Sichuan Province, the PRC. The directors of the Company consider the future growth of this operation may not meet the previous expectations.

(iii) The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated without any growth. The cash flows are discounted using discount rates of 20% (2015: 20%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

16 AVAILABLE-FOR-SALE FINANCIAL ASSETS/PREPAYMENTS FOR INVESTMENTS IN FINANCIAL ASSETS

	Note	2016 RMB'000	2015 RMB'000
Available-for-sale financial assets included in non-current assets:			
Unlisted equity securities, at cost			
Investment in Hebei Huaxun	(i)	**13,916**	13,916
Investment in Sino Partner	(ii)	**64,110**	—
Investment in Tian Bao	(iii)	**10,000**	—
		88,026	13,916
Less: impairment losses (Note 6)	(iv)	**(1,428)**	(1,428)
		86,598	12,488
Available-for-sale financial assets included in current assets:			
Wealth management products		**—**	20,000
Prepayments for investments in financial assets		**16,790**	—

Notes:

(i) Pursuant to an equity purchase agreement dated 3 December 2014, the Group was to acquire the 51% equity interests in Hebei Huaxun Weitong Internet Intergration Co., Ltd. (河北華訊微通網絡集成有限公司) ("Hebei Huaxun"). However, as the vendor was subsequently unable to fulfil certain conditions as stipulated in the agreement, the transaction did not proceed as planned. The original consideration, net of impairment loss, of RMB12,488,000 and the consideration payable of the same amount were recognised as available-for-sale financial assets and other payables in the Group's consolidated financial statements. The directors of the Company confirm that they are in negotiations with the vendor to terminate the agreement, and hence the transaction.

(ii) In June 2016, the Company issued 80,000,000 ordinary shares (Note 29(c)(i)) to acquire 5.65% equity interests in Sino Partner Global Limited ("Sino Partner"), a company engaged in the design, development, manufacturing and sale of high performance supercars under the brand "Apollo".

(iii) In January 2016, the Company acquired 10% equity interests of Tian Bao Fortune Equity Investment Fund (Shanghai) Co., Ltd., (天寶財富股權投資基金（上海）有限公司) ("Tian Bao") a fund established to invest in government infrastructure projects carried out in Hebei Province, with a cash consideration of RMB10,000,000.

The directors of the Company consider the fair values of the aboves unquoted equity investments cannot be measured reliably and hence, they are measured at cost less impairment losses.

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2016	2015
	RMB'000	RMB'000
Optical fibers deployment services related materials	**6,744**	3,683
Low-voltage system equipment and related accessories	**4,715**	3,336
	11,459	7,019

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss during the year is as follows:

	2016	2015
	RMB'000	RMB'000
Carrying amount of inventories sold	**34,412**	67,814

18 TRADE AND BILL RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade and bill receivables - current portion	**199,741**	203,139
Less: allowance for doubtful debts	**(47,446)**	(6,300)
	152,295	196,839
Trade receivables - non-current portion	**7,933**	7,279
	160,228	204,118

The amount of trade receivables expected to be recovered or recognised as expenses after more than one year is RMB7,933,000 (2015: RMB7,279,000). All of the other trade and bill receivables are expected to be recovered or recognised as expenses within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bill receivables, based on the invoice date and net of allowance of doubtful debts, is as follows:

	2016 RMB'000	2015 RMB'000
Within 90 days	**53,444**	109,956
91 to 180 days	**23,784**	25,812
181 to 365 days	**20,998**	20,175
Over 1 year	**62,002**	48,175
	160,228	204,118

The credit period of individual customer is considered on a case-by-case basis. Further details on the Group's credit policy are set out in Note 30(a).

18 TRADE AND BILL RECEIVABLES *(Continued)*

(b) Impairment of trade and bill receivables

Impairment losses in respect of trade and bill receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bill receivables directly (Note 2(l) (i)).

The movements in the allowance for doubtful debts during the year are as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**6,300**	4,690
Impairment losses recognised (Note 6)	**41,146**	1,495
Uncollectible amounts written off	**—**	115
At 31 December	**47,446**	6,300

At 31 December 2016, trade and bill receivables of RMB91,432,000 (2015: RMB6,300,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered.

18 TRADE AND BILL RECEIVABLES *(Continued)*

(c) Trade and bill receivables that are not impaired

The ageing analysis of trade and bill receivables that are neither individually nor collectively considered to be impaired are as follows:

	2016	2015
	RMB'000	RMB'000
Neither past due nor impaired	**17,978**	10,586
Within 90 days past due	**48,041**	110,866
91 to 180 days past due	**22,722**	25,673
181 to 365 days past due	**11,748**	18,109
Over 1 year past due	**15,753**	31,605
	98,264	186,253
	116,242	196,839

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

Receivables that were past due but not impaired mainly relate to state-owned telecommunication network and equipment operators that are in sound financial positions and have good track records with the Group. Based on past experience, the directors of the Company believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(d) Retentions receivable

The amount of retentions receivable from customers, recorded within "trade and bill receivables" at 31 December 2016 is RMB10,045,000 (2015: RMB10,586,000). The amount of those retentions receivables expected to be recovered after more than one year is RMB4,916,000 (2015: RMB7,716,000).

19 AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2016 RMB'000	2015 RMB'000
Contracts in progress at 31 December:		
Contract costs incurred plus recognised profits less losses	**786,362**	739,818
Less: progress billings	**(280,543)**	(162,209)
	505,819	577,609

As at 31 December 2016, the amounts due from customers for contract work represented the unbilled contract revenue of uncompleted projects, which included an aggregate amount of RMB319,732,000 (2015: RMB355,457,000) due from stated-owned telecommunication operators in the PRC. The directors of the Company confirm that the above unbilled contract work are generally parts of larger scale projects undertaken by the owners, and consider it is the general practice within the construction industry in the PRC in which the owners will usually accept the contractors, such as the Group, to issue billings upon the completion of the larger scale projects. The directors of the Company confirm that they are in negotiations with the various owners and expect a substantial portion of the above contract work to be billed within one year.

20 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Note	2016 RMB'000	2015 RMB'000
Amounts due from Nanjing Newlixon and Newlixon NCEH	(a)	**88,833**	25,281
Loans to third parties	(b)	**53,390**	—
Prepayments for inventories		**64,928**	10,117
Deposits for construction contracts' bidding and performance		**48,410**	10,318
Others		**48,073**	61,685
		303,634	107,401
Less: allowance for doubtful debts	(c)	**(42,326)**	—
		261,308	107,401

All of the other receivables, deposits and prepayments are expected to be recovered or recognised as expenses within one year.

20 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Notes:

(a) As mentioned in Notes 2(a) and 31, Nanjing Newlixon was acquired by the Group in May 2015 and subsequently disposed of in March 2016. The balance at 31 December 2016 comprised advances to Nanjing Newlixon and Newlixon NCEH by the Group with an aggregate principal of RMB65,133,000 and consideration receivable on the Group's disposal of Nanjing Newlixon of RMB23,700,000, in which the balances of RMB5,400,000 and RMB23,700,000 were determined to be impaired, respectively. The directors of the Company confirm that they are in negotiations with both Nanjing Newlixon and Newlixon NCEH in recovering the remaining balance.

(b) In January 2016, the Group granted a loan to Tian Bao with principal amount of RMB35,500,000. The loan is guaranteed by another third party, non-interest bearing and is payable on 30 June 2017.

In May 2016, the Group granted a loan to a third party with principal amount of RMB17,890,000. The loan is unsecured, bears interest at 15% per annum and is repayable on demand.

(c) Movements of allowance for doubtful debts are set out as follows:

	2016	2015
	RMB'000	RMB'000
Balance at 1 January	**—**	—
Impairment losses recognised (Note 6)	**42,326**	—
Balance at 31 December	**42,326**	—

21 RESTRICTED BANK DEPOSITS

Restricted bank deposits were used to secure the Group's bank borrowings. These bank deposits will be released upon the repayment of the relevant bank borrowings as set out in Note 24.

22 CASH AT BANK AND ON HAND

	2016	2015
	RMB'000	RMB'000
Cash at bank and on hand	**128,057**	63,595

The Group's operations in the PRC (excluding Hong Kong) are conducted in RMB. RMB is not a freely convertible currency and the remittance of RMB out of the PRC (excluding Hong Kong) is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

23 TRADE AND OTHER PAYABLES

	Note	2016 RMB'000	2015 RMB'000
Trade payables due to third parties		**212,850**	178,716
Other payables and accrued expenses:			
– payables for employee related costs		**22,117**	17,738
– other taxes payables		**24,253**	29,635
– payables for interest expenses		**12,657**	8,563
– payables for acquisition of available-for-sale financial assets	16(i)	**12,488**	12,488
– amounts due to non-controlling equity holders	(i)	**5,604**	4,628
– amounts due to related parties	(i)	**575**	1,500
– others		**24,638**	26,827
		102,332	101,379
Financial liabilities measured at amortised cost		**315,182**	280,095
Receipts in advance from customers		**594**	18
		315,776	280,113

Note:

(i) The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

At 31 December 2016, all of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
Within 90 days	**169,199**	119,746
91 to 180 days	**15,395**	15,910
181 to 365 days	**7,380**	32,044
Over 1 year	**20,876**	11,016
	212,850	178,716

24 BANK AND OTHER BORROWINGS

(a) The Group's short-term bank and other borrowings are analysed as follows:

	2016 RMB'000	2015 RMB'000
Secured by bank deposits (Note 24(c))	**173,330**	136,041
Guaranteed by directors of the Company (Note 24(c))	**22,945**	25,000
Unguaranteed and unsecured	**40,000**	25,000
	236,275	186,041
Add:current portion of long-term bank and other borrowings (Note 24(b))	**1,000**	—
	237,275	186,041

(b) The Group's long-term bank and other borrowings are analysed as follows:

	2016 RMB'000	2015 RMB'000
Guaranteed by directors of the Company (Note 24(c))	**50,000**	—
Unguaranteed and unsecured	**84,726**	—
	134,726	—
Less: current portion of long-term bank and other borrowings (Note 24(a))	**(1,000)**	—
	133,726	—

24 BANK AND OTHER BORROWINGS *(Continued)*

The Group's long-term bank and other borrowings are repayable as follows:

	2016	2015
	RMB'000	RMB'000
Within 1 year or on demand	**1,000**	—
After 1 year but within 2 years	**59,628**	—
After 2 years but within 5 years	**74,098**	—
After 5 years	**—**	—
	134,726	—

(c) As at 31 December 2016, bank borrowings of RMB173,330,000 (2015: RMB136,041,000) are secured by bank deposits of RMB170,697,000 (2015: RMB136,885,000) (Note 21). Bank borrowings of RMB72,945,000 (2015: RMB25,000,000) are secured by personal guarantee from Mr. Jiang Chanqing, the controlling shareholder (the "Controlling Shareholder") and director of the Company, and Ms. Guo Aru, a director of the Company.

(d) At 31 December 2016, the Group's banking facilities amounted to RMB364,791,000 (2015: RMB334,791,000) were utilised to the extent of RMB176,670,000 (2015: RMB211,500,000).

(e) Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 30(b). At 31 December 2016, none of the covenants relating to the bank loans had been breached (2015: None).

25 CORPORATE BONDS

In 2016, the Group issued unsecured corporate bonds with an aggregate principal amount of HK$36,000,000 (equivalent to approximately RMB31,000,000) (2015: HK$153,000,000, equivalent to approximately RMB121,664,000). The bonds issued in 2016 will mature in 2 to 7.5 years from the respective dates of issuance (2015: 2 to 7.5 years) and bear interest at 6.5% to 7% per annum payable annually (2015: 6.5% to 7% per annum payable annually). The movements of the corporate bonds are as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**147,355**	42,927
Net proceeds received	**25,339**	102,000
Repayments during the year	**(6,583)**	(7,892)
Finance charges accrued for the year (Note 7(a))	**18,726**	10,835
Interests paid during the year	**(13,626)**	(8,573)
Exchange adjustments	**19,214**	8,058
At 31 December	**190,425**	147,355
Less: amounts repayable within one year	**(3,578)**	(6,471)
Amounts repayable after one year	**186,847**	140,884

26 CONVERTIBLE BONDS

On 7 June 2016, the Company issued convertible bonds with an aggregate principal amount of HK$50,000,000 (equivalent to approximately RMB42,240,000), interest bearing at 8.0% per annum and maturing on 7 June 2018 to Chance Talent Management Limited. The convertible bonds are guaranteed by the Controlling Shareholder.

26 CONVERTIBLE BONDS *(Continued)*

Upon issuance, the bond will at the option of the holder be convertible on or after 7 June 2017 until and including 5 business days before 7 June 2018 into fully paid ordinary shares in the Company at an initial conversion price of HK$1.00 per share (i.e. the conversion option). The conversion option is classified as derivative financial instrument and has been included in the balance of convertible bonds in the consolidated statement of financial position. The convertible bonds are analysed as follows:

	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
At 1 January 2016	—	—	—
Net proceeds recevied	39,313	2,927	42,240
Finance charges accrued for the year (Note 7(a))	2,544	—	2,544
Interest paid during the year	(1,774)	—	(1,774)
Exchange adjustments	2,633	348	2,981
Fair value adjustment to the derivative component (Note 7(a))	—	3,148	3,148
At 31 December 2016	42,716	6,423	49,139

27 GUARANTEED NOTES

In May 2016, the Company issued guaranteed notes with an aggregate principal amount of HK$50,000,000 (equivalent to approximately RMB42,005,000). The guaranteed notes will mature in May 2018 and bear interest at 11% per annum payable semi-annually. The guaranteed notes are guaranteed by the Controlling Shareholder.

The movements of the guaranteed notes during the year are as follows:

	2016 RMB'000
At 1 January	—
Net proceeds received	41,727
Finance charges accrued for the year (Note 7(a))	3,120
Interest paid during the year	(2,439)
Exchange adjustments	2,724
At 31 December	45,132

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2016 RMB'000	2015 RMB'000
At 1 January	**27,338**	22,370
Provision for the year (Note 8(a))	**4,907**	17,294
Income and withholding taxes paid	**(10,484)**	(12,326)
As 31 December	**21,761**	27,338

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Assets			Liabilities	
	Impairment losses on trade receivables RMB'000	Undistributed accumulated profits of the PRC entities from 1 January 2008 RMB'000	Others RMB'000	Fair value adjustments on intangible assets and related amortisation RMB'000	Net RMB'000
At 1 January 2015	352	(9,023)	42	(770)	(9,399)
Additions through acquisition of a subsidiary	—	—	—	(718)	(718)
Credited/(charged) to the consolidated statement of profit or loss (Note 8(a))	179	9,023	(42)	273	9,433
At 31 December 2015	531	—	—	(1,215)	(684)
Credited to the consolidated statement of profit or loss (Note 8(a))	459	—	—	309	768
At 31 December 2016	990	—	—	(906)	84

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised: *(Continued)*

	2016	2015
	RMB'000	RMB'000
Deferred tax assets recognised in the consolidated statement of financial position	**990**	531
Deferred tax liabilities recognised in the consolidated statement of financial position	**(906)**	(1,215)
	84	(684)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(u), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB54,435,000 at 31 December 2016 (2015: RMB18,659,000), as it is not probable that future taxable profits against which the losses and temporary differences can be utilised will be available in the relevant tax jurisdictions and entities.

(d) Deferred tax liabilities not recognised

At 31 December 2016, temporary differences relating to the undistributed profits of certain subsidiaries of the Group established in the PRC (excluding Hong Kong) amounted to RMB31,998,000 (2015: RMB91,439,000). Deferred tax liabilities of RMB3,200,000 (2015: RMB9,144,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (Note 29(c))	Share premium RMB'000 (Note 29(d) (i))	Retained Profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2015	143,139	100,179	24,680	267,998
Changes in equity for 2015:				
Loss and total comprehensive income for the year	—	—	(7,695)	(7,695)
Dividends paid in respect of the previous year (Note 29(b) (ii))	—	—	(13,869)	(13,869)
At 31 December 2015	143,139	100,179	3,116	246,434
At 1 January 2016	**143,139**	**100,179**	**3,116**	**246,434**
Changes in equity for 2016:				
Loss and total comprehensive income for the year	**—**	**—**	**(54,522)**	**(54,522)**
Issuance of shares (Note 29(c) (i))	**11,103**	**93,266**	**—**	**104,369**
At 31 December 2016	**154,242**	**193,445**	**(51,406)**	**296,281**

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year.

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: RMBNil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2016	2015
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year (2015: HK$1.0 cent per share)	—	13,869

(c) Share capital

	Number of shares '000	**HK$'000**
Authorised:		
Ordinary shares of HK$0.10 each	4,000,000	400,000

	Number of shares '000	**RMB'000**
Issued and fully paid:		
At 1 January 2015, 31 December 2015, 1 January 2016	1,757,620	143,139
Shares issued (Note (i))	130,000	11,103
At 31 December 2016	1,887,620	154,242

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital *(Continued)*

Note:

(i) On 11 February 2016, the Company issued 50,000,000 ordinary shares at HK$1.0 per share. The Company received net proceeds of approximately HK$47,821,000 (equivalent to approximately RMB40,259,000), of which HK$5,000,000 (equivalent to approximately RMB4,209,000) was credited to share capital and HK$42,821,000 (equivalent to approximately RMB36,050,000) was credited to share premium account.

On 6 July 2016, the Company issued 80,000,000 ordinary shares in exchange for 5.65% equity interests in Sino Partner (Note 16(ii)). The consideration and proceeds of HK$74,400,000 (equivalent to approximately RMB64,110,000) were determined based on the closing price of the Company's shares on the Stock Exchange on 6 July 2016 of the proceeds, HK$8,000,000 (equivalent to approximately RMB6,894,000) was credited to share capital and HK$66,400,000 (equivalent to approximately RMB57,216,000) was credited to the share premium account.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

(ii) Other reserve

Other reserve represents the contribution from the equity owners in connection with the group restructuring took place during the listing of the Company's shares in 2012.

(iii) Statutory reserve

In accordance with the articles of association of the subsidiaries of the Group established in the PRC (excluding Hong Kong), these subsidiaries were required to set up a statutory reserve, which was non-distributable. The transfers of this reserve are at discretion of the directors of the respective subsidiaries. The reserve are utilised for predetermined means upon approval by the relevant authority.

(iv) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(x).

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher equity shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bank and other borrowings, corporate bonds, convertible bonds and guaranteed notes) less cash at bank and on hand and restricted bank deposits. Capital comprises all components of equity.

During 2016, the Group's strategy was to maintain the adjusted net debt-to-capital ratio at an acceptable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt.

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Capital management *(Continued)*

The Group's adjusted net debt-to-capital ratio at 31 December 2016 and 2015 was as follows:

	2016	2015
	RMB'000	RMB'000
Current liabilities:		
Bank and other borrowings	**237,275**	186,041
Corporate bonds	**3,578**	6,471
	240,853	192,512
Non-current liabilities:		
Bank and other borrowings	**133,726**	—
Corporate bonds	**186,847**	140,884
Convertible bonds	**49,139**	—
Guaranteed notes	**45,132**	—
Total debt	**655,697**	333,396
Less: Cash at bank and on hand	**(128,057)**	(63,595)
Restricted bank deposits	**(170,697)**	(136,885)
Adjusted net debt	**356,943**	132,916
Total equity	**432,633**	587,105
Adjusted net debt-to-capital ratio	**83%**	23%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and bill receivables, amounts due from customers for contract work and other receivables. Management has a credit policy in place and the exposure to these credit risks are monitored on an ongoing basis.

In respect of the trade and bill receivables, amounts due from customers for contract work and other receivables, individual credit evaluations are performed on all customers and debtors. These evaluations focus on the customer's and debtor's past history of making payments when due and current ability to pay, and take into account information specific to the customers and debtors as well as pertaining to the economic environment in which the customers and debtors operate. The Group generally requires customers and debtors to settle progress billings and retentions receivable in accordance with contracted terms and other debts in accordance with agreements. Trade and bill receivables for contract work are considered past due once billings have been made. Retention terms of one to two years may be granted to customers and debtors for retentions receivable. Normally, the Group does not obtain collateral from customers and debtors.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or debtor rather than the industry or country in which the customers and debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers and debtors. At 31 December 2016, 52% (2015: 47%) and 66% (2015: 68%) of the total trade and bill receivables, amounts due from customers for contract work and other receivables were due from the Group's largest debtor and five largest debtors, respectively.

The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bill receivables, amounts due from customer for contract work and other receivables are set out in Notes 18, 19 and 20.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk

The Company is responsible for the Group's overall cash management and the raising of borrowings to cover expected cash demands. The Group's policy is to regularly monitor its current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirement in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2016 Contractual undiscounted cash outflow						2015 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade and other payables measured at amortised cost	315,182	–	–	–	315,182	315,182	280,095	–	–	–	280,095	280,095
Bank and other borrowings	248,937	65,531	82,182	–	396,650	371,001	189,413	–	–	–	189,413	186,041
Corporate bonds	18,170	37,598	88,803	136,523	281,094	190,425	18,747	15,938	74,752	137,314	246,751	147,355
Convertible bonds	3,578	46,515	–	–	50,093	49,139	–	–	–	–	–	–
Guaranteed notes	4,920	47,185	–	–	52,105	45,132	–	–	–	–	–	–
At 31 December 2016	590,787	196,829	170,985	136,523	1,095,124	970,879	488,255	15,938	74,752	137,314	716,259	613,491

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank and other borrowings, corporate bonds, convertible bonds and guaranteed notes. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period.

	2016		2015	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank and other borrowings	**2.38%-7.70%**	**292,275**	2.59%~10.50%	161,250
Corporate bonds	**5.27%~13.36%**	**190,425**	10.00%~11.91%	147,355
Convertible bonds-liability component	**12.00%**	**42,716**	—	—
Guaranteed notes	**11.38%**	**45,132**	—	—
		570,548		308,605
Variable rate borrowings:				
Bank and other borrowings	**3.25%~5.66%**	**78,726**	1.04%~1.09%	24,791
Total borrowings		**649,274**		333,396
Fixed rate borrowings as a percentage of total borrowings		**88%**		93%

(ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after tax and decreased/increased the Group's retained profits by approximately RMB692,400 (2015: decreased/increased the Group's profit after tax and decreased/increased the Group's retained profits by approximately RMB210,000).

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative financial instruments held by the Group at the end of the reporting period. The impact on the Group's results after tax and retained profits is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2015.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk

(i) Exposure to currency risk

The following table details the group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the group's presentation currency are excluded.

	Exposure to foreign currencies (expressed in RMB)			
	2016		2015	
	USD RMB'000	**HKD RMB'000**	USD RMB'000	HKD RMB'000
Cash at bank and on hand	**1,920**	**16,450**	363	4,934
Trade and bill receivables	**8,373**	**—**	—	—
Other receivables, deposits and prepayments	**684**	**19,698**	—	12,541
Trade and other payables	**(2,681)**	**(9,620)**	—	(10,176)
Bank and other borrowings	**—**	**(53,671)**	—	(24,791)
Corporate bonds	**—**	**(190,425)**	—	(147,355)
Convertible bonds	**—**	**(49,139)**	—	—
Guaranteed notes	**—**	**(45,132)**	—	—
Net exposure arising from recognised assets and liabilities	**8,296**	**(311,839)**	363	(164,867)

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Currency risk *(Continued)*

(ii) Foreign currency sensitivity

The following table indicates the instantaneous change in the group's profit/loss after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2016		2015	
	Increase/ (decrease) in foreign exchange rates	**Decrease/ (increase) in loss after tax and increase/ (decrease) in retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and increase/ (decrease) in retained profits RMB'000
USD	**5%**	**(370)**	5%	(17)
HKD	**5%**	**13,018**	5%	6,883

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Fair value

(i) Fair value hierarchy

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

– Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Fair value *(Continued)*

(i) Fair value hierarchy *(Continued)*

	Fair value measurements as at 31 December 2016 categorised into Level 2 RMB'000
Recurring fair value measurements	
Liabilities:	
Convertible bonds	
– derivative component	6,423

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

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of the conversion option in Level 2 is mainly determined by the risk free rate, current share price, and volatility. The risk free rate used is consist with the rate used in straight bond valuation, and the volatility used is derived from historical share price of the Company over the most recent period commensurate with that of the convertible bonds.

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

The Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2016 and 2015.

31 DISPOSAL OF A SUBSIDIARY

In May 2015 the Group acquired 90% equity interests in Nanjing Newlixon and that subsequent to this acquisition, the Group and Newlixon NCEH had disagreements in different areas including business development strategy, business revenue model and allocation of resources. As mentioned in Note 2(a), given these circumstances, the directors of the Company had planned the disposal of the Group's 90% equity interests in Nanjing Newlixon to the Newlixon NCEH prior to 31 December 2015. As at 31 December 2015, cost of investment in Nanjing Newlixon was classified as "assets held-for-sale" and the related liability was classified as "liabilities held-for-sale" in the consolidated statement of financial position.

In March 2016, the Group entered into an agreement with the Newlixon NCEH to dispose of its 90% equity interests in Nanjing Newlixon (the "Disposal"). The Disposal was completed on 31 March 2016. Upon the completion of the Disposal, the Group recognised a disposal gain of RMB37,700,000 in the consolidated statement of profit or loss for the year ended 31 December 2016, being the difference between the consideration received/receivable of RMB52,700,000 and the original cost of the investment in Nanjing Newlixon of RMB15,000,000. Pursuant to the above equity transfer agreement, the consideration of RMB52,700,000 will be settled by off-setting the liabilities owed to the Newlixon NCEH by the Group of RMB11,000,000 (classified as liabilities held-for-sale as at 31 December 2015) and cash consideration of RMB41,700,000. The Group had received RMB18,000,000 in 2016, and the remaining consideration receivable of RMB23,700,000 was included in "other receivables, deposits and prepayments" in the consolidated financial statements as at 31 December 2016. As at 31 December 2016, the directors of the Company consider the Group is unlikely to recover the remaining proceeds of RMB23,700,000, and accordingly, an impairment loss of the same amount was recognised in 2016. In March 2017, the Group, Nanjing Newlixon and Newlixon NCEH entered into a supplemental agreement to adjust the consideration of the Disposal downwards by RMB23,700,000.

32 RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the material related party transactions entered into by the Group during the year are set out below.

(a) Transactions with the Controlling Shareholder and his affiliates

	2016	2015
	RMB'000	RMB'000
Net increase/(decrease) in non-interest bearing advances received from related parties	**(925)**	1,500

Further details on guarantees provided by the Controlling Shareholder for the Group's bank and other borrowings, convertible bonds and guarantee notes are disclosed in Note 24(c), 26 and 27.

32 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 9 and certain of the highest paid employees of the Group as disclosed in Note 10, is as follows:

	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	**3,686**	8,877
Retirement schemes contributions	**22**	19
	3,708	8,896

Total remuneration is included in "employee costs" (see Note 7(b)).

(c) Applicability of the Listing Rules relating to connected transactions

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

33 COMMITMENTS

(a) Operating lease commitments

At the end of the year, the Group had future minimum lease payments under non-cancelable operating leases are payable as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**3,866**	5,325
In the second to fifth year inclusive	**4,337**	3,856
Over five years	**5,100**	5,467
	13,303	14,648

The Group is the lessee in respect of a number of properties and sewers held under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease when all terms are renegotiated. Incremental adjustments are made to the lease payments annually to reflect market conditions. None of the leases includes contingent rentals.

34 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investment in a subsidiary, at cost		**47,004**	47,004
Amounts due from subsidiaries		**323,281**	230,000
Available-for-sale financial assets	16(ii)	**64,110**	—
		434,395	277,004
Current assets			
Other receivables, deposits and prepayments		**42,650**	30,497
Amounts due from subsidiaries		**105,880**	89,211
Cash at bank and on hand		**16,450**	4,934
		164,980	124,642
Current liabilities			
Trade and other payables		**9,295**	7,699
Amounts due to subsidiaries		**158**	158
Bank and other borrowings		**8,945**	—
Corporate bonds	25	**3,578**	6,471
		21,976	14,328
Net current assets		**143,004**	110,314
Total assets less current liabilities		**577,399**	387,318
Non-current liabilities			
Corporate bonds	25	**186,847**	140,884
Convertible bonds	26	**49,139**	—
Guaranteed notes	27	**45,132**	—
		281,118	140,884
NET ASSETS		**296,281**	246,434
Capital and reserves	29		
Share capital		**154,242**	143,139
Reserves		**142,039**	103,295
TOTAL EQUITY		**296,281**	246,434

Jiang Changqing
Chairman and Executive Director

Li Qingli
Executive Director

35 EVENT AFTER THE END OF THE REPORTING PERIOD

(a) Issuance of convertible bonds and guaranteed notes

On 18 January 2017, the Company announced the issuance of convertible bonds and guaranteed notes to independent third parties with principal amount of USD10,000,000 each. The issuance of both the convertible bonds and guaranteed notes were completed on 9 February 2017.

(b) Potential acquisition of 10% equity interests of a third party company

On 12 December 2016, the Company announced that it entered into a non-legally binding memorandum of understanding with a state-owned environmental protection company (the "Target Company"), pursuant to which the Group may acquire up to 10% equity interests in the Target Company with a consideration estimated to be approximately RMB100,000,000. Up to the date of issuance of these financial statements, the above transaction was yet to be finalised.

36 COMPARATIVE FIGURES

Certain additional information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance had been presented for the year ended 31 December 2016. Accordingly, certain comparative figures have been adjusted to conform to current year's presentation. Further details are set out in Note 4(a). In addition, certain classification adjustments have been made to the comparative figures to conform to the current year's presentation.

37 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2016, the directors consider the immediate parent and ultimate holding company of the Group to be Bright Warm Limited, which is incorporated in British Virgin Islands. This entity does not produce financial statements available for public use.

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

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

	Effective for accounting periods beginning on or after
Amendments to IAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to IAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 16, *Leases*	1 January 2019

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

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

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: *Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI") as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the preliminary assessment, with respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group may classify as either FVTPL or irrevocably elect to designate as FVTOCI (without recycling) on transition to IFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as FVTOCI or classify them as FVTPL. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group's accounting policies set out in Note 2. This change in policy will have no impact on the Group's net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share.

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

(b) Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses on the Group's trade receivables and other financial assets. However, a more detailed analysis is required to determine the extent of the impact.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. Based on the preliminary assessment, the Group has identified the following areas which are likely to be affected.

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in Note 2(w). Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(i) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(ii) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(iii) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

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

IFRS 15, Revenue from contracts with customers *(Continued)*

(a) Timing of revenue recognition *(Continued)*

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that once the Group adopts IFRS 15 some of the Group's contract activities that are currently recognised at a point in time may meet the IFRS 15 criteria for revenue recognition over time. This will depend on the terms of the sales contract and the enforceability of any specific performance clauses in that contract. It is also possible that for the remainder of the Group's contracts the point in time when revenue is recognised may be earlier or later than under the current accounting policy. However, further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

(b) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

The Group is in the process of making an assessment of the impact of the financing components with its customers.

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

IFRS 16, Leases

As disclosed in Note 2(k), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once iFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 33, at 31 December 2016 the Group’s future minimum lease payments under non-cancellable operating leases amount to RMB13,303,000 for properties, plant and equipment, the majority of which is payable between 1 and 5 years after the reporting date or more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

The Group is considering whether to adopt IFRS 16 before its effective date of 1 January 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being 1 January 2018.