Sun.King Power Electronics Group Limited
賽晶電力電子集團有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code:580

Annual Report 2017

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CORPORATE INFORMATION

Executive Directors
Mr. Xiang Jie *(chairman of the Board)*
Mr. Gong Renyuan *(chief executive officer)*
Mr. Yue Zhoumin

Non-executive Directors
Mr. Yan Fuquan (*deputy chairman of the Board*, appointed on 12 October 2017)
Mr. Zhu Ming (appointed on 12 October 2017)
Ms. Zhang Ling (appointed on 4 December 2017)

Independent non-executive Directors
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Wang Yi (resigned on 24 March 2017)
Mr. Leung Ming Shu (appointed on 24 March 2017)
Mr. Zhao Hang (appointed on 4 December 2017)

Authorised representatives
Mr. Yue Zhoumin
Ms. He Lina

Audit committee
Mr. Chen Shimin *(chairman of the audit committee)*
Mr. Zhang Xuejun
Mr. Wang Yi (resigned on 24 March 2017)
Mr. Leung Ming Shu (appointed on 24 March 2017)
Mr. Zhu Ming (appointed on 12 October 2017)

Remuneration committee
Mr. Leung Ming Shu *(chairman of the remuneration committee)*
Mr. Wang Yi (resigned on 24 March 2017)
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Zhao Hang (appointed on 4 December 2017)

Nomination committee
Mr. Zhang Xuejun *(chairman of the nomination committee)*
Mr. Gong Renyuan
Mr. Chen Shimin

Investment committee
Mr. Yan Fuquan *(chairman of the investment committee*, appointed on 12 October 2017)
Mr. Wang Yi (resigned on 24 March 2017)
Mr. Leung Ming Shu (appointed on 24 March 2017)
Mr. Xiang Jie
Mr. Chen Shimin
Mr. Zhang Xuejun
Ms. Zhang Ling (appointed on 4 December 2017)

Joint Company Secretaries
Ms. Mok Ming Wai
Ms. He Lina

Legal advisers
Loeb & Loeb LLP

Auditor
Ernst & Young

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Cayman Islands

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Tianzhu Airport Industrial Zone B
Shunyi District
Beijing
People's Republic of China (the "**PRC**")

Principal place of business in Hong Kong
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1 Matheson Street
Causeway Bay
Hong Kong

Principal share registrar and transfer office
SMP Partners (Cayman) Limited
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24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Branch share registrar and transfer office
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal banks
Bank of China Limited, Jiashan branch
China Construction Bank Corporation, Jiashan branch
China Construction Bank Corporation, Wuxi Xishan branch

Listing exchange information
Place of listing: Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")
Stock code: 580

Company's Website
www.sunking-tech.com

Dear shareholders,

On behalf of the Board (the "**Board**") of directors (the "**Directors**") of Sun.King Power Electronics Group Limited (the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2017.

In 2017, the Group's business results continued their rapid growth. In 2017, the Group's sales revenue amounted to RMB1,155.4 million, representing an increase of 34.8% compared with the same period of 2016; the Group's net profit amounted to RMB203.7 million, representing an increase of 38.7% compared with the same period of 2016.

In 2017, the Group continued to strengthen its management of accounts receivable, operating cash flow remained positive. At the same time, the Group continued to enhance operation efficiency by optimising production process and strengthening cost control measures, resulting in significantly increased gross profit margin.

China and the world are undergoing an energy reform, with large-scale development and the use of clean energy as its key components. The Chinese government has undertaken that clean energy will account for 20% of the country's primary energy consumption by year 2030, and to this end has promoted two major initiatives: "replacement of other energy with clean energy", and "replacement of other energy with electricity". Power electronics play an important role in enhancing high-voltage direct current (HVDC) transmission technology for clean energy distribution capacity, intelligent grid for effective power distribution, and emerging technologies such as new energy power generation, electrified rails, new energy vehicles, frequency conversion energy saving and defence equipment, and have become the key area for the enhancement and innovation of energy technologies in China. The technological standards and market scale of China's electric power experienced a rapid development in 2017. China maintained its leading position in the magnitude of investment in the HVDC sector. Seven HVDC and Ultra-high-voltage direct current (UHVDC) transmission projects were underway in the country, including the "Changji to Guquan" (昌吉至古泉) project and "Jarud to Qingzhou" (紮魯特至青州) project. Meanwhile, two domestic UHVDC transmission projects, namely, two domestic UHVDC transmission projects, namely, "Shaanbei-Wuhan" (陝北－武漢) project and "Qinghai-Henan" (青海－河南) project, have commenced. For overseas projects, the construction of phase II of "Brazil Meilishan" (巴西美麗山) had began this year. In addition, the State Grid procured two projects, namely, "Matiari-Lahore" in Pakistan (巴基斯坦－墨蒂亞裡至拉合爾) and "Van" in Turkey (土耳其凡城), respectively. As the sole supplier of anode saturation resistors in China and a major supplier of products such as high-voltage power capacitors, the Group provides a strong guarantee for the construction of the above UHVDC transmission projects. In 2017, China achieved a breakthrough in flexible direct current transmission technologies, and successfully innovated world-leading ±500KV and ±800KV equipment. China's flexible direct current technologies has gained in popularity overseas, with the State Grid procuring a flexible direct current transmission project in Shetland, the United Kingdom. By leveraging its industry-leading technological capabilities and product quality, the Group has become the sole supplier of core components for R&D on the above new equipment. In addition, the "Yu E" (渝鄂) flexible direct current back to back project commenced in 2017, and the Group remained a major supplier of core components of flexible direct current transmission equipment. Taking advantages of the rapid growth of the aforesaid market, the sales revenue of the Group in power transmission and distribution sector recorded a significant increase in 2017. In addition, China has made outstanding achievements in the areas of production and consumption of electric power. China's domestic standardised motor units have been put into operation, and the technological standard and market scale of China's new energy power generation and new energy vehicles have attained world-class levels.

In the industrial and other sectors, the Group maintained its market-leading position in the metal smelting field such as electrolytic aluminium by providing high-power rectification products. Benefiting from market growth, the Group's sales revenue in the metal smelting market increased significantly. Additionally, Jiujiang Sun.king Technology Co., Ltd., a subsidiary of the Group, successfully gained "GJB9001B-2009 National Military Standard under Weapon and Equipment Quality Management System (GJB9001B-2009武器裝備質量管理體系國家軍用標準)" certification.

In 2017, the Group commenced R&D on power electronic capacitor for flexible direct current transmission projects. Leveraging on its excellent R&D capabilities and technologies accumulated over the years, the Group completed the production of the first prototype in March 2018 and is expected to be the first domestic enterprise possessing the technologies for producing high-voltage electric power capacitors for flexible direct current transmission equipment.

In 2017, China High-Tech Holding Company Ltd. and Guojing Capital Limited became the Group's strategic shareholders, laying down a solid foundation for the Group's future sustainable development. The joining of these strategic shareholders will enable the Group to optimise its shareholding and governance structures, expand its technological R&D efforts, accelerate its industrialisation of technological innovation, and further consolidate its technological advantage. Moreover, the Group will be able to enhance its financial operation, increase opportunities for participation in major projects, and explore cooperative channels of cooperation with industry peers – all facilitating the Group's target of pursuing leaping breakthroughs.

Looking forward, China will continue to adhere to the two major initiatives of "replacement of other energy with clean energy" and "replacement of other energy with electricity", and to accelerate energy structure adjustment and technology reform. Under the rapid expansion of the scale of new energy power generation, the power transmission and distribution sector and the technologies and industry of power electronic, represented by the UHVDC transmission, flexible direct current technology and micro-grid technology, will welcome a long term rapid development. Besides, the rapid development in the fields of electrified rails, new energy vehicles and national defense will also bring unprecedented opportunities for the development of the technologies and industry of power electronic.

It is stated in the "Energy Sector Development in the 13th Five-Year Plan" (《電力發展「十三五」規劃》) that the energy transmission capacity of "West-to-East Power Transmission" shall increase by 130 million KW during the "13th Five-Year" period. Between 2016 to the end of 2017, the increased transmission capacity of HVDC transmission amounted to 72 million KW. In addition, to cope with China's "One Belt and One Road" strategy, China has planned for the construction of a number of crossborder UHVDC transmission grid lines. Last but not least, the expansion to overseas grid market of domestic grid companies will benefit the promotion of China's UHVDC transmission technology to overseas markets. Therefore, in the next three years, the potential market demand of UHVDC transmission technology will remain relatively large.

As a new direct current transmission technology, flexible direct current is particularly suitable for the grid connection and efficient transmission of clean energy in large scale, and is particularly suitable for the enhancement of power distribution capabilities among the grids through power grid interconnection. Through self-research and development, China's flexible direct current transmission technology has reached a world-leading level and successfully entered overseas markets. In 2018, the construction of the "500 KV flexible direct current grid project in Zhangbei" (500千伏張北柔性直流電網工程) and the "800 KV direct current project in Wudongde" (800千伏烏東德直流工程) are expected to commence. In the long run, with China's vigorous strategic promotion of clean energy, the market demand for flexible direct current technology will increase rapidly.

The Group supplies a wide range of core devices for HVDC transmission equipment, which have been widely applied in UHVDC projects and flexible direct current transmission projects. The Group will continue to diversify products for the flexible direct current transmission market by launching new products with high technology reliability, in order to grasp the opportunities emerging from the rapid development in flexible direct current transmission market.

As the application of electricity in the field of energy consumption continues to develop, the transportation field – which includes rail transportation, land vehicles, vessels and aircraft – is entering into the development stage of full electrification. New energy vehicles are becoming a focus in the electrification of transportation field, with electrified rail already in widespread use nowadays. According to information published by the China Association of Automobile Manufacturers (CAAM), China's production volume for new energy vehicles reached 794,000 in 2017. Based on the objectives of the "13th Five-Year National Strategic Emerging Industry Development Plan" (《「十三五」國家戰略性新興產業發展規劃》), the sales volume for new energy vehicles will reach 2 million in year 2020. Power electronic devices such as motor controllers, are important and necessary components of new energy vehicles. With the significant growth in the sales volume of new energy vehicles, the demand for various types of power electronic components used in new energy vehicles shall grow in line.

As an industry-leading power electronic components and solutions provider, the Group regards the new energy vehicle sector as an important market for the Company's long-term development. In addition to our laminated busbars that have achieved outstanding results in the new energy vehicle sector, the Group plans to develop and promote a number of new products for the new energy vehicle sector including digital IGBT drivers and power electronic capacitors in 2018.

As one of the fundamental technologies for highly efficient energy consumption, power electronics technology has a wide range of application and great potential for further innovation and development in different fields of manufacturing and living. The Group is committed to developing a world-leading R&D capability. With the continuous introduction of new technologies and new products, the Group will facilitate the advancement of power technology in China and achieve a rapid growth of the Company's profits.

In respect of internal management, the Group will enhance the recruitment and training of talents and establish a good incentive mechanism. The Group will reinforce its production management to improve operational efficiency. We will continue to improve profitability to maximise the interest of shareholders.

On behalf of the Board, I would like to take this opportunity to thank our shareholders, stakeholders, members of the Board and all our staff for their support and contributions. Together with the management team, I will continue to strive to generate better returns for shareholders.

Xiang Jie
Chairman

Hong Kong, 13 March 2018

BUSINESS REVIEW

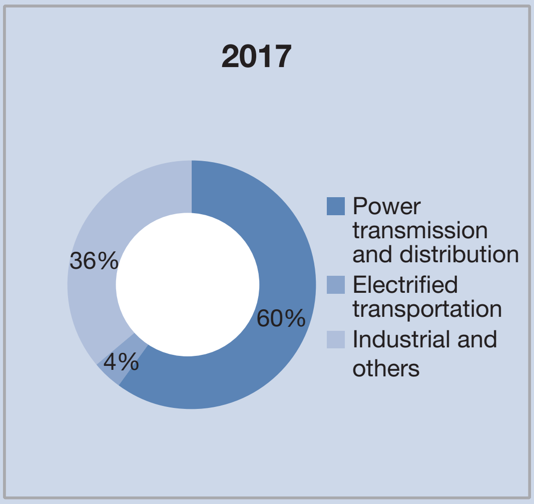
1. Performance of each business sector

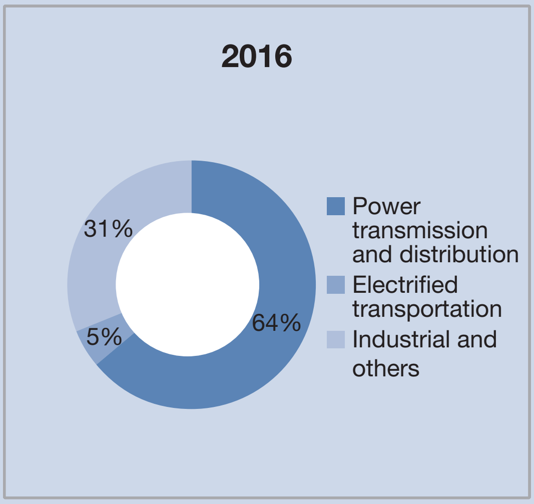
The Group recorded a substantial increase in sales revenues for the power transmission and distribution sector as well as the industrial and other sectors, and a slight increase in sales revenues for the electrified transportation sector.

In 2017, the business performance of each sector of the Group was as follows:

	2017		2016	
	Sales revenue	**Gross profit margin %**	Sales revenue	Gross profit margin %
Power transmission and distribution	**691.4**	**48**	549.8	44
Electrified transportation	**43.7**	**30**	41.1	31
Industrial and others	**420.3**	**28**	266.1	30
Total	**1,155.4**	**Average 40**	857.0	Average 39

In 2017, the proportion of sales revenue for each of the Group's sectors was as follows:





1.1 Power transmission and distribution sector

Market conditions

In 2017, due to the urgent demand for environmental pollution controls, energy transmission in the western region and the establishment of an intelligent grid, China maintained its leading position in magnitude of investment in the high voltage direct current (HVDC) sector. Seven HVDC and ultra-high voltage direct current (UHVDA) transmission projects were underway in the country, including the "Changji to Guquan" (昌吉至古泉) project and "Jarud to Qingzhou" (紮魯特至青州) project, meanwhile, "Shaanbei-Wuhan" (陝北–武漢) project and "Qinghai-Henan" (青海–河南) project, two domestic UHVDC transmission projects, have commenced. For overseas projects, the construction of phase II of "Brazil Meilishan" (巴西美麗山) began in 2017. In addition, the State Grid procured two projects, "Matiari-Lahore" in Pakistan (巴基斯坦－墨蒂亞裡至拉合爾) and "Van" in Turkey (土耳其凡城), respectively. As the sole supplier of anode saturation resistors in China and a major supplier of products such as high-voltage power capacitors, the Group provided a strong guarantee for the construction of the above UHVDC transmission projects.

China has made breakthroughs in the field of flexible direct current transmission as it has successfully developed the world-leading 500 KV flexible direct current converter valve and HVDC circuit breaker, and the world's first 800 KV flexible direct current converter valve. China's flexible direct current technology has gained in popularity overseas, with the State Grid procuring a flexible direct current transmission project in Shetland, UK. By leveraging its industry-leading technological capabilities and quality products, the Group has become the sole supplier of core components for R&D on the above new equipment. In addition, the "Yu E" (渝鄂) flexible direct current back to back project commenced in 2017, and the Group remained a major supplier of core components of flexible direct current transmission equipment.

Operating results

The power transmission and distribution sector mainly comprises of three parts: UHVDC transmission, flexible direct current transmission, and other types of power transmission and distribution. Results for each part of the Group's power transmission and distribution sector were as follows:

Sales revenue	**2017**	2016	Percentage change
Power transmission and distribution sector	**691.4**	549.8	26%
In which: UHVDC transmission	**473.2**	294.2	61%
flexible direct current transmission	**124.3**	169.4	-27%
Others	**93.9**	86.2	9%

UHVDC transmission sector

During 2017, the Group benefited from the delivery of various UHVDC projects inside and outside China. Sales revenue generated from products such as anode saturation resistors and high-voltage power capacitors saw a sharp increase.

Flexible direct current transmission sector

In 2017, orders for the "Yu E" (渝鄂) direct current back to back project were only partially delivered. Meanwhile, there were also fewer deliveries of such newly developed equipment as 500 KV flexible direct current converter valves, direct current circuit breakers and 800 KV flexible direct current converter valves in 2017. As such, sales revenues from the flexible direct current transmission sector dropped in 2017 compared to the same period of the previous year.

Other business of the power transmission and distribution sector

In 2017, other products and businesses of the Group's power transmission and distribution sector – including high-voltage power capacitors and intelligent grid online monitoring products – generally performed well, with sales revenue increasing slightly compared to the same period of the previous year.

1.2 Electrified transportation sector

The Group considers the electrified transportation sector a major market for its future development, redefining it from "rail transportation sector" of past years to the current "electrified transportation sector". The sector includes various transportation industry related markets such as electric locomotives, electrified rail power supply systems, new energy vehicles and electrified vessels.

Market conditions

With the application of electricity in the field of energy consumption continues to develop, the transportation field – which includes rail transportation, land vehicles, vessels and aircraft – is entering into the development stage of full electrification. New energy vehicles are becoming the focuses in the electrification of transportation field, with electrified rail already in widespread use nowadays. According to information published by the China Association of Automobile Manufacturers (CAAM), China's production volume for new energy vehicles reached 794,000 in 2017. Based on the objectives of the "13th Five-Year National Strategic Emerging Industry Development Plan"(《「十三五」國家戰略新興產業發展規劃》), the sales volume for new energy vehicles will reach 2 million in 2020. Although the China Railway Corporation has started to invite tenders for electric locomotives in early 2017 and the number of procurement of electric locomotives in 2017 were greater than that of the previous year, the overall scale of procurement was still relatively small as compared with the peak period.

Operating results

Results for the Group's electrified transportation sector were as follows:

Sales revenue	**2017**	2016	Percentage change
Electrified transportation sector	**43.7**	41.1	6%
In which: Rail transportation vehicles	**29.4**	21.9	34%
Rail power supply systems	**1.5**	11.0	-86%
New energy vehicles	**12.8**	8.2	56%

Rail transportation vehicles: These were affected by sluggish demand in the electric locomotive market. Despite the significant increase in sales revenue, the overall scale was at a low level. There has not been any significant sales revenue contribution from the domestic standardised motor unit market in China.

Rail power supply systems: The decrease in the number of railway electrification reformation projects has led to a sharp decline in sales revenues. The Group launched a new product – an electrified railway automatic passing intelligent switch – which is currently at the business promotion stage and has yet to making contribution to the sales revenues.

New energy vehicles: Sales revenues increased significantly, benefiting from an increase in new customers and increased orders from existing customers.

1.3 Industrial and other sectors

In industrial and other sectors, the Group maintained its market-leading position in the metallurgy field such as electrolytic aluminium by providing high-power rectification products. Benefiting from market growth, the Group's sales revenue in the metallurgical market increased significantly. Additionally, Jiujiang Sun.king, a subsidiary of the Group, successfully gained "GJB9001B-2009 National Military Standard under Weapon and Equipment Quality Management System (GJB9001B-2009武器裝備品質管制體系國家軍用標準)" certification.

Industrial and other sectors mainly include metal smelting, electrical equipment, new energy power generation, scientific research institutes, and others. Results for the Group's industrial and other sectors for 2017 were as follows:

	2017	2016	Percentage change
Industrial and other sectors	**420.3**	266.1	58%
In which: Metal smelting	**280.8**	151.3	86%
Electrical equipment	**127.9**	89.4	43%
New energy power generation	**8.2**	5.4	52%
Scientific research institutes and others	**3.4**	20.0	-83%

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Metal smelting

Although the metal smelting sector is still suffering from overcapacity, projects of metal smelting enterprises from the newly established production lines located in the western region with a strong cost advantage has increased significantly. In 2017, this led to a notable increase in sales revenues from metal smelting related products, such as those used in high-power rectification and power quality control.

Electrical equipment

In this sector, the Group relied largely on sales of semiconductors from ABB Company of Switzerland. Semiconductors, including thyristors and diodes, are widely used in electrical equipment such as converters, electric motors, welding machines, rectifiers and inverters. Being highly efficient and energy-saving, such devices are important tools in saving electric energy and are achieving flexible control for industrial enterprises. In 2017, the Group's sales revenues from the electric equipment sector increased significantly.

New energy power generation

The Group supplies self-owned products such as laminated busbars and digital IGBT drivers as well as semiconductors from ABB Company of Switzerland to the new energy power generation sector. The above products are core devices for wind power converters and photovoltaic inverters. In 2017, the Group's sales revenues from the new energy power generation sector saw a significant increase.

Scientific research institutes and others

The Group supplies a range of powered electronic products to renowned universities and research institutes around China for widespread application in R&D and experiments of new electric equipment. Subjected to drastic market fluctuations, sales revenues for this sector declined sharply in 2017.

2. R&D

As the Group adheres to its business philosophy of "using scientific and technological innovation to spur development" and its corporate mission of "promoting the improvement in China's electric energy efficiency", it pays great attention to the R&D of new technologies and products. At present, the Group's strategies are to create powered electronic technology through self-research and self-development, to explore high-end advanced technology and undertake industrial development, and to use leading-edge technology to gain a competitive advantage in domestic and foreign markets.

On the basis of continuing R&D on existing products, the Group established a power electronic technology R&D centre in Europe and Wuhan Intelligent Power Grid Research Institute, and cooperated with China's famous scientific research institutes such as Tsinghua-Smart China Energy Network Research Institute for the purposes of enhancing standards for power systems design and project execution capabilities.

In 2017, R&D made the following progress and achievements pertaining to Group products:

Digital IGBT driver: In 2017, all 200 KV HVDC circuit breakers in the "Zhoushan" (舟山) flexible direct current transmission project were made with the customised digital IGBT drivers developed by the Group.

Online monitoring system for grids: In response to the demand for intelligent standard improvements to China's power distribution network, the Group successfully developed an intelligent online monitoring system for distribution network errors.

High-voltage electric power capacitor: The Group commenced a self-researched, self-development project for a high-voltage electric power capacitor for use in flexible direct power transmission equipment. The Group completed the production of the first sample in March 2018 and is expected to be the first domestic enterprise to have the manufacturing technology of high-voltage electric power capacitors for flexible direct current transmission equipment.

FINANCIAL REVIEW

Revenue

The revenue increased by approximately 34.8% from approximately RMB857.0 million for the year ended 31 December 2016 to approximately RMB1,155.4 million for the year ended 31 December 2017 primarily due to the increase in sales in the power transmission and distribution sector and industrial sector.

Cost of sales

The cost of sales increased by approximately 32.3% from approximately RMB523.2 million for the year ended 31 December 2016 to approximately RMB692.2 million for the year ended 31 December 2017 primarily due to the increase in sales revenue for the year ended 31 December 2017.

Gross profit and gross profit margin

The gross profit increased by approximately 38.8% from approximately RMB333.7 million for the year ended 31 December 2016 to approximately RMB463.2 million for the year ended 31 December 2017 primarily due to an increase in revenue and an improvement in gross profit margin for the year ended 31 December 2017.

The gross profit margin increased from approximately 38.9% for the year ended 31 December 2016 to approximately 40.1% for the year ended 31 December 2017 due to sales increase in power transmission and distribution sector, which has higher gross profit margin.

Selling and distribution expenses

The selling and distribution expenses increased by approximately 5.1% from approximately RMB78.3 million for the year ended 31 December 2016 to approximately RMB82.3 million for the year ended 31 December 2017 primarily due to the increase in selling expenses for the market development of certain products.

Administrative expenses

The administrative expenses increased by approximately 9.7% from approximately RMB79.8 million for the year ended 31 December 2016 to approximately RMB87.5 million for the year ended 31 December 2017.

R&D costs

The R&D costs increased by approximately 30.5% from approximately RMB34.0 million for the year ended 31 December 2016 to approximately RMB44.4 million for the year ended 31 December 2017.

Other expenses

The other expenses increased by approximately 318.4% from approximately RMB4.9 million for the year ended 31 December 2016 to approximately RMB20.5 million for the year ended 31 December 2017 primarily due to the increase in expenses related to impairment of trade and other receivables.

Interest on bank loans wholly repayable within five years

The interest on bank loans wholly repayable within five years increased slightly by approximately 5.3% from approximately RMB16.9 million for the year ended 31 December 2016 to approximately RMB17.8 million for the year ended 31 December 2017.

Profit before tax

The profit before tax increased from approximately RMB171.1 million for the year ended 31 December 2016 to approximately RMB250.0 million for the year ended 31 December 2017 primarily due to increase in revenue and improvement of gross profit margin and effective control of expense.

Income tax expenses

The income tax expenses increased by approximately 90.9% from approximately RMB24.2 million for the year ended 31 December 2016 to approximately RMB46.2 million for the year ended 31 December 2017 primarily due to increase in profit before tax.

Profit and total comprehensive income for the year attributable to owners of the parent

The profit and total comprehensive income for the year attributable to owners of the parent increased from approximately RMB143.8 million for the year ended 31 December 2016 to approximately RMB194.7 million for the year ended 31 December 2017.

The Group's net gain margin, which is calculated as gain attributable to owners of the parent for the year divided by revenue, increased slightly from approximately 16.8% for the year ended 31 December 2016 to a net gain margin of approximately 16.9% for the year ended 31 December 2017.

Inventories

The inventories decreased by approximately 26.2% from approximately RMB252.3 million as at 31 December 2016 to approximately RMB186.3 million as at 31 December 2017 primarily due to the fact that the Company strengthened the management of inventories.

The average inventory turnover days decreased from approximately 157 days for the year ended 31 December 2016 to approximately 123 days for the year ended 31 December 2017 primarily due to a decrease in stock level.

Trade receivables

The trade receivables increased by approximately 37.8% from approximately RMB660.5 million as at 31 December 2016 to approximately RMB910.0 million as at 31 December 2017 primarily due to the increase in revenue for the year ended 31 December 2017.

The average trade receivables turnover days increased from approximately 242 days for the year ended 31 December 2016 to approximately 245 days for the year ended 31 December 2017, primarily due to the increase in revenue for the year ended 31 December 2017 and the delay of payment by customers.

Trade and bills payables

The trade and other payables increased by approximately 1.0% from approximately RMB236.6 million as at 31 December 2016 to approximately RMB238.8 million as at 31 December 2017.

The average trade and other payables turnover days decreased from approximately 148 days for the year ended 31 December 2016 to approximately 124 days for the year ended 31 December 2017, primarily due to the enhancement in the Group's procurement management during the year.

Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from the sales of its products, bank borrowings and proceeds of issuing new shares. The current ratio (current assets divided by current liabilities) increased from approximately 1.7 as at 31 December 2016 to approximately 2.3 as at 31 December 2017. The cash and cash equivalents increased from approximately RMB103.0 million as at 31 December 2016 to approximately RMB513.0 million as at 31 December 2017. The interest-bearing bank borrowings decreased slightly from approximately RMB327.4 million as at 31 December 2016 to RMB327.2 million as at 31 December 2017. The gearing ratio measured on the basis of total interest-bearing bank borrowings to total equity decreased from approximately 31.8% as at 31 December 2016 to approximately 21.5% as at 31 December 2017.

The Group continues to implement prudent financial management policies and monitor its capital structure based on the ratio of total liabilities to total assets.

Foreign currency exposure

As most of the principal subsidiaries of the Company operate in the PRC, their functional currency is RMB. The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to manage its exchange rate exposures.

Contingent liabilities

As at 31 December 2017, the Group had no significant contingent liabilities.

Charges on group assets

As at 31 December 2017, certain of the Group's bank loans were secured by mortgages over the Group's property, plant and equipment and prepaid land lease payments with aggregate carrying amounts at the end of the reporting period of approximately RMB34.3 million (as at 31 December 2016: approximately RMB36.6 million) and approximately RMB13.1 million (as at December 2016: approximately RMB13.4 million), respectively. At 31 December 2017, certain of the Group's bills receivables of approximately RMB17.6 million (as at 31 December 2016: approximately RMB21.2 million) were pledged to secure certain of the Group's bills payables.

EXECUTIVE DIRECTORS

Mr. Xiang Jie, aged 44, is the founder, the chairman of the Board and an executive Director. Mr. Xiang is primarily responsible for the overall corporate strategy, planning and business development of the Group. After graduating from Shanghai Maritime University (上海海事大學) in the PRC in international shipping management in 1995, Mr. Xiang obtained a master's degree in business administration from Maastricht School of Management in the Netherlands in 1999. Mr. Xiang has over 10 years of experience in the trading and power electronic sectors.

Mr. Gong Renyuan, aged 47, is an executive Director, the president of the Group and the chief executive officer of the Company. Mr. Gong joined the Group in 2002, primarily responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Before joining the Group, Mr. Gong has accumulated over 8 years of experience in business operations. In 1993, Mr. Gong completed the programme in business English (外貿英語專科) organised by the Beijing University of Technology (北京工業大學) in the PRC. Mr. Gong is the spouse of Ms. Ren Jie, a member of the senior management of the Company.

Mr. Yue Zhoumin, aged 47, is an executive Director and a vice president of the Group. Mr. Yue joined the Group in 2009. Mr. Yue is primarily responsible for the strategic planning and development of the Group. Mr. Yue graduated from the Shanghai Maritime University (上海海事大學) in the PRC with a bachelor's degree in economics in 1994. Mr. Yue has extensive experience in corporate project management and fund raising in the capital market. Mr. Yue is highly experienced in strategic management and has worked in the strategy division of China COSCO Holdings Company Limited, a company listed on the Stock Exchange (stock code: 1919).

NON-EXECUTIVE DIRECTORS

Mr. Yan Fuquan, aged 55, joined the Group in October 2017 as a non-executive Director and the deputy chairman of the Board. Mr. Yan graduated from Jilin University as a PhD research student (博士研究生) in theoretical economics in June 2010. From July 1984 to February 2001, Mr. Yan worked for 衡陽紡機廠 in which he assumed the positions of the deputy director of the chief accountant (總會計師辦公室副主任), the head of the finance department (財務處處長), the chief accountant (總會計師) and the factory manager (廠長) successively. From February 2001 to March 2005, Mr. Yan worked for 中國紡織機械(集團)有限公司 as the head of the finance department (財務部部長). Mr. Yan was an executive director of Jingwei Textile Machinery Company Limited (經緯紡織機械股份有限公司), a company delisted from the Stock Exchange on 28 December 2015. From July 2003, Mr. Yan has worked for China Hi-Tech Group Corporation (中國恆天集團有限公司) in which he assumed the positions of the head of the finance department (財務部部長), the deputy chief accountant (副總會計師) and the chief accountant (總會計師) successively. Mr. Yan is currently the chief accountant (總會計師) of China Hi-Tech Group Corporation (中國恆天集團有限公司), the chairman of the board (董事長) and the general manager (總經理) of China Hi-Tech Holding Company Limited (中國恆天控股有限公司), the chairman of the board (董事長) of 恆天投資管理有限公司 and a director of 北京市文化科技融資租賃股份有限公司.

Mr. Zhu Ming, aged 40, joined the Group as a non-executive Director in October 2017. Mr. Zhu received a master's degree in accounting from the Dongbei University of Finance & Economic in December 2008. Mr. Zhu is currently the chief financial officer (財務總監) of China Hi-Tech Holding Company Limited (中國恆天控股有限公司). From February 2009 to October 2015, Mr. Zhu worked for China Hi-Tech Group Corporation (中國恆天集團有限公司) in which he assumed the positions of supervisor of the finance department (財務部主管) and the manager of the finance department (財務部經理) successively.

Ms. Zhang Ling, aged 49, joined the Group as a non-executive Director in December 2017. Ms. Zhang is the managing director (董事總經理) of China Reform Venture Capital Investment Management (Shenzhen) Ltd. (國新風險投資管理(深圳)有限公司). Ms. Zhang obtained her Bachelor's degree in precision instrument (精密儀器系) from Tianjin University in 1991 and her master's degree from Guanghua School of Management of Peking University in 2000. Ms. Zhang previously worked for Beijing Capital Group Co., Ltd. (北京首都創業集團有限公司) and China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司) and was responsible for merger restructuring (併購重組) and corporate realignment (企業改制). Ms. Zhang also previously worked for Essence Securities Co., Ltd. (安信證券股份有限公司) and Huarong Securities Co., Ltd. (華融證券股份有限公司) and was responsible for the merger financing (併購融資) business, and presided over the completion of large-scale enterprise asset restructuring and integration of the industrial chain, merger of listed companies, reverse takeover and other projects. Ms. Zhang was a director of Tongling Nonferrous Metals Group Holdings Co., Ltd. (銅陵有色金屬集團控股有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Shimin, aged 59, joined the Group as an independent non-executive Director in August 2010. Mr. Chen is a certified management accountant registered in the United States, a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. Mr. Chen graduated from the Shanghai University of Finance and Economics (上海財經大學) in the PRC with a bachelor's degree and a master's degree in economics in 1983 and 1985, respectively. Mr. Chen then obtained a doctoral degree in philosophy from the University of Georgia in the United States in 1992. Mr. Chen is a professor of accounting, a director (主任) of the master's degree programme of business administration and a deputy registrar (副教務長) at China Europe International Business School (中歐國際工商學院) in the PRC. Mr. Chen has extensive research experience in domestic and overseas financial and management accounting, and teaching experience in numerous well-known universities. Mr. Chen is an independent non-executive director of Hailan Holdings Limited (海藍控股有限公司), being a company listed on the Stock Exchange (stock code: 2278), Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠(集團)股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600832), Huafa Industrial Co., Ltd. Zhuhai (珠海華發實業股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600325), Zhejiang Wolwo Bio-Pharmaceutical Co., Ltd. (浙江我武生物科技股份有限公司), being a company listed on the Shenzhen Stock Exchange (stock code: 300357), Hangzhou Shunwang Technology Co., Ltd. (杭州順網科技股份有限公司), being a company listed on the Shenzhen Stock Exchange (stock code: 300113), and an external supervisor of Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600000).

Mr. Zhang Xuejun, aged 52, joined the Group as an independent non-executive Director in December 2016. Mr. Zhang graduated from Capital Normal University (formerly known as Beijing Normal College) and obtained a bachelor's degree in philosophy. Mr. Zhang also completed an on-job postgraduate course at Chinese Academy of Social Sciences. Subsequently, Mr. Zhang obtained a master's degree in EMBA from Cheung Kong Graduate School of Business in 2006. Mr. Zhang taught at School of English and School of Ploitical Science and Law in Beijing Normal College. Subsequently, Mr. Zhang successively assumed the position of deputy office head of the Municipal Party Committee of the Youth League in Beijing (北京市團委), secretary of the Committee of the Party Work Committee (黨工委書記) of Heping subdistrict Office in Chaoyang District in Beijing (北京市朝陽區和平街街道辦事處). Since 2000, Mr. Zhang has served in the Central Committee of the Chinese Communist Youth League (共青團中央). Mr. Zhang successively assumed the position of deputy director of Chinese Young Pioneers Business Development Centre (團中央中國少先隊事業發展中心副主任), deputy director of the Central Juvenile Department (團中央少年部) and Centre Propaganda Department (團中央宣傳部), director of the Central Juvenile Department (團中央少年部) of the Chinese Communist Youth League, deputy director of the National Committee of Chinese Young Pioneers (全國少工委副主任) and member of the 16th Central Standing Committee of the Chinese Communist Youth League (十六屆團中央常委).

Mr. Zhang served as a deputy secretary (department level) at Municipal Party Committee of Jiujiang in Jiangxi Province (江西省九江市委副書記(正廳級)) from 2008 to 2011 and a Party secretary and director at the Foreign Affairs Office in Jiangxi Province (江西省外事僑務辦公室) from 2011 to 2014. Mr. Zhang has served as a Party member and the Secretary-General of the Chinese Western Returned Scholars Association (歐美同學會) since February 2014. Mr. Zhang has been a co-chief executive officer of Hsin Chong Group Holdings Limited (新昌集團控股有限公司), being a company listed on the Stock Exchange (stock code: 404) from September 2016 where he is primarily responsible for the management of business in Mainland China.

Mr. Leung Ming Shu, aged 42, joined the Group as an independent non-executive Director in March 2017. Mr. Leung is currently the chief financial officer and company secretary of China ITS (Holdings) Co., Ltd.. Mr. Leung obtained a First Class Honours Bachelor's degree in accountancy from the City University of Hong Kong in June 1998 and a Master's degree in accountancy from the Chinese University of Hong Kong in November 2001. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong in auditing in 1998, and subsequently worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until December 2000. From July 2001 to February 2003, Mr. Leung also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he advised companies on issues of strategy, organisation and operation. From February 2003, Mr. Leung spent three years at CDC Corporation, a NASDAQ-listed company, as a senior manager in the mergers and acquisitions department, and as the chief financial officer of China.com Inc. (currently known as Sino Splendid Holdings Limited), a subsidiary of CDC corporation and a company listed on the Stock Exchange (stock code: 8006). From February 2006 to October 2006, Mr. Leung served as the chief financial officer of Beijing Xinwei Telecom Technology Co., Ltd., a related party of Datang Telecom Technology Co., Ltd., (大唐電信科技股份有限公司), a company listed on the Shanghai Stock Exchange. From November 2006 to January 2008, Mr. Leung served as the chief financial officer of Beijing Lingtu Spacecom Technology Co., Ltd., a subsidiary of Beijing

Lingtu Software Co., Ltd., a PRC digital mapping and navigation software company. Mr. Leung is a Fellow of the Association of Chartered Certified Accountants since February 2007 and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountant since March 2006. Mr. Leung is also an independent non-executive director of Cabbeen Fashion Limited, a company listed on the Stock Exchange (stock code: 2030), and Comtec Solar Systems Group Limited, a company listed on the Stock Exchange (stock code:712). Mr. Leung acted as an independent non-executive director of Shengli Oil & Gas Pipe Holdings Limited, a company listed on the Stock Exchange (stock code: 1080) from January 2011 to April 2013.

Mr. Zhao Hang, aged 63, joined the Group as an independent non-executive Director in December 2017. Mr. Zhao is a research-grade senior engineer and obtained his bachelor degree in engineering from Jilin University of Technology, the PRC (中國吉林工業大學) in July 1982. In October 2003, Mr. Zhao obtained a degree in executive master of business administration from China Europe International Business School (中歐國際工商學院). After his graduation from Jilin University of Technology, the PRC in 1982, Mr. Zhao joined the Transportation Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍運輸工程學院) as an instructor until October 1987. After that, he was employed by the China Automotive Technology & Research Centre (中國汽車技術研究中心), and had since then until November 2015 held various positions therewith including the centre deputy chairman, centre deputy secretary of the party committee and centre secretary of the party committee and centre chairman. Among the awards and recognitions he has received in the past, Mr. Zhao was conferred with the title of Young Technology Specialist in the Machinery Industry in the PRC (中國機械工業青年科技專家) in 1995 and received the 2004 China Automobile Manufacturing Outstanding Technology Talent Award (2004年中國汽車工業優秀科技人才獎). Mr. Zhao has been an independent non-executive director of Sinotruk (Hong Kong) Limited (中國重汽(香港)有限公司) (a company listed on the Stock Exchange, stock code: 3808) since 11 April 2016 and a director of Zhejiang Wanfeng Auto Wheel Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002085.SZ) since 29 November 2013. Mr. Zhao is also a doctoral tutor at Wuhan University of Technology, the PRC (中國武漢理工大學), and an instructor and adjunct professor at Tongji University, the PRC (中國同濟大學), Jilin University, the PRC (中國吉林大學), Jiangsu University, the PRC (中國江蘇大學) and Chongqing Jiaotong University, the PRC (中國重慶交通大學) (which is previously known as Chongqing Vocational College of Transportation (重慶交通學院)). In addition, Mr. Zhao was the deputy chairman and chief secretary of the China Automobile Human Resources Association (中國汽車人力資源協會), the deputy chairman of the executive committee of the Society of Automatic Engineers of China (中國汽車工業協會), the vice-president of the China Association of Automobile Manufacturers (中國汽車工業協會), the deputy chairman of the China Intelligent Transportation Systems Association (中國智能交通協會), the council member of the China Machinery Industry Federation (中國機械工業聯合會), a member of the steering committee of the National 863 Electric Vehicle Key Project (國家863電動汽車重大專項領導小組), a member of the steering committee of the National Clean Energy Automotive Action (國家清潔汽車行動領導小組) and a member of the steering committee of the Tianjin Clean Energy Automotive Action (天津市清潔汽車行動領導小組).

SECRETARY

Ms. Mok Ming Wai, aged 46, was appointed as a joint company secretary in April 2016 and is a director of TMF Hong Kong Limited, being a company secretarial service provider. Ms. Mok has over 20 years of professional and in-house experience in the company secretarial field. Ms. Mok is a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Ms. He Lina, aged 39, joined the Group as the legal manager in July 2008 and was appointed as a joint company secretary in April 2016. Ms. He graduated from China University of Political Science and Law with a bachelor's degree in economic law in June 2001. Ms. He is an affiliated person of the Hong Kong Institute of Chartered Secretaries. Ms. He has over eight years of experience in overseeing regulatory compliance issues of a listed company.

SENIOR MANAGEMENT

Mr. Li Jinyan, aged 39, joined the Group after graduating from University of Science and Technology Beijing (北京科技大學) in the PRC with a bachelor's degree in automation in 2004. Mr. Li is a vice president of the Group and is responsible for the sales and marketing of the Group's products.

Ms. Ren Jie, aged 40, is a vice president of the human resources and administration department of the Group, primarily responsible for the overall management of the department. Ms. Ren joined the Group in 2001 after graduating from Xi'an International Studies University (西安外國語學院) in the PRC with a major in English in 1998, Ms. Ren obtained a master's degree in business administration from Beijing Jiaotong University (北京交通大學) in the PRC in 2014. Ms. Ren is the spouse of Mr. Gong Renyuan, the president and chief executive officer of the Company.

Ms. Bai Xing, aged 37, is a vice president of the Group and is responsible for the Group's overall procurement process and daily operations of the procurement department. Ms. Bai joined the Group in 2002. Ms. Bai graduated from University of International Business and Economics (對外經濟貿易大學) in the PRC with a bachelor's degree in international business and trade in 2007 and has over nine years of experience in procurement. Ms. Bai is a national registered certified purchasing professional recognised by the China Federation of Logistics and Purchasing (中國物流與採購聯合會).

Mr. Bo Xiangpeng, aged 33, is the chief financial officer of Group. Mr. Bo is a non-practising member of the Chinese Institute of Certified Public Accountants. Mr. Bo joined the Group in 2010 and was promoted as the financial controller in 2013. Mr. Bo was appointed as the chief financial officer in April 2016. Mr. Bo graduated from Shandong University of Finance and Economics with a bachelor's degree in business management in September 2006 and graduated from Nankai University with a master's degree in business administration in July 2008. Mr. Bo has nine years of experience working in the accounting and financing fields.

CORPORATE GOVERNANCE PRACTICES

The Company places high value on its corporate governance practice and the Board firmly believes that a good corporate governance practice can improve accountability and transparency for the benefit of the shareholders of the Company (the "**Shareholders**").

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with the aim of maintaining and improving the standard of corporate governance practices. The Company complied with all applicable code provision of the Corporate Governance Code during the year ended 31 December 2017.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company confirms that, having made specific enquiries with all the Directors, the Directors have complied with the required standards as set out in the Model Code during the year ended 31 December 2017.

BOARD

Responsibilities

The Board is responsible for leading and controlling the Company and overseeing the Group's businesses, strategic decisions and financial performances. The chairman of the Board is responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer is responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Major corporate matters which are specifically delegated by the Board to the senior management include preparation of interim and annual reports and announcements, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures and compliance with relevant laws, rules and regulations.

Composition

The composition of the Board reflects the necessary balance of skills and experience required for effective leadership and independence in the decision making of the Company. The Board currently comprises three executive Directors, namely Mr. Xiang Jie, Mr. Gong Renyuan, and Mr. Yue Zhoumin; and three non-executive Directors, namely Mr. Yan Fuquan, Mr. Zhu Ming and Ms. Zhang Ling; and four independent non-executive Directors, namely Mr. Chen Shimin, Mr. Zhang Xuejun, Mr. Leung Ming Shu and Mr. Zhao Hang. The biographies of the Directors are set out under the section headed "Biographies of Directors and Senior Management" in this annual report.

During the year ended 31 December 2017, the Board at all times complied with the requirements relating to the respective retirement and re-election of one-third of the members of the board of listed companies. The Company appointed four independent non-executive Directors representing 40% of the Board members, including two independent non-executive Directors who possesses appropriate professional qualifications, accounting and related financial management expertise. Therefore, the requirements under the Listing Rules were fully complied with.

The Directors are required to declare their underlying interests regularly and assess other Directors' personal interests in the Company to ensure that the members of the Board have no financial, business, family or other material/relevant relationship with each other, and to ensure that the independence of the independent non-executive Directors have fully complied with the requirements regarding the independence of an independent non-executive director as set out in Rule 3.13 of the Listing Rules.

Save as disclosed above and under the section headed "Biographies of Directors and Senior Management" in this annual report, there are no financial, business, family or other material/relevant relationships between the members of the Board and between the chairman of the Board and the chief executive officer of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All the Directors, including the independent non-executive Directors, are appointed for a term of three years and subject to retirement by rotation and eligible for re-election in accordance with the Company's articles of association (the "**Articles of Association**") and the Listing Rules. At each annual general meeting, not less than one-third of the Directors then in office shall retire and every Director is subject to retirement by rotation at least once every three years.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Chairman of the Board is mainly responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer of the Company is mainly responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Currently, Mr. Xiang Jie is the chairman of the Board, and Mr. Gong Renyuan is the chief executive officer of the Company. During the year of 2017, one meeting without the executive Directors was held between the chairman of the Board and the non-executive Directors (including the independent non-executive Directors).

NON-EXECUTIVE DIRECTORS

The non-executive Directors (including the independent non-executive Directors) bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking lead in management issues involving potential conflict of interests and serving the committees of the Board as committee members, all non-executive Directors (including the independent non-executive Directors) make various contributions to the effective development direction of the Company. The term of appointments of the non-executive Directors is set out under the section "Directors' Service Contracts" in this annual report.

MEETINGS

The Board holds meetings regularly to discuss the overall strategies, and operational and financial performance of the Group. The Directors can attend meetings in person or via electronic medium. During the year of 2017, a total of four meetings of Directors were held to review and approve the financial and operational results of the Group. The attendance record of the Directors at the Board meetings and Shareholders meetings during the year ended 31 December 2017 is set out below:

	Attended/Eligible to attend	
	Board Meeting	Shareholders Meeting
Executive Directors		
Mr. Xiang Jie	4/4	1/1
Mr. Gong Renyuan	4/4	1/1
Mr. Yue Zhoumin	4/4	1/1
Non-executive Directors		
Mr. Yan Fuquan (Deputy chairman of the Board, appointed on 12 October 2017)	1/1	0/0
Mr. Zhu Ming (appointed on 12 October 2017)	1/1	0/0
Ms. Zhang Ling (appointed on 4 December 2017)	0/0	0/0
Independent non-executive Directors		
Mr. Wang Yi (resigned on 24 March 2017)	1/1	0/0
Mr. Leung Ming Shu (appointed on 24 March 2017)	3/3	1/1
Mr. Chen Shimin	3/4	1/1
Mr. Zhang Xuejun	4/4	1/1
Mr. Zhao Hang (appointed on 4 December 2017)	0/0	0/0

In addition, five written resolutions were passed and seven meetings of executive Directors were held during the year ended 31 December 2017.

At least 14 days' notice of convening the regular Board meeting is given to all the Directors to invite them to participate in the course of discussion. All the Directors are provided with relevant information on the matters to be discussed at the meeting no less than three days before the holding of the meeting, so as to guarantee that there is sufficient time for the Directors to review the information. The Directors have independent access to meet the senior management and the company secretary to the Company at any time, and are entitled to seek independent professional advice at the Company's expenses. Material matters or matters which may lead to conflicts of interests will be dealt with during Board meetings instead of via circulation of written resolutions or by the Board committees.

BOARD COMMITTEES

The Board has established four committees, namely the audit committee, the remuneration committee, the nomination committee and the investment committee, to supervise various matters of the Group. To establish effective communication channels between each of the committees and the management of the Group, the Company has established an internal coordination and support team to facilitate access to more independent and objective information for the Directors.

(a) Audit committee

The audit committee was established on 19 August 2010 with written terms of reference in compliance with the Listing Rules. The audit committee is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any issues regarding the resignation or dismissal of such auditors; monitoring the integrity of financial statements, annual reports and accounts, interim reports and, (if prepared for publication) quarterly reports, and reviewing material financial reporting judgments therein; and reviewing the systems of financial control, internal control and risk management. The written terms of reference of the committee is in line with the Corporate Government Code and is published on the websites of the Company and the Stock Exchange.

The audit committee comprises one non-executive Director, being Mr. Zhu Ming and three independent non-executive Directors, being Mr. Chen Shimin, Mr. Leung Ming Shu, and Mr. Zhang Xuejun. During the year ended 31 December 2017, Mr. Zhu Ming and Mr. Leung Ming Shu were appointed as members of the audit committee. During the year ended 31 December 2017, Mr. Wang Yi resigned as a member of the audit committee. The audit committee is chaired by Mr. Chen Shimin, who possesses the appropriate professional qualifications and extensive experience in and knowledge of finance and accounting as required under Rule 3.10 of the Listing Rules. All members of the audit committee hold the relevant industry and financial experience necessary to advise the Board on strategies and other related matters. None of the members of the audit committee is a former partner of or connected with the Company's existing external auditors.

The audit committee held three meetings during the year of 2017. During such meetings, the audit committee confirmed the appointment of Ernst & Young and fixed its remuneration, and reviewed the procedures of internal control of the Group. The audit committee also reviewed the interim and annual results of the Group for the year of 2017 and the auditor's report prepared by the external auditors in relation to accounting matters and any material findings during the audit. The audit committee was of the opinion that such financial statements and report complied with the applicable accounting policy standards and requirements and that adequate disclosures have been made. The attendance record of the meetings of the audit committee during the year of 2017 is set out below:

Directors	**Attended/Eligible to attend**
Mr. Chen Shimin *(Chairman of the audit committee)*	2/3
Mr. Wang Yi (resigned on 24 March 2017)	1/1
Mr. Leung Ming Shu (appointed on 24 March 2017)	2/2
Mr. Zhu Ming (appointed on 12 October 2017)	1/1
Mr. Zhang Xuejun	3/3

(b) Remuneration committee

The remuneration committee was established on 19 August 2010 with written terms of reference in accordance with the Listing Rules. The roles and functions of the remuneration committee are, among other things, to make recommendations on the remuneration package of the Directors and senior management, the execution of which is subject to the approval of the Board. In addition, the remuneration committee evaluates the performance of the senior management of the Company and determines the remuneration structure of the Company. The written terms of reference of the remuneration committee is in line with the Corporate Governance Code and is published on the websites of the Company and the Stock Exchange.

During the year ended 31 December 2017, Mr. Wang Yi resigned as the chairman of the remuneration committee, Mr. Leung Ming Shu and Mr. Zhao Hang were appointed as the chairman and a member of the remuneration committee, respectively. The remuneration committee comprises four independent non-executive Directors, being Mr. Leung Ming Shu, Mr. Chen Shimin, Mr. Zhang Xuejun and Mr. Zhao Hang. The remuneration committee is chaired by Mr. Leung Ming Shu.

The remuneration committee held two meetings during the year of 2017. During such meetings, the remuneration committee determined the option incentive scheme, and made recommendation on the Directors' allowances, the remuneration of the senior management and assessment system, as well as the remuneration of the employees and employee reward scheme. The attendance record of the meetings of the remuneration committee during the year of 2017 is set out below:

Directors	**Attended/Eligible to attend**
Mr. Leung Ming Shu (*Chairman of the remuneration committee*, appointed on 24 March 2017)	1/1
Mr. Wang Yi (resigned on 24 March 2017)	1/1
Mr. Chen Shimin	2/2
Mr. Zhang Xuejun	1/1
Mr. Zhao Hang (appointed on 4 December 2017)	0/0

In addition, one written resolution was passed by remuneration committee during the year ended 31 December 2017.

Remuneration payable to senior management of the Company (excluding Directors) for the year of 2017 is within the following bands:

	Number of individuals	
	2017	2016
RMB200,000 – RMB300,000	**0**	1
RMB300,001 – RMB400,000	**1**	0
RMB400,001 – RMB500,000	**3**	3
Above RMB500,000	**1**	1

(c) Nomination committee

The nomination committee was established on 19 August 2010. The roles and functions of the nomination committee are, among other things, to formulate the policies for the nomination of Directors for the Board's consideration and to implement the Director nomination policies approved by the Board, including the review of Board composition annually, identification of eligible persons for the position of Director, monitoring of the Directors' succession plans and assessment of the independence of the independent non-executive Directors. The written terms of reference of the nomination committee is in line with the Corporate Governance Code and is published on the websites of the Company and the Stock Exchange.

The nomination committee comprises two independent non-executive Directors, being Mr. Chen Shimin and Mr. Zhang Xuejun and one executive Director, being Mr. Gong Renyuan. The nomination committee is chaired by Mr. Zhang Xuejun.

The nomination committee held two meetings during the year of 2017. During such meetings, the nomination committee reviewed the independence of the independent non-executive Directors, composition of the Board and Board diversity policy. The attendance record of the meetings of the nomination committee during the year of 2017 is set out below:

Directors	**Attended/Eligible to attend**
Mr. Zhang Xuejun *(Chairman of the nomination committee)*	2/2
Mr. Chen Shimin	2/2
Mr. Gong Renyuan	2/2

In addition, one written resolution was passed by nomination committee during the year ended 31 December 2017.

(d) Investment committee

The investment committee was established on 28 June 2011 and is responsible for advising the Board on investment of fixed assets (both tangible and intangible), equity, debt, financial securities, restructuring and joint ventures.

During the year ended 31 December 2017, Mr. Wang Yi resigned as a member of the investment committee, Mr. Zhang Xuejun resigned as the chairman of the investment committee, Mr. Yan Fuquan was appointed as a member and the chairman of the investment committee, and Mr. Leung Ming Shu and Ms. Zhang Ling were appointed as members of the investment committee. The investment committee comprises three independent non-executive Directors, being Mr. Zhang Xuejun, Mr. Chen Shimin and Mr. Leung Ming Shu, one executive Director, being Mr. Xiang Jie; and two non-executive Directors, being Mr. Yan Fuquan and Ms. Zhang Ling.

The investment committee held one meeting during the year of 2017. During such meeting, the investment committee discussed the progress of investing projects. The attendance record the meeting of the investment committee during the year of 2017 is set out below:

Directors	**Attended/Eligible to attend**
Mr. Yan Fuquan (*Chairman of the investment committee*, appointed on 12 October 2017)	1/1
Mr. Xiang Jie	1/1
Ms. Zhang Ling (appointed on 4 December 2017)	0/0
Mr. Chen Shimin	1/1
Mr. Wang Yi (resigned on 24 March 2017)	0/0
Mr. Zhang Xuejun	1/1
Mr. Leung Ming Shu (appointed on 24 March 2017)	1/1

In addition, one written resolution was passed by investment committee during the year ended 31 December 2017.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

With effect from 24 March 2017, Mr. Wang Yi had tendered his resignation as an independent non-executive Director, the chairman of the remuneration committee, a member of the audit committee and a member of the investment committee. At the same time, Mr. Leung Ming Shu was appointed as an independent non-executive Director, the chairman of the remuneration committee, a member of the audit committee and a member of the investment committee.

On 12 October 2017, Mr. Yan Fuquan was appointed as a non-executive Director, the deputy chairman of the Board and the chairman of the investment committee. At the same time, Mr. Zhu Ming was appointed as a non-executive Director and a member of the audit committee.

On 4 December 2017, Ms. Zhang Ling was appointed as a non-executive Director and a member of the investment committee. At the same time, Mr. Zhao Hang was appointed as an independent non-executive Director and a member of the remuneration committee.

As disclosed herein, for the year ended 31 December 2017 and up to the date of this annual report, there were no changes to information required to be disclosed regarding the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

Risk Management and Internal Control

The audit department of the Company conducted comprehensive audit on the internal control system of the Group and submitted the "2017 Annual Report on Internal Control" for the Board's review. The Board is responsible for reviewing the effectiveness of the internal control system, which covers all material controls including financial, operational and compliance controls and risk management functions, for the purpose of preventing unauthorised use or sale of assets and ensuring the proper filing of accounting records and provision of reliable financial information for internal use or for release, and ensuring that the applicable laws, rules and regulations are complied with. The procedure reasonably ensures significant error would not occur, loss or fraud. In the year of 2017, in addition to adhering to the existing stringent internal control, the Company made additional improvement as follows:

Improving the systems and procedures of the Group

The Group monitored and controlled material investments in accordance with the "Provisions for Investment Management" by clarifying the approval authority and procedures of investments. In 2017, due to the changes in the structure of the Board, the Group re-amended the "Provisions for Investment Management" and revised the member composition of the Investment Committee. At the same time, the Group amended the "Returns Management System" by regulating the approval process and operational process of returns to improve the inventory management system of the Company and to avoid financial risks arising from unmatched accounts.

Strictly implementing comprehensive budget management

The Group continued to implement the financial management and control, adhered to comprehensive budget management, and allocated, assessed and controlled resources of every department and subsidiary of the Company, in order to effectively organise and coordinate the production and business activities of the Company and achieve predictable and controllable financial performance.

Enhancing the management of receivables to reduce the risks of doubtful debts

The Group strictly implemented a management system for receivables under which the performance bonuses of sales personnel are linked to the recovering amount of receivables so as to strengthen their responsibilities for receivables recovering and reduce doubtful debts. Meanwhile, the Company would also take legal actions to ensure the normal recovering of receivables.

The audit department of the Company also conducts daily review and assessment of inside information, discuss with the management of authorised persons of the Company about disclosures of inside information and reports to the Board once it becomes aware of any dissemination.

Inside information disclosure policies are formulated to provide employees with guidelines on reporting and disseminating inside information, confidentiality and compliance with restrictions on trading.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for fulfilling corporate governance duties and responsibilities including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of the Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; and

(d) to review the Company's compliance with the Corporate Governance Code and disclosure in this corporate governance report.

In order to comply with the requirements of the code provision A.6.5 of the Corporate Governance Code, all the Directors have participated in training in relation to continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remains informed and relevant. To summarise, the Directors received trainings on the following areas to update and develop their skills and knowledge during the year of 2017:

	Training area	
	Companies Ordinance	**Listing Rules**
Executive Directors		
Mr. Xiang Jie	√	√
Mr. Gong Renyuan	√	√
Mr. Yue Zhoumin	√	√
Non-executive Directors		
Mr. Yan Fuquan (appointed on 12 October 2017)	√	√
Mr. Zhu Ming (appointed on 12 October 2017)	√	√
Ms. Zhang Ling (appointed on 4 December 2017)	√	√
Independent non-executive Directors		
Mr. Chen Shimin	√	√
Mr. Zhang Xuejun	√	√
Mr. Wang Yi (resigned on 24 March 2017)	x	x
Mr. Leung Ming Shu (appointed on 24 March 2017)	√	√
Mr. Zhao Hang (appointed on 4 December 2017)	√	√

DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2017 and of the Group's profit and cash flows for the year then ended and ensuring that such statements are prepared in accordance with the statutory requirements and applicable accounting standards.

AUDITORS' REMUNERATION

Ernst & Young has been appointed as auditors of the Company since 2012. In 2017, the Company accepted the annual audit fee of RMB1.75 million proposed by Ernst & Young. The relevant selection, appointment and resignation procedures of accounting firms have been reviewed and approved by the audit committee and the Board.

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 46 to 47 in this annual report. During the year ended 31 December 2017, other than the audit fee, RMB0.55 million was paid to Ernst & Young for its performance of interim review.

JOINT COMPANY SECRETARY

Ms. He Lina and Ms. Mok Ming Wai were appointed as joint company secretaries of the Company in April 2016. Ms. He is an employee of the Company and reports to the chairman of the Board and is responsible for advising the Board on corporate governance matters. Ms. Mok works closely with Ms. He (the primary contact person) in discharging their duties and responsibilities as joint company secretaries of the Company. Ms. He and Ms. Mok have confirmed that they had taken not less than 15 hours on relevant professional training during the year of 2017.

CONSTITUTIONAL DOCUMENTS

There were no changes in the Company's constitutional documents during the year of 2017.

SHAREHOLDER'S RIGHTS

Pursuant to the Articles of Association, any Shareholder holding one-tenth or more of the paid up capital of the Company as at the date of putting forward requisition has rights to call for extraordinary general meeting to address any issues as set out in the relevant requisition by sending to the Board or the company secretary to the Company at the address of Building 9-A, KongGangRongHuiYuan, Yuhua Road, Tianzhu Airport Industrial Zone B, Shunyi District, Beijing, PRC a written requisition any time and the extraordinary general meeting shall be held within two months of the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/itself (themselves) may convene such meeting in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to hold such meeting shall be reimbursed to the requisitionist(s) by the Company.

MAKING ENQUIRIES TO THE BOARD

Shareholders who would like to make enquiries regarding the Company may send such enquiries by email to: ir@sunking-tech.com.

INVESTOR RELATIONSHIP

The Company encourages two-way communications with its institutional and private investors. Extensive information about the Group's business is provided in the annual report and the interim report sent to the Shareholders. The Company will meet with investors after the announcement of financial results to explain the business, performance and future plan of the Company in order to strengthen the public's understanding of the Company. The annual general meetings provide a platform for direct communication between the Board and the Shareholders. The Company communicates with the media regularly, discloses financial and other information of the Group and its operation to the public to promote effective communication.

OVERALL PERFORMANCE IN 2017

As a listed private enterprise, the Group has actively pursued a humanistic concept of green development, energy efficiency, environmental protection and social improvement under its policy of corporate social responsibility. In 2017, the Company strengthened its R&D of new products and its management of product quality, supply chains, administration and personnel, public health and utilisation of resources. Simultaneously, the Group emphasised on environmental protection and social responsibility obligations, as well as its commitments to all stakeholders including Shareholders, staff, customers and the society.

In accordance with the requirements outlined in Appendix 27 of the Listing Rules in the "Environmental, Social and Governance Reporting Guide" (the "**Guide**"), the Company issued an Environmental, Social and Governance Report (the "**Report**"). The Report covered the two major topics mandated by the Guide, namely, Environmental as 'Main Subject Area A' and Social as 'Main Subject Area B' whereas the third area – 'Governance' is covered in the Corporate Governance Report in this annual report. The period covered in the Report is the same as that in the 2017 annual report.

The Report noted the Group's business advantages and followed the principles of importance, quantification, balance and consistency to disclose relevant statistics and information.

A. ENVIRONMENTAL RESPONSIBILITY

The Company is committed to the R&D and production of high-efficiency, energy-saving electrical and electronic products and to accelerating the application and development of clean energy. The key products of the Group have relatively large market shares in the UHVDC and flexible direct current transmission markets, and play an important role in enhancing the efficiency and quality of transmission. We have developed a statistical methodology suitable for the Group's key environmental performance indicators. Environmental statistics presented in the Report pertain to the Group's subsidiaries in locations such as Beijing, Wuxi, Jiashan, Wuhan and Jiujiang.

A1. Emissions

Regarding emissions, the Group is primarily required to comply with laws and regulations such as the "Environmental Protection Law of the PRC" (《中華人民共和國環境保護法》), the "Work Safety Law of the PRC" (《中華人民共和國安全生產法》), the "Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste" (《中華人民共和國固體廢物污染環境防治法》), the "Administrative Measures for Hazardous Waste Transfer Manifests" (《危險廢物轉移聯單管理辦法》), and the "National Catalogue of Hazardous Wastes" (《國家危險廢物名錄》).

Before commencing work on new projects, the Group's subsidiaries obtained approval from environmental regulatory departments of the government by submitting "Environmental Impact Reports of Construction Projects" (《建設項目環境影響報告》) and stay in strict compliance with environmental protection rules as required under the approval.

The Group's production activities mainly involve electrical and electronic products which do not produce direct emissions from fossil fuels such as coal, oil and natural gas. The Group's main sources of emissions include the direct emissions of vehicles, and indirect emissions from power consumption and plane travel for employees' business trips. Since usage of vehicles is the Group's primary direct emissions of pollutants, we accordingly introduced the "Management System for Vehicles" to improve the management of vehicle usage.

Flue gas emissions: Unit: Kg

Emission	2017	2016
SOx	**140**	125
NOx	**1**	1
Particles	**13**	10

Greenhouse gas emissions: Unit: Tons

CO_2	2017	2016
Direct	**196**	184
Indirect	**4,609**	3,919

The small quantity of dust and flue gas from filling and sealing and paint which arise from production activities are treated to the extent of meeting the Integrated Emission Standard of Air Pollutants (GB16297-1996), the aforementioned pollutants are treated as follows:

Pollutant types	Treatment
Dust	Textile dust bag treatment
Flue gas from filling and sealing	Activated carbon absorption
Flue gas from paint	Water-curtain type paint fume treating equipment with activated carbon processing

The Group's non-hazardous waste emissions mainly comprise of waste materials such as scrap steel, iron dust and scrap which arise from production processes. These materials are either sold or given to environmental departments for disposal in accordance with the Group's "Management System for Warehousing Waste Products". In 2017, the treatment of these non-hazardous waste was as follows:

Non-hazardous waste type	Discharge (Tons)	Treatment
Scrap steel	200	Sold
Iron dust	2	Sold
Household garbage	40	Disposal by environmental departments
Scrap materials	1	Sold
Defective parts and components	0.8	Return or exchange
Packaging waste	0.5	Sold

The Group maintains a "Hazardous Waste Management Ledger" to aid in monitoring its disposal of hazardous wastes. As the quantity involved is low, the solid hazardous wastes produced by the Group have no negative impact on the environment, provided that they are collected and treated in strict compliance with regulations. Such wastes are categorised and treated as follows:

Hazardous waste type	Discharge (Tons)	Treatment
Paint residue	8	Disposal by qualified units
Waste organic solutions	6	Disposal by qualified units
Oil and water mixtures	16	Disposal by water treatment companies
Epoxy resin	2.5	Disposal by qualified units
Used engine oil and cutting fluids	0.25	Removal and cleaning up
Used filling and sealing materials	0.5	Disposal by qualified units
Used activated carbon	0.2	Disposal by qualified units

A2. Use of resources

Resources used by the Group in its operating activities are mainly comprised of water, power and raw materials for products. The Group is actively strengthening its management of water, power and other resource consumption in all its office premises while increasing the energy efficiency and environmental protection awareness of its employees. Usage of water and power by the Group is as follows:

Resources	**2017**	2016
Water (Tons)	**105,535**	92,935
Power (KWh)	**4,199,079**	3,643,705

In respect of sewage treatment, Wuxi Sunking Power Capacitor Co., Ltd. ("**Wuxi Sunking**") obtained Discharge Licences (《排污許可證》) upon inspection by the Wuxi Huishan Environmental Protection Bureau for the discharge of sewage arising from production, and also passed inspections of its household water carried out by laboratories appointed by environmental inspection departments. Jiujiang Sunking Technology Co., Ltd. ("**Jiujiang Sunking**") underwent inspection of its outfall sewage by environmental monitoring stations, with results indicating that pollutant levels in its household sewage are lower than sewage treatment plant requirements. Jiashan Sunking Power Equipment Technology Co., Ltd. ("**Jiashan Sunking**") set up a sewage treatment system to ensure its discharge meets Grade Three standards under the "Integrated Wastewater Discharge Standard" (《污水綜合排放標準》).

The Group's power consumption includes production and household power consumption. For production, we continuously improve our technologies to consumer power with higher efficiency. For household power consumption, the Company has in put "Management Requirements for Energy-saving" into place, which sets out unified rules on management of air-conditioning and office equipment, describes relevant penalties, and designates departments in charge.

The Group also introduced "Management System for Office Supplies" to help rationalise and regulate the use of office supplies and to reduce waste. The Company promotes a paperless office and has adopted the OA Electronic Information System of Weaver to make significant improvements in working efficiency while reducing the direct consumption of paper and other resources. The Group has also taken measures to cut down indirect energy consumption and greenhouse gas emissions generated by employee business travel.

To reduce consumption of raw materials, the Group has adopted "Just-In-Time" production methods which avoid keeping excessive inventory. The Group has also increased technical staff training by, for example, using the joint training systems of Jiashan Sunking and vocational schools. We also enhance staff members' technical skills to reduce waste generated by production. Due to the differing specifications, different products require different packaging, and therefore statistics for packaging weight cannot be compiled. For 2017, the types and usage of packaging by the Group are as follows:

Packaging type	Amount (units)
Wooden box	18,675
Cardboard box	500

A3. The environment and natural resources

The Group's business makes no substantial impact on the environment and natural resources. We maintain strict compliance with the relevant laws and regulations of the "Environmental Protection Law of the PRC" (《中華人民共和國環境保護法》) and the "Energy Conservation Law of the PRC" (《中華人民共和國節約能源法》). The capacitors and busbars which are the Company's principal products have been accredited with ISO14001 Environmental Management System certification.

B. SOCIETY

The Group regards its employees as its most important asset for its development. The Group therefore maintains strict compliance with the relevant laws and regulations of the “Labour Law of the PRC” (《中華人民共和國勞動法》) and the “Labour Contract Law of the PRC” (《中華人民共和國勞動合同法》). It has directed its corporate management to encourage employees to innovate, and it has effectively protected both the Group’s interests and employees’ legal rights. By doing so, the Group hopes to converge the interests of the Company and its employees with the aim of driving the Company’s growth and recognising each employee’s individual value.

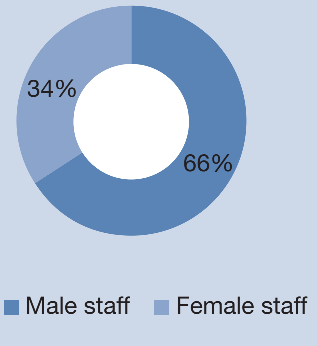
Employment and labour regulations

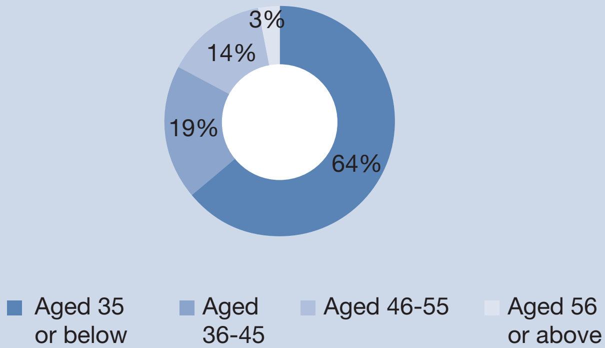
B1. Employment

For the employment of employees, the Group has adopted a hybrid system of external recruitment, internal nomination and job rotation to recruit personnel with calibre. Our “Staff Handbook”, “Management System for Recruitment” and “Management Processes for Staff Relations” define its principles and mechanisms of recruitment, employment, resignation and dismissal.

The Group also has detailed its arrangements for employee remuneration, working hours and leave. The “Management System for Remuneration” and the “System for Performance Appraisal” established by the Group provide details of the system by which remuneration – including basic salaries and performance bonuses – is determined for all employees based on factors including competence, experience and contributions. The Group furthermore provides employees with a benefits package including various allowances, work lunches and medical checks. The Group protects both applicants and staff from all forms of discrimination. Female staff are entitled to benefits including medical check-ups, maternity leave with positions held open during the leave. We comply strictly with the “Regulations on Paid Annual Leaves of Employees” (《職工帶薪年休假條例》) to safeguard employees’ right to reasonable leave.

As at 31 December 2017, the Group had 667 staff members in total. The sex and age composition of the staff is as follows:





B2. Health and safety

The Group adheres to employee health and safety requirements under laws and regulations such as the “Law of the PRC on the Prevention and Treatment of Occupational Diseases” (《中華人民共和國職業病防治法》), the “Work Safety Law of the PRC” (《中華人民共和國安全生產法》) and the “Fire Protection Law of the PRC” (《中華人民共和國消防法》)。

To ensure the health of employees, the Group provides free annual medical checks. Apart from statutory insurance, we also provide supplemental medical insurance for employees.

Each subsidiary of the Group establishes a series of management requirements for production safety in reference to its own operational purposes and conditions. These requirements enable specific safety procedures and plans to be defined. Examples of this include Wuxi Sunking's "Safety Management Requirements", "Contingency Plans for Safe Production Incidents" and "Management System for Dangerous Operations"; Jiujiang Sunking's "Management System for Safe Production", "Contingency Plans for Environmental Incidents" and "Management System for Safe Production Standardisation"; and Jiashan Sunking's "Safety Management Requirements". Each subsidiary has implemented stringent requirements and rules and there had not been material safety-related accidents. Our Group has no record of casualties relating to occupational diseases or work-related injuries.

Wuxi Sunking engages third-party institutions to identify the causal factors of occupational disease, provides employee training in occupational safety and health, and has established sound management systems for employee health and safety. It has been accredited with OHSAS18001 Occupational Safety and Health Management System certification.

B3. Development and training

The Group provides a variety of employee training to improve their skills and satisfy professional needs. New staff receive on-the-job training on topics such as corporate and departmental regulations, work duties and responsibilities, work skills, production safety and career planning, helping them to understand the Group and adapt to their positions. For existing staff, the Group provides training courses specifically for their career's development. The Group also encourages employees to participate in position-relevant training offered by external institutions. For Directors and senior management, the Group invites professionals such as lawyers and accountants to provide up-to-date information on such matters as the Companies Ordinance, regulatory policies, corporate governance, financial management and market trends. Arrangements are also made for the company secretary and other personnel to participate in relevant professional training for no less than 15 hours annually.

Since 2016, the Group has developed and implemented a "Sun.King Group Middle and Senior Management Trainee Training Programme" (《賽晶集團中高管理層後備幹部培養計劃》) which aims to build a reserve pool of management by engaging professional training institutions to provide selected trainees with training to enhance their management and communication skills. Three training sessions under the programme were completed in 2017, and subsequent sessions are being prepared. In 2017, Wuxi Sunking offered "middle management execution" training to middle management or above to enhance the execution of our middle management, "integrated management systems standardisation" training to quality assurance staff, and professional abilities training to elevate the capabilities of technical and inspection personnel and thus improve product quality. In 2017, the Group invested more than RMB2 million to employee training.

B4. Labour standards

As explained in the Group's "Staff Handbook", the Group protects the legitimate and reasonable interests of employees by including, as part of recruitment criteria, a stipulation that there be "no employment of children under the age of 18" and other employment conditions, regulations for working hours and leave system. The Group prohibits forced labour such as debt bondage and indentured servitude in all workplaces.

Operating practices

B5. Supply chain management

The Group tightly regulates its internal supply chain management processes with the aim of strengthening its internal management of procurement and logistics and reducing procurement costs. For the Group's internal processes, a unified management system for procurement has been established, encompassing the conduct of review, approval and control of procurement applications and signing of contracts. For external processes, the Group has adopted the ABC classification of raw materials, with Categories A and B applying to principle materials and accessories, and Category C to auxiliary materials. We select qualified suppliers through a collective tendering process, and we regularly assess and maintain a database of suppliers of materials in Categories A and B to ensure that our suppliers meet our quality requirements.

B6. Product responsibility

Product responsibility is of profound importance to the Group as our products are most commonly used in power transmission and distribution and rail transport. The Group's capacitors, resistors and busbars, which are its principal products, have been accredited with ISO9001 Quality Management System certification. We adopt stringent product monitoring and testing processes and have established a comprehensive product control system to ensure production quality manageable and enhance both product passing rates and customer satisfaction. The system comprises procedures for quality inspection, substandard product control, new product R&D, error prevention and remedy, and customer satisfaction monitoring. For example Jiujiang Sunking developed "Quality Handbook", "Inspection Rules", "Quality Control Procedures" and "Inspection Rules for Procured Components", and Wuxi Sunking developed "Product Monitoring and Inspection Procedures" and "Product Quality Inspection Procedures".

To protect the Group's intellectual property, all departments and individuals are encouraged to make patent applications, and the Group has accordingly set up systems and incentives for patent affairs management, technique and innovation copyright. The Group proactively protects its proprietary intellectual property through continuous monitoring of any infringement thereon.

B7. Anti-corruption

With regards to anti-corruption, no applicable laws and regulations which may materially affect the Group.

The Group established an "Internal Whistle-blowing Policy" and "Internal Audit System" under which the audit committee is authorised by the Board to create an environment of anti-fraud. The committee conducts regular reviews of the internal control system to regulate the conduct of employees, maintain an atmosphere of integrity and dedication, and prevent prejudice to the Group's interests. The audit department is mainly responsible for dealing with whistle-blowing and initiating follow-up actions, and directly reports to the audit committee. We believe that strict systems for anti-corruption and anti-fraud, along with a rigorously implemented internal control system, are valuable in helping us to earn the confidence of employees, customers, suppliers and other business partners, and contribute to the Group's development.

B8. Community investment

Each subsidiary of the Group participates in local community projects and public welfare activities. In 2017, all subsidiaries contributed to the Children's Emergency Foundation established by the China Population Welfare Foundation for left-behind children in impoverished rural areas. The Group's total contribution amounted to RMB225,940. Additionally, Jiashan Sunking donated RMB50,000 to the Charity Federation of Jiashan County to subsidise the education of children from disadvantaged families.

The Directors are pleased to present the annual report of the Company and the audited consolidated financial statement of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are trading and manufacture of power electronic components.

Details of the principal activities of the Company's principal subsidiaries are set out in note 1 to the consolidated financial statements.

FAIR REVIEW OF BUSINESS

A fair review of the business of the Group as well as a discussion and analysis of the Group's performance during the year ended 31 December 2017 and the material factors underlying its financial performance are set out in the Chairman Statement on pages 3 to 5 of this annual report and the section headed "Management Discussion and Analysis" on pages 6 to 12 of this annual report.

PRINCIPAL RISK AND UNCERTAINTIES

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term interest-bearing bank borrowings with floating interest rates. For the year ended 31 December 2017, the effective interest rates for unsecured bank loans is 2.15% to 5.05%.

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchase by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to manage its exchange rate exposure.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentration of credit risk is managed by customer/counterparty, by geographical region and by industry sector.

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. In addition, the Group had borrowed bank facilities for use on a continuing basis.

For further details of the principal risks and uncertainties, please refer to note 41 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and its financial position as at that date are set out in the consolidated financial statements from pages 48 to 115 in this annual report.

The Board proposed to recommend the payment of a final dividend of HK$3 cents per Share for the year ended 31 December 2017 (corresponding period in 2016: HK$1.5 cent).

USE OF PROCEEDS FROM LISTING

Net proceeds of approximately HK$593.0 million were raised from the listing of the Company's shares on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") in October 2010.

As at 31 December 2017, the total net proceeds from the listing of the Company (the "**Listing**") had been fully utilised for repayment of bank borrowings, land acquisition and construction of buildings for expansion of production capacity, building construction for research and development and working capital and general corporate expenses.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 116 in this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year of 2017 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the Company's issued share capital during the year of 2017 are set out in note 29 to the consolidated financial statements.

Prior to the Listing, the Company conditionally adopted a share option scheme (the "**Share Option Scheme**") on 23 September 2010 which became effective and unconditional upon the Listing. The purpose of the Share Option Scheme is to enable the Group to grant options to the Eligible Participants (as defined in the section headed "Share Option Scheme" in the prospectus of the Company dated 30 September 2010) as rewards or incentives for their contributions to the Group.

The Board may, at its absolute discretion, offer an option to Eligible Participants to subscribe for the shares of the Company at an exercise price and subject to the terms of the Share Option Scheme. The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 136,604,000 shares of the Company, being 10% of the total number of shares in issue at the time of the Listing.

The total number of shares of the Company issued and to be issued upon exercise of the options granted to or to be granted to each Eligible Participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares in issue. The Share Option Scheme will remain in force for a period of 10 years. Under the Share Option Scheme, each option has a 10-year exercise period unless otherwise determined by the Board.

Details of movements in the share options under the Share Option Scheme for the year ended 31 December 2017 and share options outstanding as at the beginning and the end of the year are set out below:

		Number of share options									
Name of grantees	Date of grant	As at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled/ Forfeited during the year	As at 31 December 2017	Exercise price per share *(HK$)*	Share price immediately before the grant date *(HK$ per share)*	Fair value of share options *(HK$ per share)*	Exercisable period
Mr. Xiang Jie *(Chairman of the Board, executive Director and substantial Shareholder of the Company)*	26 April 2012	12,000,000	–	–	–	–	12,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
	28 May 2013	1,350,000	–	–	–	–	1,350,000	0.68	0.64	0.27	28 May 2014 to 27 May 2019
	28 August 2014	20,000,000	–	–	–	–	20,000,000	0.69	0.61	0.88	28 August 2015 to 27 August 2020
Mr. Gong Renyuan *(Chief executive officer and executive Director)*	27 April 2011	1,350,000	–	–	(1,350,000)	–	–	1.83	1.79	0.83	27 April 2012 to 26 April 2017
	26 April 2012	1,500,000	–	–	–	–	1,500,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
	28 May 2013	750,000	–	–	–	–	750,000	0.68	0.64	0.27	28 May 2014 to 27 May 2019
	28 August 2014	10,000,000	–	–	–	–	10,000,000	0.69	0.61	0.33	28 August 2015 to 27 August 2020
Mr. Yue Zhoumin *(Executive Director)*	27 April 2011	420,000	–	–	(420,000)	–	–	1.83	1.79	0.83	27 April 2012 to 26 April 2017
	26 April 2012	1,000,000	–	–	–	–	1,000,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
	28 May 2013	600,000	–	–	–	–	600,000	0.68	0.64	0.27	28 May 2014 to 27 May 2019
	28 August 2014	2,000,000	–	–	–	–	2,000,000	0.69	0.61	0.33	28 August 2015 to 27 August 2020

Name of grantees	Date of grant	Number of share options: As at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled/ Forfeited during the year	As at 31 December 2017	Exercise price per share *(HK$)*	Share price immediately before the grant date *(HK$ per share)*	Fair value of share options *(HK$ per share)*	Exercisable period
Ms. Ren Jie *(senior management and the spouse of Mr. Gong Renyuan)*	27 April 2011	420,000	–	–	(420,000)	–	–	1.83	1.79	0.81	27 April 2012 to 26 April 2017
	26 April 2012	250,000	–	–	–	–	250,000	0.55	0.47	0.23	26 April 2013 to 25 April 2018
	28 May 2013	450,000	–	–	–	–	450,000	0.68	0.64	0.27	28 May 2014 to 27 May 2019
	28 August 2014	1,200,000	–	–	–	–	1,200,000	0.69	0.61	0.33	28 August 2015 to 27 August 2020
		53,290,000	–	–	(2,190,000)	–	51,100,000				
Employees in aggregates	27 April 2011	5,980,000	–	–	(5,980,000)	–	–	1.83	1.79	0.79	27 April 2012 to 26 April 2017
	26 April 2012	3,408,000	–	(3,258,000)	–	–	150,000	0.55	0.47	0.20	26 April 2013 to 25 April 2018
	28 May 2013	5,080,500	–	(4,278,000)	–	–	802,500	0.68	0.64	0.26	28 May 2014 to 27 May 2019
	28 August 2014	17,542,000	–	(11,230,500)	–	(175,000)	6,136,500	0.69	0.61	0.31	28 August 2015 to 27 August 2020
	24 August 2016	5,200,000	–	(350,000)	–	–	4,850,000	1.17	1.19	0.53	24 August 2016 to 23 August 2022
Other grantees	27 April 2011	4,000,000	–	–	(4,000,000)	–	–	1.83	1.79	0.83	27 April 2012 to 26 April 2017
Total		94,500,500	–	(19,116,500)	(12,170,000)	(175,000)	63,039,000				

Further details of the Share Option Scheme are disclosed in note 30 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 51 in this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands (the "**Companies Law**"), amounted to approximately RMB679.9 million (2016: RMB415.8 million), of which final dividend has not been proposed for the year ended 31 December 2017. In addition, under the Companies Law, the share premium account of the Company of approximately RMB679.9 million as at 31 December 2017 (2016: RMB415.8 million) was distributable to the Shareholders (subject to the provisions of the memorandum and Articles of Association), provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend, if any, is proposed to be paid. The Company's share premium account may be distributed in the form of fully paid bonus shares.

DIRECTORS

The Directors during the year of 2017 and up to the date of this annual report were as follows:

Executive Directors
Mr. Xiang Jie
Mr. Gong Renyuan
Mr. Yue Zhoumin

Non-Executive Directors
Mr. Yan Fuquan (appointed on 12 October 2017)
Mr. Zhu Ming (appointed on 12 October 2017)
Ms. Zhang Ling (appointed on 4 December 2017)

Independent Non-executive Directors
Mr. Wang Yi (resigned on 24 March 2017)
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Leung Ming Shu (appointed on 24 March 2017)
Mr. Zhao Hang (appointed on 4 December 2017)

In accordance with Articles 83(3) and 84(1) of the Articles of Association, Mr. Xiang Jie, Mr. Gong Renyuan, Mr. Yan Fuquan, Mr. Zhu Ming, Ms. Zhang Ling and Mr. Zhao Hang will retire by rotation and be eligible to offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each independent non-executive Director an annual confirmation of his independence from the Group, and as at the date of this annual report, the Company still considers them to be independent pursuant to Rule 3.13 of the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Company are set out under the section headed "Biographies of Directors and Senior Management" in this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has first been appointed for a term of three years commencing on the date of the Listing. Subsequently, Mr. Xiang Jie entered into supplemental service agreements dated 1 June 2012 and 1 June 2015 under which his term of office would be three years from the date of the respective supplemental agreement. On 1 June 2016, Mr. Gong Renyuan entered into a supplemental service agreement for a term of three years from the date of the said supplemental agreement. On 28 May 2014 and 28 May 2017, Mr. Yue Zhoumin entered into a supplemental service agreement for a term of three years from the date of the said supplemental agreement.

Mr. Yan Fuquan and Mr. Zhu Ming have first been appointed for a term of three years commencing on 12 October 2017 as non-executive Directors of the Group. Ms. Zhang Ling has first been appointed for a term of three years commencing on 4 December 2017 as a non-executive Director of the Group.

The independent non-executive Directors, namely Mr. Chen Shimin, Mr. Zhang Xuejun, Mr. Leung Ming Shu and Mr. Zhao Hang have first been appointed for a term of three years commencing on 19 August 2010, 19 December 2016, 24 March 2017 and 4 December 2017, respectively. Subsequently, Mr. Chen Shimin entered into a supplemental letter of appointment for a term of three years commencing on 28 May 2014 and 28 May 2017.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Board has the general power of determining the Directors' remuneration, subject to authorisation of the Shareholders at the annual general meeting each year. The remuneration of the executive Directors is subject to review by the remuneration committee, and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group. As for the non-executive Directors and the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the remuneration committee. Details of the emoluments of the Directors are set out in note 8 and the five highest paid individuals are set out in note 9 to the consolidated financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACTS

During the year of 2017, no Director had material beneficial interest, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which any member of the Group was a party.

PERMITTED INDEMNITY

Under the Articles of Association, the Directors are indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expense whatsoever, which they or any of them incur as a result of any act or failure to act in carrying out their functions other than such liability (if any), that they may incur by reason of their own fraud or dishonesty. Such permitted indemnity provision has been in force for the year ended 31 December 2017. The Company has arranged appropriate liability insurance coverage for the Directors.

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

As at 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "**SFO**"), as recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(a) Long positions in the shares, underlying shares and debentures of the Company

Name of Director	Nature of interest	Number of ordinary shares	Number of underlying shares held under equity derivatives *(Note 4)*	Total	Approximate percentage of interest in the Company *(Note 5)*
Mr. Xiang Jie	Beneficial owner and interest in controlled corporation	343,182,347 *(Note 1)*	33,350,000	376,532,347	23.48%
Mr. Gong Renyuan	Beneficial owner and the interest of spouse	5,210,000 *(Note 2)*	14,150,000 *(Note 3)*	19,360,000	1.21%
Mr. Yue Zhoumin	Beneficial owner	2,000,000	3,600,000	5,600,000	0.35%

Notes:

1. As at 31 December 2017, among the 343,182,347 shares, 4,854,000 shares were directly held by Mr. Xiang Jie and the remaining 338,328,347 shares were directly held by Max Vision Holdings Limited. As at 31 December 2017, Max Vision Holdings Limited was wholly owned by Jiekun Limited, which was wholly owned by BNP Paribas Corporate Services Pte Ltd.. As at 31 December 2017, BNP Paribas Corporate Services Pte Ltd. was wholly owned by BNP Paribas Singapore Trust Corporation Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries. Ms. Meng Fankun, being the spouse of Mr. Xiang Jie, is deemed under the SFO to be interested in the 376,532,347 shares in which Mr. Xiang Jie was interested.

2. As at 31 December 2017, among the 5,210,000 shares, 2,810,000 shares were held by Mr. Gong Renyuan and the remaining 2,400,000 shares were held by Ms. Ren Jie, the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan was deemed under the SFO to be interested in the 2,400,000 shares held by Ms. Ren Jie.

3. Among the 14,150,000 shares which may be issued upon the exercise of the share options, 12,250,000 shares represented the shares which may be issued upon the exercise of the share options granted to Mr. Gong Renyuan and the remaining 1,900,000 shares represented the shares which may be issued upon the exercise of the share options granted to Ms. Ren Jie, being the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan was deemed under the SFO to be interested in the 1,900,000 shares which may be issued upon the exercise of the share options granted to Ms. Ren Jie.

4. Such interests represented the interests in underlying shares in respect of share options granted by the Company to the relevant Directors as beneficial owners, the details of which are set out in the paragraph headed "Share Capital and Share Option Scheme".

5. There were 1,603,875,000 shares in issue as at 31 December 2017.

(b) Short position in the shares, underlying shares and debentures of the Company

None of the Directors or the chief executives of the Company had short positions in the shares, underlying shares and debentures of the Company or its associated corporations as at 31 December 2017.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year of 2017 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was any member of the Group a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2017, to the best knowledge of the Directors, the records of interests (being 5% or more of the issued share capital of the Company, other than the Directors or the chief executive of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

(a) Long positions in the shares and underlying shares of the Company

Name of substantial Shareholder	Nature of interest	Total number of shares held	Approximate percentage of interests in the Company (Note 8)
Max Vision Holdings Limited	Beneficial owner	338,328,347 (Note 1)	21.09%
Jiekun Limited	Interest in controlled corporation	338,328,347 (Note 1)	21.09%
BNP Paribas Corporate Service Pte Ltd.	Interest in controlled corporation	338,328,347 (Note 1)	21.09%
BNP Paribas Singapore Trust Corporation Limited	Interest in controlled corporation	338,328,347 (Note 1)	21.09%
Meng Fankun	Interest of spouse	376,532,347 (Notes 1 and 2)	23.48%
China High-Tech Holding Company Ltd.	Beneficial owner	300,000,000 (Note 3)	18.70%
China High-Tech Group Corporation	Interest in controlled corporation	300,000,000 (Note 4)	18.70%
Guojing Capital Limited (國晶資本有限公司)	Beneficial owner	200,000,000 (Note 5)	12.47%
China Venture Capital Fund Corporation Ltd. (中國國有資本風險投資基金股份有限公司)	Interest in controlled corporation	200,000,000 (Note 5)	12.47%
China Reform Venture Capital Investment Management (Shenzhen) Ltd. (國新(深圳)投資有限公司)	Interest in controlled corporation	200,000,000 (Note 6)	12.47%
China Reform Holdings Corporation Ltd. (中國國新控股有限責任公司)	Interest in controlled corporation	200,000,000 (Note7)	12.47%

Notes:

1. As at 31 December 2017, Max Vision Holdings Limited was wholly owned by Jiekun Limited, which was wholly owned by BNP Paribas Corporate Services Pte Ltd.. As at 31 December 2017, BNP Paribas Corporate Services Pte Ltd. was wholly owned by BNP Paribas Singapore Trust Corporation Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries. As such, Jiekun Limited, BNP Paribas Corporate Service Pte Ltd. and BNP Paribas Singapore Trust Corporation Limited were deemed under the SFO to be interested in the 338,328,347 shares held by Max Vision Holdings Limited.

2. Ms. Meng Fankun, being the spouse of Mr. Xiang Jie, was deemed under the SFO to be interested in the 376,532,347 shares in which Mr. Xiang Jie was interested.

3. On 24 July 2017, China Hi-Tech Holding Company Limited entered into a sale and purchase agreement with Max Vision Holdings Limited, Mr. Gong Renyuan and Mr. Yue Zhoumin as sellers, pursuant to which Max Vision Holdings Limited, Mr. Gong Renyuan and Mr. Yue Zhoumin sold and China Hi-Tech Holding Company Limited purchased an aggregate of 125,000,000 shares in the Company. China Hi-Tech Holding Company Limited also entered into a sale and purchase agreement dated 22 July 2017 with certain Shareholders for the sale and purchase of an aggregate of 175,000,000 shares of the Company. As such, China Hi-Tech Holding Company Limited hold an aggregate of 300,000,000 shares in the Company.

4. As at 31 December 2017, China Hi-Tech Holding Company Limited was wholly owned by China Hi-Tech Group Corporation. As such, China Hi-Tech Group Corporation was deemed under the SFO to be interested in the 300,000,000 shares in which China Hi-Tech Holding Company Limited was interested.

5. On 21 July 2017, the Company entered into the subscription agreement with China Venture Capital Fund Corporation Ltd., a total of 200,000,000 subscription shares have been allotted and issued by the Company under the subscription. On 6 December 2017, China Venture Capital Fund Corporation Ltd. procured its nominee, being Guojing Capital Limited, to subscribe for the 200,000,000 subscription shares. For details, please refer to the announcements of the Company dated 21 July 2017 and 6 December 2017, respectively. As at 31 December 2017, Guojing Capital Limited was wholly owned by China Venture Capital Fund Corporation Ltd.. As such, China Venture Capital Fund Corporation Ltd. is deemed to be interested in the 200,000,000 shares held by Guojing Capital Limited.

6. As at 31 December 2017, China Reform Venture Capital Investment Management (Shenzhen) Ltd. held approximately 35.29% equity interests in China Venture Capital Fund Corporation Ltd.. As such, China Reform Venture Capital Investment Management (Shenzhen) Ltd. was deemed under the SFO to be interested in the 200,000,000 shares held indirectly by China Venture Capital Fund Corporation Ltd.

7. As at 31 December 2017, China Reform Holdings Corporation Ltd. held 100% equity interest in China Reform Venture Capital Investment Management (Shenzhen) Ltd. As such, China Reform Holdings Corporation Ltd. was deemed under the SFO to be interested in the 200,000,000 shares held indirectly by China Reform Venture Capital Investment Management (Shenzhen) Ltd.

8. There were 1,603,875,000 shares in issue as at 31 December 2017.

(b) Short position in the shares and underlying shares of the Company

Save as disclosed above, as at 31 December 2017, the Company had not been notified of any interest or short position in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company under section 336 of the SFO.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the single largest Shareholders, being Mr. Xiang Jie and Max Vision Holdings Limited, in respect of their compliance with the non-competition undertaking. The independent non-executive Directors have reviewed the aforesaid undertaking and are of the view that Mr. Xiang Jie and Max Vision Holdings Limited had complied with the non-competition undertaking during the year of 2017.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were 1,603,875,000 shares of the Company in issue as at 31 December 2017.

During the year ended 31 December 2017, the Company purchased 10,426,000 shares of the Company at an aggregate purchase price before expense of HK$18,169,200 on the Stock Exchange. Details of the purchase of such shares were as follows:

Month of purchase	Number of shares purchased	Highest price paid per share (HK$)	Lowest price paid per share (HK$)	Aggregate purchase price (HK$)
November	516,000	1.60	1.56	815,900
December	9,910,000	1.87	1.56	17,353,300

The 4,604,000 purchased shares were cancelled during the year under review, while the remaining 5,822,000 purchased shares were cancelled in January 2018.

The aforementioned purchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the market price per share and to improving the confidence of investors in the Company.

PRE-EMPTIVE RIGHTS

Unless otherwise required by the Stock Exchange, there were no provisions under the Articles of Association or the laws of the Cayman Islands (being the jurisdiction in which the Company is incorporated) which would oblige the Company to offer any pre-emptive right of new shares on a pro-rata basis to the Shareholders.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company are set out in note 38 to the consolidated financial statements.

HUMAN RESOURCES

As at 31 December 2017, the Group employed 667 employees. Key components of the Group's remuneration packages included basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The Group conducts periodic reviews on the performance of our employees and their salaries and bonuses are performance-based. The Group did not experience any significant problem with our employees or disruptions to our operations due to labour disputes, nor did the Group experience any difficulty in the recruitment and retention of experienced employees. The Group continues to maintain a good relationship with our employees.

FOREIGN CURRENCY EXPOSURE

Details of the foreign currency exposure for the year ended 31 December 2017 are set out on page 112 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

According to information publicly available to the Company and to the knowledge of the Directors, as at the date of this annual report, at least 25% of the Company's total issued share capital was held by the public.

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year of 2017 are set out in note 29 to the consolidated financial statements.

DONATIONS

For the year ended 31 December 2017, the Group had made charitable donation amounted to RMB275,940 (31 December 2016: RMB70,000).

MAJOR SUPPLIERS AND CUSTOMERS

In the year of 2017, the Group's five largest suppliers accounted for approximately 39.3% (2016: 50.8%) of the Group's total purchases. The Group's largest supplier accounted for approximately 16.8% (2016: 37.9%) of the Group's total purchases.

In the year under review, the Group's sales to its five largest customers accounted for approximately 41.4% (2016: 44.5%) of the Group's total sales. The Group's largest customer accounted for approximately 13.2% (2016: 15.6%) of the Group's total sales.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any Shareholders (who, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers or five largest suppliers.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as disclosed in the section headed "Share Capital and Share Option Scheme" of this Report of the Directors, the Company has not entered into any equity-linked agreement for the year ended 31 December 2017.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The audit committee was established on 19 August 2010 with written terms of reference in compliance with the Listing Rules. The audit committee is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any issues regarding the resignation or dismissal of that auditors; monitoring the integrity of financial statements, annual reports and accounts, interim reports and, (if prepared for publication) quarterly reports, and reviewing material financial reporting judgments therein; and reviewing the systems of financial control, internal control and risk management.

The audit committee has reviewed with the management of the Group the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2017. The consolidated financial statements for the year ended 31 December 2017 have been audited by the Company's external auditor, Ernst & Young.

CORPORATE GOVERNANCE

The Company has published its corporate governance report, which is set out from pages 17 to 24 in this annual report.

ENVIRONMENT POLICIES AND PERFORMANCE

The Group is committed to enhancing environmental protection to minimise the impact of its activities on the environment. It is policy of the Group to promote clean operation and strive to making the most efficient use of resources in its operations, and minimising wastes and emission. The Group achieves this through actively re-designing its production activities and operation that encourage and promote recycling of resources, using environmental friendly raw materials and reviewing production operations constantly to ensure that the production processes are effective and efficient.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group adheres to people-oriented principle and offer reasonable treatment to employees. Meanwhile, it retains talents and constantly improves policies including remuneration and benefits, trainings and occupational health and safety with regular reviews and updates. The Group maintains sound relationship with customers. In order to perfect the service, the Group established a complaint management mechanism including complaints collection, analysis and research and improvement recommendation. The Group maintains sound relationship with suppliers, on which it conducts fair and strict inspection regularly.

COMPLIANCE WITH LAWS AND REGULATIONS

Established in the Cayman Islands, the Company operates its principle business in China, whereas its shares are listed on the Stock Exchange. Accordingly, our establishment and operations shall be subject to the relevant laws of the Cayman Islands, China and Hong Kong. During the year ended 31 December 2017 and as of the date of this annual report, we were in compliance with the relevant laws and regulations of the Cayman Islands, China and Hong Kong.

CLOSURE OF REGISTER

In order to establish the identity of the Shareholders who are entitled to attend and vote at the annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 26 April 2018. The register of members of the Company will be closed from Friday, 27 April 2018 to Thursday, 3 May 2018, both days inclusive, during which period no transfer of shares will be registered.

In order to establish the identity of the Shareholders who are entitled to the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 31 May 2018. The register of members of the Company will be closed from Friday, 1 June 2018 to Tuesday, 5 June 2018, both days inclusive, during which period no transfer of shares will be registered. Subject to Shareholders' approval of the proposed final dividend at the annual general meeting to be held on Thursday, 3 May 2018, the final dividend will be paid on or around Friday, 15 June 2018 to Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, 5 June 2018.

AUDITOR

Ernst & Young retire and a resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

PROSPECTS

Looking forward, China will continue to adhere to the two major initiatives of "replacement of other energy with clean energy" and "replacement of other energy with electricity", and to accelerate energy structure adjustment and technology reform. Under the rapid enhancement of the scale of new energy power generation, the power transmission and distribution sector, power electronic technology and industry, as represented by the UHVDC transmission, flexible direct current technology and micro-grid technology, will welcome a long-term rapid development. Besides, the rapid development in the fields of electrified rails, new energy vehicles and national defense will also bring unprecedented opportunities for the development of power electronic technology and its industry.

It is stated in the "Energy Sector Development in the 13th Five-Year Plan" (《電力發展「十三五」規劃》) that the energy transmission capacity of "West-to-East Power Transmission" shall increase by 130 million KW during the "13th Five-Year" period. From 2016 to the end of 2017, the State Grid and the Southern Grid had a total of seven new UHVDC transmission projects under construction or in operation, but the increased transmission capacity only reached approximately 55% of the targeted transmission capacity of the "13th Five-Year" plan. In addition, to cope with China's "One Belt and One Road" strategy, China has planned for the construction of a number of cross-border UHVDC transmission grid lines. Last but not least, with the expansion to overseas grid market by the domestic grid companies, it will be beneficial to the promotion of China's UHVDC transmission technology to overseas markets. Therefore, in the next three years, UHVDC transmission technology will still have relatively large potential market demand.

As a new direct current transmission technology, flexible direct current is particularly suitable for the grid connection and efficient transmission of clean energy in large scale, and is particularly suitable for the enhancement of power distribution capabilities among the grids through power grid interconnection. Through self-research and development, China's flexible direct current transmission technology has reached to the world-leading level and successfully engaged in overseas markets. In 2018, the construction of the "500 KV flexible direct current grid project in Zhangbei" (500千伏張北柔性直流電網工程) and the "800 KV direct current project in Wudongde" (800千伏烏東德直流工程) are expected to commence. In the long run, with China's vigorous promotion for the strategies of clean energy, the market demand for flexible direct current technology will increase rapidly.

The Group supplies a wide range of core devices for HVDC transmission equipment, which have been widely applied in UHVDC projects and flexible direct current transmission projects. The Group will continue to understand the large variety of products in the flexible direct current transmission market by launching new products with high technology and reliable performance, so as to grasp the opportunity for the rapid development in flexible direct current transmission market.

With the application of electricity in the field of energy consumption continues to develop, the transportation field – which includes rail transportation, land vehicles, vessels and aircraft – is entering into the development stage of full electrification. New energy vehicles are becoming a focus in the electrification of transportation field, with electrified rail already in widespread use nowadays. According to information published by the China Association of Automobile Manufacturers (CAAM), China's production volume for new energy vehicles reached 794,000 in 2017. Based on the objectives of the "13th Five-Year National Strategic Emerging Industry Development Plan" (《「十三五」國家戰略性新興產業發展規劃》), the sales volume for new energy vehicles will reach 2 million in year 2020. The power electronic devices, as represented by motor controller, are the important and necessary components of new energy vehicles. With the significant growth in the sales volume of new energy vehicles, the demand for various types of power electronic components used in new energy vehicles shall grow in line.

As an industry-leading power electronic components and solutions provider, the Group regards the new energy vehicle sector as an important market for the Company's long-term development. In addition to our laminated busbars that have achieved outstanding results in the new energy vehicle sector, the Group plans to develop and promote a number of new products in the new energy vehicle sector including digital IGBT drivers and power electronic capacitors in 2018.

Looking forward, as one of the fundamental technologies for highly efficient energy, power electronic technology has a wide range of application needs and great potential for further innovation and development in different fields of production and living. The Group is committed to develop its world-leading R&D capability. With the continuous introduction of new technologies and new products, the Group will facilitate the advancement of power technology in China and achieve the rapid growth of the Company's profits.

On behalf of the Board

Xiang Jie
Chairman

Hong Kong, 13 March 2018

EY 安永

To the shareholders of Sun.King Power Electronics Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Sun.King Power Electronics Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 48 to 115, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and trademark	
Management performs impairment testing annually for the cash-generating unit (the "**CGU**") to which the goodwill and trademark were allocated. The calculation of the CGU's net recoverable value is complex and involves significant management's judgement and estimation, such as the forecasted cash flows, revenue growth rates and discount rates, which are sensitive to expected future market conditions and the CGU's actual performance. Related disclosures are included in notes 15 and 16 to the financial statements.	Our audit procedures included the evaluation of key assumptions including those related to the growth rates of revenue, gross profit margin and discount rates applied. In performing our audit procedures, we involved our internal valuation specialists to assess the assumptions applied by benchmarking against independent data. We considered the historical financial performance of the business units and compared with the original forecasts to evaluate the accuracy of management's budgeting process.

To the shareholders of Sun.King Power Electronics Group Limited
(Incorporated in the Cayman Islands with limited liability)

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Recoverability of trade receivables	
Trade receivables constituted a significant portion of total assets as at 31 December 2017 and the Group was exposed to credit risks thereof. When determining whether a trade receivable is collectable, significant management judgement is involved, taking into account various factors including the age of the balance, existence of disputes, recent historical payment patterns and other available information concerning the creditworthiness of the customer. Relevant disclosures are included in note 21 to the financial statements.	Our audit procedures included the assessment of the Group's controls relating to the monitoring of trade receivables. We performed the ageing analysis, obtained direct external confirmations from customers to confirm the receivable balances on a sampling basis and considered the receipts from customers subsequent to 31 December 2017. We also evaluated the adequacy of the Group's provision for trade receivables by reference to the Group's debtor collection history.
Provision for inventories	
Inventories contributed a significant portion of total assets as at 31 December 2017 and the Group was exposed to inventory obsolete and excess risks as a result of the technology innovation and macroeconomic challenges. The determination of provision is accordingly complex because it depends on the future net recoverable amounts. The determination of the future recoverable amounts involves significant management judgements and estimates of the market condition, future sales and inventory liquidation plans and so on. Relevant disclosures are included in note 20 to the financial statements.	Our audit procedures included the understanding of the Group's accounting policy of provision for inventories. We performed the ageing analysis and considered the inventories' usage and sales as well as turnover days during the year. We also re-calculated the impairment amounts of the inventories at year end based on management's methodology.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

To the shareholders of Sun.King Power Electronics Group Limited
(Incorporated in the Cayman Islands with limited liability)

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by 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 of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company 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. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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.

To the shareholders of Sun.King Power Electronics Group Limited
(Incorporated in the Cayman Islands with limited liability)

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current 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 Wong Kwok Yin.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
13 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000
REVENUE	*5*	**1,155,400**	856,952
Cost of sales		**(692,248)**	(523,249)
Gross profit		**463,152**	333,703
Other income and gains	*5*	**37,113**	33,393
Selling and distribution expenses		**(82,284)**	(78,291)
Administrative expenses		**(87,481)**	(79,771)
Research and development costs		**(44,358)**	(33,980)
Other expenses and losses		**(20,527)**	(4,874)
Finance costs	*7*	**(17,837)**	(16,860)
Share of profits and losses of:			
A joint venture		**(28)**	(30)
Associates		**2,204**	17,814
PROFIT BEFORE TAX	*6*	**249,954**	171,104
Income tax expense	*10*	**(46,213)**	(24,230)
PROFIT FOR THE YEAR		**203,741**	146,874
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(262)**	(25)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(262)**	(25)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**203,479**	146,849
Profit attributable to:			
Owners of the parent		**194,887**	143,856
Non-controlling interests		**8,854**	3,018
		203,741	146,874
Total comprehensive income attributable to:			
Owners of the parent		**194,717**	143,840
Non-controlling interests		**8,762**	3,009
		203,479	146,849
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*12*		
Basic		**RMB13.77 cents**	RMB10.37 cents
Diluted		**RMB13.41 cents**	RMB10.13 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**323,581**	323,933
Prepaid land lease payments	14	**36,361**	55,115
Deposits for purchase of items of property, plant and equipment		**1,703**	300
Goodwill	15	**41,037**	41,037
Other intangible assets	16	**34,897**	36,302
Club memberships		**1,554**	1,554
Investment in a joint venture	17	**15,592**	15,620
Investments in associates	18	**27,000**	23,297
An available-for-sale investment	19	**–**	199
Trade receivables	21	**104,155**	60,282
Prepayment for an investment		**–**	7,500
Deferred tax assets	28	**11,430**	10,079
Total non-current assets		**597,310**	575,218
CURRENT ASSETS			
Inventories	20	**186,255**	252,301
Trade and bills receivables	21	**879,304**	765,276
Prepayments, deposits and other receivables	22	**67,671**	69,875
Prepaid land lease payments	14	**952**	1,362
Derivative financial instruments	26	**–**	789
Pledged deposits	23	**27,517**	32,756
Cash and cash equivalents	23	**513,015**	103,023
Total current assets		**1,674,714**	1,225,382
CURRENT LIABILITIES			
Trade and bills payables	24	**238,845**	236,587
Other payables and accruals	25	**117,445**	146,386
Derivative financial instruments	26	**130**	–
Interest-bearing bank borrowings	27	**327,184**	327,357
Tax payable		**45,353**	25,733
Total current liabilities		**728,957**	736,063
NET CURRENT ASSETS		**945,757**	489,319
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,543,067**	1,064,537

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,543,067**	1,064,537
NON-CURRENT LIABILITIES			
Other payables	*25*	**–**	8,170
Deferred income		**12,659**	12,806
Deferred tax liabilities	*28*	**9,255**	14,435
Total non-current liabilities		**21,914**	35,411
Net assets		**1,521,153**	1,029,126
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*29*	**137,476**	119,283
Treasury shares	*29*	**(8,773)**	–
Reserves	*31*	**1,313,372**	885,221
		1,442,075	1,004,504
Non-controlling interests		**79,078**	24,622
Total equity		**1,521,153**	1,029,126

Xiang Jie
Director

Yue Zhoumin
Director

		Attributable to owners of the parent											
	Notes	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Employee share-based compensation reserve RMB'000 (note a)	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000 (note b)	Other reserve RMB'000 (note c)	Retained profits/ (accumulated losses) RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016		118,775	-	411,695	26,451	288	14,765	244,978	57,780	-	874,732	16,239	890,971
Profit for the year		-	-	-	-	-	-	-	143,856	-	143,856	3,018	146,874
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(16)	(16)	(9)	(25)
Total comprehensive income for the year		-	-	-	-	-	-	-	143,856	(16)	143,840	3,009	146,849
Acquisition of a subsidiary		-	-	-	-	-	-	-	-	-	-	5,374	5,374
Exercise of share options	30	508	-	4,100	(1,346)	-	-	-	-	-	3,262	-	3,262
Share-based payments	30	-	-	-	6,374	-	-	-	-	-	6,374	-	6,374
Final 2015 dividends		-	-	2,297	-	-	-	-	(13,986)	-	(11,689)	-	(11,689)
Interim 2016 dividends		-	-	-	-	-	-	-	(12,015)	-	(12,015)	-	(12,015)
At 31 December 2016 and at 1 January 2017		**119,283**	**-**	**418,092***	**31,479***	**288***	**14,765***	**244,978***	**175,635***	**(16) ***	**1,004,504**	**24,622**	**1,029,126**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**194,887**	**-**	**194,887**	**8,854**	**203,741**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(170)**	**(170)**	**(92)**	**(262)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**194,887**	**(170)**	**194,717**	**8,762**	**203,479**
Changes in the ownership interests in subsidiaries		**-**	**-**	**-**	**-**	**-**	**-**	**(4,347)**	**-**	**-**	**(4,347)**	**4,347**	**-**
Capital injection from NCI		**-**	**-**	**-**	**-**	**-**	**-**	**(1,347)**	**-**	**-**	**(1,347)**	**41,347**	**40,000**
Exercise of share options	30	**1,671**	**-**	**14,354**	**(4,789)**	**-**	**-**	**-**	**-**	**-**	**11,236**	**-**	**11,236**
Share-based payments	30	**-**	**-**	**-**	**3,702**	**-**	**-**	**-**	**-**	**-**	**3,702**	**-**	**3,702**
Transfer from retained profits		**-**	**-**	**-**	**-**	**-**	**-**	**36,533**	**(36,533)**	**-**	**-**	**-**	**-**
Final 2016 dividends		**-**	**-**	**(18,214)**	**-**	**-**	**-**	**-**	**-**	**-**	**(18,214)**	**-**	**(18,214)**
Interim 2017 dividends	11	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(23,868)**	**-**	**(23,868)**	**-**	**(23,868)**
Issue of shares	29	**16,918**	**-**	**274,072**	**-**	**-**	**-**	**-**	**-**	**-**	**290,990**	**-**	**290,990**
Shares repurchased for cancellation	29	**(396)**	**(8,773)**	**(6,129)**	**-**	**396**	**-**	**-**	**(396)**	**-**	**(15,298)**	**-**	**(15,298)**
At 31 December 2017		**137,476**	**(8,773)**	**682,175***	**30,392***	**684***	**14,765***	**275,817***	**309,725***	**(186)***	**1,442,075**	**79,078**	**1,521,153**

Notes:

(a) The employee share-based compensation reserve represents the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will be transferred to the share premium account when the related options are exercised.

(b) The deemed contribution reserve represents share-based payment expense incurred and recognised by the Group as settled by issue of shares of Sun.King Group Limited (賽晶集團有限公司) ("**Sunking BVI**"), a former shareholder of the Company.

(c) The other reserve mainly arose from certain waivers of loans and/or advances by Sunking BVI to the Group in prior years and from acquisitions of non-controlling interests.

* *These reserve accounts comprise the consolidated reserves of RMB1,313,372,000 (2016: RMB885,221,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**249,954**	171,104
Adjustments for:			
Finance costs	*7*	**17,837**	16,860
Share of profits and losses of a joint venture and associates		**(2,176)**	(17,784)
Interest income	*5*	**(1,804)**	(1,274)
Loss/(gain) on disposal of items of property, plant and equipment and prepaid land lease payments	*5*	**(15,420)**	(10,941)
Gain on disposal of available-for-sale investments	*5*	**(802)**	(5,780)
Depreciation	*6*	**22,057**	22,775
Amortisation of other intangible assets	*6*	**2,558**	1,822
Impairment/(reversal of impairment) of trade and other receivables, net	*6*	**7,869**	(4,249)
Fair value loss/(gain) on foreign currency forward contracts, net	*5,6*	**2,285**	(2,800)
Amortisation of prepaid land lease payments	*6*	**1,328**	1,371
Amortisation of deferred income		**(4,767)**	(6,791)
Write-down of inventories to net realisable value	*6*	**1,599**	2,602
Impairment of an available-for-sale investment	*6*	**6,000**	–
Share-based payment expense	*6*	**3,702**	6,374
		290,220	173,289
Decrease/(increase) in inventories		**64,448**	(71,569)
Increase in trade and bills receivables		**(166,663)**	(135,687)
Decrease/(increase) in prepayments, deposits and other receivables		**45,111**	(12,730)
Increase in trade and bills payables		**2,258**	48,147
(Decrease)/increase in other payables and accruals		**(32,100)**	74,193
(Decrease)/increase in derivative financial instruments		**(1,366)**	871
Cash generated from operations		**201,908**	76,514
Interest paid		**(18,216)**	(16,860)
Income taxes paid		**(33,081)**	(22,707)
Effect of foreign exchange rate changes, net		**(39)**	–
Net cash flows from operating activities		**150,572**	36,947

	Notes	2017 RMB'000	2016 RMB'000
Net cash flows from operating activities		**150,572**	36,947
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,804**	1,053
Purchases of items of property, plant and equipment	*13*	**(29,551)**	(15,534)
Proceeds from disposal of items of property, plant and equipment		**2,414**	40,592
Increase in deposits for purchase of items of property, plant and equipment		**(1,403)**	(248)
Acquisition of a subsidiary		**(9,155)**	(6,596)
Receipt of government grants for property, plant and equipment		**4,620**	2,204
Additions to other intangible assets	*16*	**(1,395)**	(5)
Disposal of prepaid land lease payments		**–**	1,485
Disposal of club memberships		**–**	980
Decrease/(increase) in pledged deposits		**5,239**	(19,292)
Dividends received from an associate		**–**	7,800
Prepayment for an investment		**–**	(7,500)
Proceeds from disposal of available-for-sale investments		**–**	22,291
Net cash flows from/(used in) investing activities		**(27,427)**	27,230
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	*30*	**11,236**	3,262
New bank loans		**634,319**	616,779
Repayment of bank loans		**(634,492)**	(685,491)
Repurchase of own shares		**(13,109)**	–
Issue of shares		**290,990**	–
Capital injection from non-controlling shareholders		**40,000**	–
Dividends paid		**(42,082)**	(23,704)
Net cash flows from/(used in) financing activities		**286,862**	(89,154)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**410,007**	(24,977)
Cash and cash equivalents at beginning of year		**103,023**	128,004
Effect of foreign exchange rate changes, net		**(15)**	(4)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**513,015**	103,023
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*23*	**513,015**	103,023

1. CORPORATE AND GROUP INFORMATION

Sun.King Power Electronics Group Limited (the "**Company**") was incorporated as an exempted company with limited liability in the Cayman Islands on 19 March 2010. The ordinary shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with effect from 13 October 2010. The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the "**Group**") were principally engaged in the trading and manufacture of power electronic components.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Sunking Pacific Limited 賽晶亞太有限公司	Hong Kong	HK$1	100%	Investment holding
Jiashan Sunking Power Equipment Technology Co., Ltd.* 嘉善華瑞賽晶電氣設備科技有限公司	The PRC/ Mainland China	US$76,500,000	100%	Sale, research and development, after sales service and production of electrical/ electronic components and installation, including integrated gate bipolar transistors
Wuxi Sunking Power Capacitor Co., Ltd.* 無錫賽晶電力電容器有限公司	The PRC/ Mainland China	US$28,000,000	100%	Production of electrical capacitors and complete devices, amorphous alloy transformers, DC current anode saturable dry-type reactors, and FM voltage AC traction devices; trading agent of various products and technologies

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

Name	Place of incorporation/ registration and business	Issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Jiujiang Sun.king Technology Co., Ltd.** 九江賽晶科技股份有限公司	The PRC/ Mainland China	RMB100,000,000	62.25%	Manufacture and sale of rectifiers
Beijing Sunking Power Electronic Technology Co., Ltd.* 北京賽晶電力電子科技有限公司	The PRC/ Mainland China	RMB5,000,000	100%	Technology research for electronic power device railway equipment, sale and distribution of power electronic components, import and export of goods and technologies
Astrol Electronic AG	Switzerland	CHF100,000	65%	Manufacture and sale of pulsed power equipment, insulated gate bipolar transistor gate units, and other electronic parts

* *Registered as a wholly-foreign-owned enterprise under PRC law.*

** *Registered as a limited liability company under PRC law.*

All the above investments in subsidiaries are indirectly held by the Company.

Except for Sunking Pacific Limited and Astrol Electronic AG, the English names of all the above companies are direct translations of their registered Chinese names.

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) promulgated by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 7	*Disclosure Initiative*
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to IFRS 12 included in *Annual Improvements to IFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12*

None of the above amendments to IFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 34 to the financial statements upon the adoption of amendments to IAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
IFRS 9	*Financial Instruments*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[1]
IFRS 16	*Leases*[2]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 19	*Employee Benefits*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below:

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group does not expect that the adoption of IFRS 9 will have a significant impact on the impairment assessment of its financial assets.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in IFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. During 2017, the Group has performed a detailed assessment on the impact of the adoption of IFRS 15. The expected impacts arising from the adoption of IFRS 15 on the Group are summarised as follows:

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(a) Retention money receivable from customers

Generally, the Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis, subsequent to the fulfilment of certain conditions including delivery of goods or completion of installation as stipulated in the respective sales contracts. Under IFRS 15, the Group must determine whether there is a significant financing component in its contracts. For those contracts with customer which have payment terms of retention money, the Group concluded that they contain a significant financing component because of the length of time between when the customer pays for the goods and when the Group transfers goods to the customer, as well as the prevailing interest rates in the market. The transaction price for such contracts will be determined by discounting the amount of promised consideration using the appropriate discount rate.

(b) Presentation and disclosure

The presentation and disclosure requirements in IFRS 15 are more detailed than those under the current IAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation, if any. In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

IFRS 16, issued in January 2016, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases – Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is currently assessing the impact of IFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 36 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB10,938,000. Upon adoption of IFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to IAS 28 issued in October 2017 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

IFRIC 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Annual Improvements to IFRSs 2014-2016 Cycle, issued in December 2016, sets out amendments to IFRS 1, IFRS 12 and IAS 28. Except for the amendments to IFRS 12 which have been adopted by the Group for the current year's financial statements, the Group expects to adopt the amendments from 1 January 2018. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments to IFRS 1 and IAS 28 are as follows:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*: Deletes the short-term exemptions for first-time adopters because the reliefs provided in the exemptions are no longer applicable.

- IAS 28 *Investments in Associates and Joint Ventures*: Clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries when applying the equity method. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. These amendments should be applied retrospectively.

Annual Improvements to IFRSs 2015-2017 Cycle, issued in December 2017, sets out amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- IFRS 3 *Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

- IFRS 11 *Joint Arrangements*: Clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

- IAS 12 *Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

- IAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in an associate and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of the associate and joint ventures is included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint ventures are eliminated to the extent of the Group's investments in the associate or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate or joint ventures is included as part of the Group's investments in the associate or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

Buildings	1.9% to 19.0%
Leasehold improvements	Over the shorter of the lease term and 20%
Plant and machinery	4.8% to 31.7%
Furniture and fixtures	9% to 64.7%
Motor vehicles	10.0% to 24.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

Trademarks

Trademarks with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. These intangible assets are not amortised. The useful life of a trademark with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Patents, technology know-how, customer relationship and computer software

Patents, technology know-how, customer relationship and computer software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of not exceeding ten years.

Research and development costs

All research costs are charged to profit or loss as incurred.

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses and losses in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed or unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale financial investments *(continued)*

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

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

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost

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

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

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

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

Assets carried at cost

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

Available-for-sale financial investments

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as foreign currency forward contracts, to hedge its foreign currency risk. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

The fair value of foreign currency forward contracts is determined using the rates quoted by the Group's bankers to terminate the contracts at the end of the reporting period.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, in the period in which the services are recorded; and

(c) interest income, on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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

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

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

Pension schemes

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension schemes.

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in RMB, which is also the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profit or loss is translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

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

Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the distribution plan of dividends.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2017 was RMB41,037,000 (2016: RMB41,037,000). Further details are given in note 15.

Impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of trade and other receivables and the timing of their recovery. The identification of impairment of receivables requires management judgement and estimation. Where the actual outcome or expectation in future is different from the original estimates, the differences will impact on the carrying value of trade and other receivables and the amount of impairment/write-back of impairment in the periods in which the estimates have been changed. At 31 December 2017, the carrying amounts of trade and bills receivables and other receivables were RMB983,459,000 (2016: RMB825,558,000) and RMB61,783,000 (2016: RMB43,589,000), respectively.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which the estimate has been changed. At 31 December 2017, the carrying amount of inventories was RMB186,255,000 (2016: RMB252,301,000).

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets (2016: Nil) relating to tax losses were recognised at 31 December 2017. The amount of unrecognised tax losses at 31 December 2017 was RMB87,314,000 (2016: RMB43,650,000). Further details are contained in note 28 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has one reportable operating segment, which is the manufacture and trading of power electronic components.

Geographical information

As the Group's major operations, customers and non-current assets are located in the People's Republic of China (the "**PRC**"), no further geographical segment information is provided.

Information about a major customer

Revenue from a single customer that individually accounted for 10% or more of the Group's revenue is as follows:

	2017 RMB'000	2016 RMB'000
Customer A	**149,600**	134,020

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2017 RMB'000	2016 RMB'000
Revenue		
Sale of goods	**1,155,400**	856,952
Other income		
Government grants*	**12,250**	8,840
Interest income	**1,804**	1,274
Sale of scrap materials	**4,036**	1,946
Others	**2,801**	1,462
	20,891	13,522
Gains		
Gain on disposal of items of property, plant and equipment, net	**15,420**	10,941
Fair value gains on foreign currency forward contracts, net	**–**	2,800
Gain on disposal of available-for-sale investments	**802**	5,780
Others	**–**	350
	16,222	19,871
	37,113	33,393

* *Various government grants have been received for investments in certain regions in Mainland China in which the Company's subsidiaries operate as well as for the Group's technology advancements. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position. There are no unfulfilled conditions or contingencies relating to these government grants.*

6. PROFIT BEFORE TAX

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

	Notes	**2017** **RMB'000**	2016 RMB'000
Cost of inventories sold		**690,649**	520,647
Write-down of inventories to net realisable value		**1,599**	2,602
Cost of sales		**692,248**	523,249
Auditor's remuneration		**1,750**	1,750
Depreciation	*13*	**22,057**	22,775
Amortisation of other intangible assets	*16*	**2,558**	1,822
Amortisation of land lease payments	*14*	**1,328**	1,371
Minimum lease payments under operating leases		**3,170**	2,360
Impairment/(reversal of impairment) of trade and other receivables, net*	*21, 22*	**7,869**	(4,249)
Foreign exchange differences, net*		**4,374**	9,123
Impairment of an available-for-sale investment*		**6,000**	–
Fair value loss/(gain) on foreign currency forward contracts, net*		**2,285**	(2,800)
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**36,869**	30,460
Share-based payment expense		**3,702**	6,374
Pension scheme contributions**		**8,029**	7,340
		48,600	44,174

* *The impairment/(reversal of impairment) of trade and other receivables, net, impairment of an available-for-sale investment, fair value loss/(gain) on foreign currency forward contracts, net and foreign exchange losses, net are included in "Other expenses and losses" in the consolidated statement of profit or loss and other comprehensive income.*

** *At 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2016: Nil).*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017 **RMB'000**	2016 RMB'000
Interest on bank loans	**17,837**	16,860

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 RMB'000	2016 RMB'000
Fees	**855**	771
Other emoluments:		
Salaries, allowances and benefits in kind	**1,770**	1,915
Share-based payment expense	**1,581**	3,339
Pension scheme contributions	**104**	121
	3,455	5,375
	4,310	6,146

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

	2017 RMB'000	2016 RMB'000
Mr. Wang Yi*	**38**	156
Mr. Li Fengling***	**–**	156
Mr. Chen Shimin	**151**	156
Mr. Zhang Xuejun***	**151**	–
Mr. Leung Ming Shu*	**112**	–
Mr. Zhao Hang**	**151**	–
	603	468

* *Mr. Wang Yi resigned as an independent non-executive of the Company and Mr. Leung Ming Shu was appointed as an independent non-executive director of the Company on 24 March 2017.*

** *Mr. Zhao Hang was appointed as an independent non-executive director on 4 December 2017.*

*** *Mr. Li Fengling resigned as an independent non-executive director of the Company and Mr. Zhang Xuejun was appointed as an independent non-executive director of the Company on 19 December 2016.*

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors, non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Share-based payment expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2017					
Executive directors:					
Mr. Xiang Jie	**84**	**750**	**986**	**16**	**1,836**
Mr. Gong Renyuan*	**84**	**600**	**493**	**44**	**1,221**
Mr. Yue Zhoumin	**84**	**420**	**102**	**44**	**650**
	252	**1,770**	**1,581**	**104**	**3,707**
Non-executive directors:					
Mr. Yan Fuquan**	**–**	**–**	**–**	**–**	**–**
Mr. Zhu Ming**	**–**	**–**	**–**	**–**	**–**
Ms. Zhang Ling**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**
	252	**1,770**	**1,581**	**104**	**3,707**

* *Mr. Gong Renyuan is also the chief executive of the Company.*

** *Mr. Yan Fuquan and Mr. Zhu Ming were appointed as non-executive directors of the Company on 12 October 2017. Ms. Zhang Ling was appointed as a non-executive director of the Company on 4 December 2017. They will not receive any remuneration.*

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2016: Nil).

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Share-based payment expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
Executive directors:					
Mr. Xiang Jie	87	779	2,051	36	2,953
Mr. Gong Renyuan*	87	600	1,035	36	1,758
Mr. Yue Zhoumin	87	420	218	36	761
Mr. Jin Jiafeng**	21	116	35	13	185
	282	1,915	3,339	121	5,657
Non-executive director:					
Mr. Ye Weigang Greg**	21	–	–	–	21
	303	1,915	3,339	121	5,678

* *Mr. Gong Renyuan is also the chief executive of the Company.*

** *Mr. Jin Jiafeng resigned as an executive director of the Company and Mr. Ye Weigang Greg resigned as a non-executive director of the Company on 1 April 2016.*

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors which included the chief executive (2016: two directors which included the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2016: three) highest paid employees who are neither directors nor chief executive of the Company are as follows:

	2017	2016
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,109**	1,531
Share-based payment expense	**165**	291
Pension scheme contributions	**892**	486
	3,166	2,308

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

	Number of employees	
	2017	2016
Nil to RMB1,000,000	**–**	3
RMB1,500,001 to RMB2,000,000	**2**	–
	2	3

In prior years, share options were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to corporate income tax ("CIT") at a rate of 25%.

Jiashan Sunking Power Equipment Technology Co., Ltd. and Zhejiang Saiying Power Technology Co., Ltd., subsidiaries of the Company, were registered as new and high technology enterprises, and are subject to CIT at a rate of 15% for the three years ending 31 December 2018.

Jiujiang Sun.king Technology Co., Ltd., a subsidiary of the Company, was registered as a new and high technology enterprise, and is subject to CIT at a rate of 15% for the three years ending 31 December 2019.

Wuhan Langde Electrics Co., Ltd., a subsidiary of the Company, was registered as a new and high technology enterprise, and is subject to CIT at a rate of 15% for the three years ending 31 December 2018.

Wuxi Sunking Power Capacitor Co., Ltd., a subsidiary of the Company, was registered as a new and high technology enterprise, and is subject to CIT at a rate of 15% for the three years ending 31 December 2018.

Wuxi Zhuofeng Information Technology Co., Ltd., a subsidiary of the Company, was registered as a new and high technology enterprise, and is subject to CIT at a rate of 15% for the three years ending 31 December 2019.

	2017 **RMB'000**	2016 RMB'000
Current – Hong Kong		
Charge for the year	**81**	1,156
Current – Elsewhere		
Charge for the year	**54,452**	23,643
Overprovision in prior years	**(1,833)**	(438)
Deferred (note 28)	**(6,487)**	(131)
Total tax charge for the year	**46,213**	24,230

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

2017

	Hong Kong		Switzerland		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(15,434)		(1,331)		266,719		249,954	
Tax at the statutory tax rate	(2,547)	16.5	(239)	18.0	66,680	25.0	63,894	25.6
Lower tax rates for specific provinces or enacted by local authority	–	–	–	–	(29,193)	(10.9)	(29,193)	(11.7)
Losses attributable to a joint venture	–	–	–	–	7	0	7	0
Profits attributable to associates	–	–	–	–	(551)	(0.2)	(551)	(0.2)
Profits attributable to an available-for-sale investments	–	–	–	–	(200)	(0.1)	(200)	(0.1)
Income not subject to tax	(4,850)	31.4	–	–	(208)	(0.1)	(5,058)	(2.0)
Expenses not deductible for tax	5,042	(32.7)	4	(0.3)	4,646	1.7	9,692	3.9
Tax losses utilised from previous periods	–	–	–	–	(1,733)	(0.6)	(1,733)	(0.7)
Tax losses not recognised	2,436	(15.8)	–	–	5,902	2.2	8,338	3.3
Adjustments in respect of current tax of previous periods	–	–	–	–	(1,833)	(0.7)	(1,833)	(0.7)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	–	–	–	–	2,850	1.1	2,850	1.1
Tax charge at the Group's effective rate	81	(0.5)	(235)	17.7	46,367	17.4	46,213	18.5

2016

	Hong Kong		Switzerland		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	27,518		(200)		143,786		171,104	
Tax at the statutory tax rate	4,540	16.5	(36)	18.0	35,947	25.0	40,451	23.6
Lower tax rates for specific provinces or enacted by local authority	–	–	–	–	(17,646)	(12.3)	(17,646)	(10.3)
Losses attributable to joint ventures	–	–	–	–	8	0.1	8	0.1
Profits attributable to an associate	–	–	–	–	(4,454)	(3.1)	(4,454)	(2.6)
Income not subject to tax	(5,618)	(20.4)	(97)	48.5	–	–	(5,715)	(3.4)
Expenses not deductible for tax	19	0.1	–	–	13,154	9.1	13,173	7.7
Tax losses utilised from previous periods	–	–	–	–	(5,012)	(3.5)	(5,012)	(2.9)
Tax losses not recognised	1,157	4.2	–	–	1,550	1.1	2,707	1.6
Adjustments in respect of current tax of previous periods	–	–	–	–	(438)	(0.3)	(438)	(0.3)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiaries	1,156	4.2	–	–	–	–	1,156	0.7
Tax charge at the Group's effective rate	1,254	4.6	(133)	66.5	23,109	16.1	24,230	14.2

The share of tax attributable to an associate amounting to RMB3,003,000 (2016: RMB5,366,000) is included in "share of profits and losses of associates" in consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Interim – HK2 cents (2016: HK1 cent) per ordinary share	**23,868**	12,015
Proposed final – HK3 cents (2016: HK1.5 cents) per ordinary share	**40,075**	18,642
Total	**63,943**	30,657

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB194,887,000 (2016: RMB143,856,000), and the weighted average number of ordinary shares of 1,415,265,653 (2016: 1,386,651,288) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2017 RMB'000	2016 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**194,887**	143,856

	Number of shares 2017	 2016
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,415,265,653**	1,386,651,288
Effect of dilution – weighted average number of ordinary shares:		
Share options	**38,226,509**	32,852,408
	1,453,492,162	1,419,503,696

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improve-ments RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 1 January 2017:							
Cost	284,404	1,223	85,085	21,367	12,504	11,590	416,173
Accumulated depreciation and impairment	(29,220)	(727)	(36,770)	(16,794)	(8,729)	–	(92,240)
Net carrying amount	255,184	496	48,315	4,573	3,775	11,590	323,933
At 1 January 2017, net of accumulated depreciation and impairment	255,184	496	48,315	4,573	3,775	11,590	323,933
Additions	165	353	4,836	3,993	1,376	18,828	29,551
Disposals	(4,952)	–	(2,887)	–	–	–	(7,839)
Depreciation provided during the year	(9,862)	(210)	(8,113)	(2,257)	(1,615)	–	(22,057)
Transfers	4,657	–	6,007	–	–	(10,664)	–
Exchange realignment	–	(6)	–	(1)	–	–	(7)
At 31 December 2017, net of accumulated depreciation and impairment	245,192	633	48,158	6,308	3,536	19,754	323,581
At 31 December 2017:							
Cost	277,828	1,567	93,234	25,283	14,013	19,754	431,679
Accumulated depreciation and impairment	(32,636)	(934)	(45,076)	(18,975)	(10,477)	–	(108,098)
Net carrying amount	245,192	633	48,158	6,308	3,536	19,754	323,581

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016:							
Cost	317,365	793	82,055	21,810	12,237	6,901	441,161
Accumulated depreciation and impairment	(27,003)	(389)	(30,158)	(15,785)	(7,547)	–	(80,882)
Net carrying amount	290,362	404	51,897	6,025	4,690	6,901	360,279
At 1 January 2016, net of accumulated depreciation and impairment	290,362	404	51,897	6,025	4,690	6,901	360,279
Additions	109	2	1,972	1,762	1,412	10,277	15,534
Acquisition of a subsidiary (note 33)	–	447	–	72	28	–	547
Disposals	(27,892)	–	(726)	(599)	(434)	–	(29,651)
Depreciation provided during the year	(10,024)	(356)	(7,562)	(2,912)	(1,921)	–	(22,775)
Transfers	2,629	–	2,734	225	–	(5,588)	–
Exchange realignment	–	(1)	–	–	–	–	(1)
At 31 December 2016, net of accumulated depreciation and impairment	255,184	496	48,315	4,573	3,775	11,590	323,933
At 31 December 2016:							
Cost	284,404	1,223	85,085	21,367	12,504	11,590	416,173
Accumulated depreciation and impairment	(29,220)	(727)	(36,770)	(16,794)	(8,729)	–	(92,240)
Net carrying amount	255,184	496	48,315	4,573	3,775	11,590	323,933

At 31 December 2017, the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB34,314,000 (2016: RMB36,602,000) were pledged to banks to secure certain bank loans granted to the Group (note 27).

14. PREPAID LAND LEASE PAYMENTS

	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January	**56,477**	59,333
Recognised during the year	**(1,328)**	(1,371)
Disposal	**(17,836)**	(1,485)
Carrying amount at 31 December	**37,313**	56,477
Current portion	**(952)**	(1,362)
Non-current portion	**36,361**	55,115

At 31 December 2017, the Group's prepaid land lease payments with an aggregate carrying amount of RMB13,078,000 (2016: RMB13,400,000) were pledged to banks to secure certain bank loans granted to the Group (note 27).

15. GOODWILL

	2017 RMB'000	2016 RMB'000
At 1 January:		
Cost	**47,235**	40,357
Accumulated impairment	**(6,198)**	(6,198)
Net carrying amount	**41,037**	34,159
Cost at 1 January, net of accumulated impairment	**41,037**	34,159
Acquisition of a subsidiary (note 33)	**–**	6,878
Cost at 31 December, net of accumulated impairment	**41,037**	41,037
At 31 December:		
Cost	**47,235**	47,235
Accumulated impairment	**(6,198)**	(6,198)
Net carrying amount	**41,037**	41,037

15. GOODWILL *(continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Jiujiang Sunking cash-generating unit; and
- Astrol cash-generating unit.

Jiujiang Sunking cash-generating unit

The recoverable amount of Jiujiang Sunking cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15% (2016: 15%). The growth rate used to extrapolate the cash flows of Jiujiang Sunking cash-generating unit beyond the five-year period is 3% (2016: 3%).

Astrol cash-generating unit

The recoverable amount of Astrol cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16%. The growth rate used to extrapolate the cash flows of Astrol cash-generating unit beyond the five-year period is 3%.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Jiujiang Sunking		**Astrol**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Carrying amount of goodwill	**34,159**	34,159	**6,878**	6,878	**41,037**	41,037

Assumptions were used in the value in use calculation of Jiujiang Sunking and Astrol cash-generating units for 31 December 2017 and 31 December 2016. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the years immediately before the budget year, increased for expected market development.

Discount rate – The discount rates used are after tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development of industrial products and infrastructure industries and discount rates are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	Technology know-how RMB'000	Customer relationship RMB'000	Patents RMB'000	Trademark RMB'000	Computer software RMB'000	Total RMB'000
31 December 2017						
At 31 December 2016 and at 1 January 2017:						
Cost	7,764	7,348	6,353	19,185	3,505	44,155
Accumulated amortisation	(388)	(367)	(4,729)	–	(2,369)	(7,853)
Net carrying amount	7,376	6,981	1,624	19,185	1,136	36,302
Cost at 1 January 2017, net of accumulated amortisation	7,376	6,981	1,624	19,185	1,136	36,302
Additions	–	–	1,395	–	–	1,395
Amortisation provided during the year	(770)	(728)	(847)	–	(213)	(2,558)
Exchange realignment	(124)	(118)	–	–	–	(242)
Cost at 31 December 2017, net of accumulated amortisation	6,482	6,135	2,172	19,185	923	34,897
At 31 December 2017:						
Cost	7,626	7,218	7,748	19,185	3,505	45,282
Accumulated amortisation	(1,144)	(1,083)	(5,576)	–	(2,582)	(10,385)
Net carrying amount	6,482	6,135	2,172	19,185	923	34,897

16. OTHER INTANGIBLE ASSETS *(continued)*

	Technology know-how RMB'000	Customer relationship RMB'000	Patents RMB'000	Trademark RMB'000	Computer software RMB'000	Total RMB'000
31 December 2016						
At 1 January 2016:						
Cost	–	–	6,353	19,185	3,500	29,038
Accumulated amortisation	–	–	(3,882)	–	(2,150)	(6,032)
Net carrying amount	–	–	2,471	19,185	1,350	23,006
Cost at 1 January 2016, net of accumulated amortisation	–	–	2,471	19,185	1,350	23,006
Additions	–	–	–	–	5	5
Acquisition of a subsidiary (note 33)	7,777	7,360	–	–	–	15,137
Amortisation provided during the year	(389)	(367)	(847)	–	(219)	(1,822)
Exchange realignment	(12)	(12)	–	–	–	(24)
Cost at 31 December 2016, net of accumulated amortisation	7,376	6,981	1,624	19,185	1,136	36,302
At 31 December 2016:						
Cost	7,764	7,348	6,353	19,185	3,505	44,155
Accumulated amortisation	(388)	(367)	(4,729)	–	(2,369)	(7,853)
Net carrying amount	7,376	6,981	1,624	19,185	1,136	36,302

17. INVESTMENT IN A JOINT VENTURE

	2017 RMB'000	2016 RMB'000
Share of net assets	**14,892**	14,920
Loans to joint venture	**700**	700
	15,592	15,620

The loans to the joint venture are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, these loans are considered as part of the Group's investment in the joint venture.

The following table illustrates the financial information of the Group's joint venture that is not individually material:

	2017 RMB'000	2016 RMB'000
Share of the joint venture's loss and other comprehensive loss for the year	**28**	30
Aggregate carrying amount of the Group's investment in a joint venture	**15,592**	15,620

18. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	**27,000**	23,297

18. INVESTMENTS IN ASSOCIATES *(continued)*

Particulars of the associates are as follows:

Name	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Jiashan Henghua Real Estate Co., Ltd. # * ("JS Henghua") 嘉善恒華房地產開發有限公司	The PRC/ Mainland China	49	Property development
Beijing Smart China Power Electronic Technology Co., Ltd. # * 北京智中電力電子科技有限公司	The PRC/ Mainland China	15	Technology development

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The Group's shareholdings in JS Henghua and Beijing Smart China Power Electronic Technology Co., Ltd. are held through a wholly-owned subsidiary of the Company.

JS Henghua, which is considered a material associate of the Group, is a strategic partner of the Group engaged in property development and is accounted for using the equity method.

* *For identification purposes only*

The following table illustrates the summarised financial information in respect of JS Henghua adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2017 RMB'000	2016 RMB'000
Current assets	**68,098**	113,254
Non-current assets	**441**	630
Current liabilities	**(14,534)**	(65,969)
Non-current liabilities	**–**	–
Net assets	**54,005**	47,915
Reconciliation to the Group's investment in the associate:		
Proportion of the Group's ownership	**49%**	49%
Unrealised interest income of the Group	**–**	(221)
Group's share of net assets of the associate and carrying amount of the investment	**25,672**	23,297
Revenue	**4,886**	355,271
Profit and total comprehensive income for the year	**6,090**	45,728
Dividend received	**–**	7,800

18. INVESTMENTS IN ASSOCIATES *(continued)*

The following table illustrates the aggregate financial information of the Group's associate that is not individually material:

	2017	2016
	RMB'000	RMB'000
Share of the associate's loss for the year	**(172)**	–
Share of the associate's total comprehensive loss	**(172)**	–
Aggregate carrying amount of the Group's investment in the associate	**1,328**	–

19. AN AVAILABLE-FOR-SALE INVESTMENT

	2017	2016
	RMB'000	RMB'000
Non-current		
Unlisted equity investment, at cost	**–**	199

20. INVENTORIES

	2017	2016
	RMB'000	RMB'000
Raw materials	**110,539**	133,077
Work in progress	**43,556**	87,682
Finished goods	**32,160**	31,542
	186,255	252,301

21. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Trade receivables	**957,562**	701,093
Impairment	**(47,546)**	(40,584)
	910,016	660,509
Bills receivable	**73,443**	165,049
Less: Amount shown as non-current	**(104,155)**	(60,282)
	879,304	765,276

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Concentration of credit risk is managed by customer/counterparty, by geographical region and by industry sector. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis, subsequent to the fulfilment of certain conditions including delivery of goods or completion of installation as stipulated in the respective sales contracts.

21. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2017	2016
	RMB'000	RMB'000
Within 3 months	**381,040**	249,636
3 to 6 months	**192,893**	131,826
6 to 12 months	**280,518**	163,282
Over 1 year	**55,565**	115,765
	910,056	660,509

At 31 December 2017, the Group's bills receivable would mature within twelve (2016: twelve) months.

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

	2017	2016
	RMB'000	RMB'000
At 1 January	**40,584**	49,865
Acquisition of a subsidiary	**–**	259
Impairment losses recognised/(reversed) (note 6)	**8,762**	(5,605)
Amount written off as uncollectible	**(1,800)**	(3,935)
At 31 December	**47,546**	40,584

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB47,546,000 (2016: RMB40,584,000) with a carrying amount before provision of RMB114,466,000 (2016: RMB75,203,000).

The individually impaired trade receivables relate to customers that were in default in principal payments and only a portion of the receivables is expected to be recovered.

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

	2017	2016
	RMB'000	RMB'000
Neither past due nor impaired	**493,593**	419,398
Less than 6 months past due	**268,757**	248,294
6 to 12 months past due	**120,456**	79,384
1 to 2 years past due	**33,733**	43,863
	916,539	790,939

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

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

21. TRADE AND BILLS RECEIVABLES *(continued)*

At 31 December 2017, certain bills receivable of the Group with an aggregate carrying amount of RMB17,619,000 (2016: RMB21,232,000) were pledged to secure certain of the Group's bills payable (note 24).

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Endorsed Bills**") with a carrying amount of RMB38,917,000 (2016: RMB38,752,000) to certain of its suppliers in order to settle the trade payables due to these suppliers. In the opinion of the directors of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled.

At 31 December 2017, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Derecognised Bills**") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB94,101,000 (2016: RMB149,494,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 **RMB'000**	2016 RMB'000
Prepayments	**6,109**	26,517
Deposits and other receivables	**65,191**	47,880
	71,300	74,397
Impairment	**(3,629)**	(4,522)
	67,671	69,875

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

	2017 **RMB'000**	2016 RMB'000
At 1 January	**4,522**	3,980
Impairment losses recognised (note 6)	**(893)**	1,356
Amount written off as uncollectible	**–**	(814)
At 31 December	**3,629**	4,522

Except for prepayments, deposits and other receivables amounting to RMB3,629,000 (2016: RMB4,522,000) included in the above balances, the above assets are neither past due nor impaired. Other than the aforementioned impaired receivables, the financial assets included in the above balances relate to receivables for which there was no recent history of default.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**540,532**	135,779
Less: Pledged deposits for letters of credit	**–**	(16,351)
Pledged deposits for purchases of inventories	**(17,380)**	(9,633)
Pledged deposits for bills payable	**(6,546)**	(6,004)
Certificate of deposits	**(3,591)**	–
Other pledged deposits	**–**	(768)
Cash and cash equivalents	**513,015**	103,023

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB274,413,000 (2016: RMB118,376,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE AND BILLS PAYABLES

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

	2017 RMB'000	2016 RMB'000
Within six months	**182,649**	195,148
Over six months	**56,196**	41,439
	238,845	236,587

The trade payables are non-interest-bearing and are normally settled on terms ranging from 30 days to 180 days.

At 31 December 2017, certain of the Group's bills payable amounting to RMB17,826,000 (2016: RMB22,872,000) were secured by the pledge of the Group's bills receivable and cash and cash equivalents amounting to RMB17,619,000 (2016: RMB21,232,000) (note 21) and RMB6,546,000 (2016: RMB6,004,000) (note 23), respectively.

25. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Advances from customers	**58,528**	93,284
Other payables and accruals	**58,917**	61,272
	117,445	154,556
Less: Amount shown as non-current	**–**	(8,170)
	117,445	146,386

Other payables are non-interest-bearing and have an average term of three months.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 RMB'000	2016 RMB'000
Foreign currency forward contracts		
– assets	–	789
– liabilities	130	–

The Group has entered into various forward foreign currency contracts to manage its exchange rate exposures. These forward foreign currency contracts are not designated for hedging purposes and are measured at fair value through profit or loss. Net fair value loss on these derivatives amounting to RMB2,285,000 (2016: gain of RMB2,800,000) was charged to other expenses and losses during the year.

27. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	4.35	2018	3,000	4.57	2017	27,000
Bank loans – unsecured	2.15-5.05	2018	324,184	0.50-5.00	2017	300,357
			327,184			327,357
Analysed into:						
Bank loans repayable within one year or on demand			327,184			327,357

Notes:

(a) Certain of the Group's bank loans are secured by mortgages over the Group's property, plant and equipment and prepaid land lease payments with aggregate carrying amounts at the end of the reporting period of approximately RMB34,314,000 (2016: RMB36,602,000) and RMB13,078,000 (2016: RMB13,400,000), respectively.

(b) Except for bank loans of RMB11,697,000 which are denominated in Swiss franc and of RMB25,830,000 which are denominated in Hong Kong dollars (2016: RMB58,357,000 in Swiss franc), all borrowings are denominated in RMB.

28. DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the year are as follows:

	Government grants RMB'000	Withholding taxes RMB'000	Provisions RMB'000	Fair value adjustments arising from acquisitions of subsidiaries RMB'000	Others RMB'000	Total RMB'000
At 1 January 2016	2,365	(5,933)	6,004	(6,167)	1,953	(1,778)
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(445)	(67)	461	441	(259)	131
Acquisition of a subsidiary (note 33)	–	–	–	(2,713)	–	(2,713)
Exchange differences	–	–	–	4	–	4
Deferred tax assets/(liabilities) at 31 December 2016 and 1 January 2017	1,920	(6,000)	6,465	(8,435)	1,694	(4,356)
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(22)	2,000	469	3,136	904	6,487
Exchange differences	–	–	–	44	–	44
Deferred tax assets/(liabilities) at 31 December 2017	1,898	(4,000)	6,934	(5,255)	2,598	2,175

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2017 RMB'000	2016 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**11,430**	10,079
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(9,255)**	(14,435)
	2,175	(4,356)

Deferred tax assets have not been recognised in respect of the following items:

	2017 RMB'000	2016 RMB'000
Tax losses	**87,314**	43,650
Deductible temporary differences	**22,624**	17,928
	109,938	61,578

28. DEFERRED TAX *(continued)*

The Group has tax losses arising in Mainland China of RMB59,106,000 (2016: RMB41,703,000) that are available for offsetting against future taxable profits to a maximum period of five years of the companies in which the losses arose. The Group also has tax losses arising in Hong Kong of RMB28,208,000 (2016: RMB1,947,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2017, an amount of RMB4,000,000 (2016: RMB6,000,000) has been recognised for withholding taxes for the earnings of the PRC subsidiaries to be remitted in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB17,640,000 (2016: RMB12,293,000). In the opinion of the directors, it is not probable that such earnings will be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. SHARE CAPITAL

Shares

	2017 **HK$'000**	2016 HK$'000
Authorised: 200,000,000 (2016: 200,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000

	2017		2016	
	HK$'000	**RMB'000 equivalent**	HK$'000	RMB'000 equivalent
Issued and fully paid: 1,603,875,000 (2016: 1,389,362,500) ordinary shares of HK$0.10 each	**160,388**	**137,476**	138,936	119,283

29. SHARE CAPITAL *(continued)*

A summary of movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital RMB'000	Treasury shares RMB'000	Total RMB'000
At 1 January 2016	1,383,369,000	118,775	–	118,775
Share options exercised	5,993,500	508	–	508
At 31 December 2016 and 1 January 2017	1,389,362,500	119,283	–	119,283
Issue of shares (Note (a))	200,000,000	16,918	–	16,918
Shares repurchased for cancellation (Note (b))	(10,426,000)	(396)	(8,773)	(9,169)
Share options exercised (Note (c))	19,116,500	1,671	–	1,671
At 31 December 2017	1,598,053,000*	137,476	(8,773)	128,703

* Excluding 5,822,000 (2016: Nil) shares repurchased but not cancelled as at 31 December 2017.

Note:

(a) On 6 December 2017, the Company allotted and issued 200,000,000 ordinary shares to Guojing Capital Limited, an independent third party, at the subscription price of HK$1.72 per share for a total cash consideration, before expenses, of HK$344,000,000 (equivalent to RMB290,990,000).

(b) The Company repurchased a total of 10,426,000 of the Company's shares during 2017, of which 4,604,000 shares have been cancelled as of 31 December 2017. The total consideration paid to repurchase these shares was RMB15,298,000, which has been deducted from equity attributable to the owners of the Company.

(c) The subscription rights attaching to 3,258,000, 4,278,000, 11,230,500 and 350,000 share options were exercised at the subscription prices of HK$0.55, HK$0.68, HK$0.69 and HK$1.17 per share (note 30), respectively, resulting in the issue of 19,116,500 shares of HK$0.10 each for a total cash consideration, before expenses of HK$12,856,000 (equivalent to approximately RMB11,236,000). An amount of RMB4,789,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Share Option Scheme**") for the purpose of providing incentives and rewards to directors, eligible employees of the Group and consultants of the Group. The Share Option Scheme became effective on 23 September 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

30. SHARE OPTION SCHEME *(continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million, based on the closing price of the Company's shares at the date of offer, must be approved in advance by the Company's shareholders.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and commences after a vesting period and ends on the date on which the options lapse or the date on which the Share Option Scheme expires, if earlier.

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

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

The following share options were outstanding under the Share Option Scheme during the year:

	2017		2016	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.84**	**94,501**	0.81	95,983
Granted during the year	**–**	**–**	1.17	5,200
Forfeited during the year	**0.69**	**(175)**	0.80	(689)
Exercised during the year	**0.67**	**(19,117)**	0.64	(5,993)
Expired during the year	**1.83**	**(12,170)**	–	–
At 31 December	**0.69**	**63,039**	0.84	94,501

The weighted average share price at the date of exercise for share options exercised during the year was RMB1.45 per share (2016: RMB1.03).

30. SHARE OPTION SCHEME *(continued)*

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017

Number of options '000	Exercise price* HK$ per share	Exercise period (dd-mm-yyyy)
4,850	**1.17**	**24-08-2017 to 23-08-2022**
39,336	**0.69**	**28-08-2015 to 27-08-2020**
3,953	**0.68**	**28-05-2014 to 27-05-2019**
14,900	**0.55**	**26-04-2013 to 25-04-2018**
63,039		

2016

Number of options '000	Exercise price* HK$ per share	Exercise period (dd-mm-yyyy)
5,200	1.17	24-08-2017 to 23-08-2022
50,742	0.69	28-08-2015 to 27-08-2020
8,231	0.68	28-05-2014 to 27-05-2019
18,158	0.55	26-04-2013 to 25-04-2018
12,170	1.83	27-04-2012 to 26-04-2017
94,501		

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

The fair values of each of the share options granted during the year ended 31 December 2016 were HK$0.54 for executives and HK$0.51 for non-executives, of which the Group recognised a share option expense of RMB832,000 for the year ended 31 December 2017 (2016: RMB326,000).

The fair values of each of the share options granted during the year ended 31 December 2014 were HK$0.88 for Mr. Xiang Jie, HK$0.33 for executives and HK$0.31 for non-executives, of which the Group recognised a share option expense of RMB2,726,000 for the year ended 31 December 2017 (2016: RMB5,381,000).

The fair values of each of the share options granted during the year ended 31 December 2013 were HK$0.27 for executives and HK$0.26 for non-executives, of which the Group recognised a share option expense of RMB144,000 for the year ended 31 December 2017 (2016: RMB470,000).

The fair values of each of the share options granted during the year ended 31 December 2012 were HK$0.23 for Mr. Xiang Jie and executives and HK$0.20 for non-executives, of which the Group recognised no share option expense for the year ended 31 December 2017 (2016: RMB197,000).

30. SHARE OPTION SCHEME *(continued)*

The fair value of equity-settled share options was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2016	2014	2013	2012
Dividend yield (%)	0.85	0	0	0
Expected volatility (%)	58	53	55	59
Historical volatility (%)	54	50	58	59
Risk-free interest rate (%)	0.69	1.48	0.75	0.57-0.7
Expected life of options (year)	6	6	6	6

The expected life of the options is determined with reference to the vesting term and original contractual term of the Share Option Scheme and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 19,116,500 share options exercised during the year resulted in the issue of 19,116,500 ordinary shares of the Company and new share capital approximately of HK$1,912,000 (equivalent to RMB1,671,000) and share premium approximately of RMB14,354,000 (before issue expenses), as further detailed in note 29 to the financial statements.

At the end of the reporting period, the Company had 63,039,000 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 63,039,000 additional ordinary shares of the Company.

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 51 of the financial statements.

32. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of Jiujiang Sunking, a subsidiary of the Group, which has material non-controlling interests are set out below:

	2017	2016
Percentage of equity interest held by non-controlling interests	**37.75%**	17%

	2017 **RMB'000**	2016 RMB'000
Profit for the year allocated to non-controlling interests	**10,189**	3,194
Accumulated balances of non-controlling interests at the reporting date	**70,052**	18,505

32. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

The following tables illustrate the summarised financial information of Jiujiang Sunking. The amounts disclosed are before any inter-company eliminations:

	2017 RMB'000	2016 RMB'000
Revenue	**252,231**	155,399
Total expenses	**(215,539)**	(136,612)
Profit and total comprehensive income for the year	**36,692**	18,787
Current assets	**342,144**	214,171
Non-current assets	**71,682**	97,659
Current liabilities	**(223,262)**	(192,905)
Non-current liabilities	**(4,995)**	(10,074)
Net cash flows from operating activities	**24,953**	3,536
Net cash flows from/(used in) investing activities	**900**	(6,845)
Net cash flows from financing activities	**40,000**	–
Net increase/(decrease) in cash and cash equivalents	**65,853**	(3,309)

33. BUSINESS COMBINATION

On 1 July 2016, the Group acquired a 65% interest in Astrol Electronic AG ("**Astrol**"), which is engaged in the business of the manufacture and sale of pulsed power equipment, IGBT gate units and other electronic components. The acquisition was made as part of the Group's strategy to enhance its portfolio of high-end products as well as its research and development capability. The purchase consideration for the acquisition was in the form of cash of no more than CHF3,900,000 and no less than CHF2,600,000, of which CHF2,600,000 (equivalent to RMB18,008,000) has been paid until the end of 2017.

The Group has elected to measure the non-controlling interest in Astrol at the non-controlling interest's proportionate share of Astrol's identifiable net assets.

33. BUSINESS COMBINATION *(continued)*

The fair values of the identifiable assets and liabilities of Astrol as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	*13*	547
Technology know-how	*16*	7,777
Customer relationship	*16*	7,360
Inventories		8,281
Trade receivables		4,906
Prepayments and other receivables		709
Cash and bank balances		2,257
Trade payables		(1,811)
Other payables and accruals		(10,464)
Interest-bearing bank borrowings		(1,495)
Deferred tax liabilities	*28*	(2,713)
Total identifiable net assets at fair value		15,354
Non-controlling interests		(5,374)
Goodwill on acquisition	*15*	6,878
Satisfied by:		16,858
Cash		8,853
Other payables		8,005
		16,858

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB4,906,000 and RMB709,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB5,165,000 and RMB709,000, respectively, of which trade receivables of RMB259,000 are expected to be uncollectible.

The Group incurred transaction costs of RMB70,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in profit or loss in 2016.

As part of the purchase agreement, contingent consideration is payable, which is dependent on the amount of average yearly net profit after tax of Astrol for the years ended 31 December 2016 and 2017, and the year ending 2018. The initial amount recognised was RMB16,858,000 which was determined using the Monte Carlo simulation method and is within Level 3 fair value measurement. The consideration is due for final measurement and payment to the former shareholders within 30 business days from the issue of the audited financial statements of Astrol for the year ending 31 December 2018. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

33. BUSINESS COMBINATION *(continued)*

Significant unobservable valuation inputs for the fair value measurement of contingent consideration are as follows:

Projected average profit/loss after tax of Astrol	Loss of RMB744,000 to profit of RMB3,513,000
Discount rate	4.5%

A significant increase (decrease) in the profit after tax of Astrol would result in a significant increase (decrease) in the fair value of the contingent consideration liability. A significant increase (decrease) in the discount rate would result in a significant decrease (increase) in the fair value of the contingent consideration liability.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(8,853)
Cash and bank balances acquired	2,257
Net outflow of cash and cash equivalents included in cash flows from investing activities	(6,596)
Transaction costs of the acquisition included in cash flows from operating activities	(70)
	(6,666)

Since the acquisition, Astrol contributed RMB17,801,000 (2016: RMB12,170,000) to the Group's revenue and RMB133,000 (2016: RMB553,000) to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year 2016, the revenue of the Group and the profit of the Group for the year 2016 would have been RMB867,500,000 and RMB146,431,000, respectively.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Bank and other loans RMB'000
At 1 January 2017	**327,357**
Changes from financing cash flows	**(173)**
At 31 December 2017	**327,184**

35. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

36. OPERATING LEASE ARRANGEMENTS AS LESSEE

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 **RMB'000**	2016 RMB'000
Within one year	**2,995**	1,468
In the second to fifth years, inclusive	**6,269**	1,297
After five years	**1,674**	–
	10,938	2,765

37. CAPITAL COMMITMENTS

Capital commitments

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

	2017 **RMB'000**	2016 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**3,076**	2,335

Other commitments

Commitments under foreign currency forward contracts:

	2017 **RMB'000**	2016 RMB'000
Purchase of Swiss franc	**11,982**	106,031

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	**2017** **RMB'000**	2016 RMB'000
An associate:			
Interest income	*(i)*	**–**	301

Note:

(i) The interest income in 2016 arose from a loan to an associate which was interest-bearing at a rate of 15% per annum.

38. RELATED PARTY TRANSACTIONS *(continued)*

(b) Compensation on key management personnel of the Group:

	2017 RMB'000	2016 RMB'000
Short term employee benefits	**9,906**	9,069
Post-employment benefits	**1,455**	996
Equity-settled share option expense	**2,347**	4,832
Total compensation paid to key management personnel	**13,708**	14,897

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

2017

Financial assets

	Loans and receivables RMB'000
Trade and bills receivables	983,459
Financial assets included in prepayments, deposits and other receivables	48,992
Pledged deposits	27,517
Cash and cash equivalents	513,015
	1,572,983

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	238,845	238,845
Financial liabilities included in other payables and accruals	–	25,323	25,323
Derivative financial instruments	130	–	130
Interest-bearing bank borrowings	–	327,184	327,184
	130	591,352	591,482

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2016

Financial assets

	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	–	–	199	199
Trade and bills receivables	–	825,558	–	825,558
Financial assets included in prepayments, deposits and other receivables	–	28,045	–	28,045
Derivative financial instruments	789	–	–	789
Pledged deposits	–	32,756	–	32,756
Cash and cash equivalents	–	103,023	–	103,023
	789	989,382	199	990,370

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	236,587
Financial liabilities included in other payables and accruals	27,680
Interest-bearing bank borrowings	327,357
	591,624

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

At 31 December 2017, management has assessed that the fair values of the Group's financial instruments approximate to their carrying amounts largely due to the short term maturities of these instruments and the discounted method used for calculating the non-current portion of trade receivables by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments, mainly including forward currency contracts, are measured using quoted prices in active markets. The carrying amounts of forward currency contracts are the same as their fair values.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017				
Derivative financial instruments	**–**	**–**	**–**	**–**
As at 31 December 2016				
Derivative financial instruments	789	–	–	789

Liabilities measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017				
Derivative financial instruments	**130**	**–**	**–**	**130**
As at 31 December 2016				
Derivative financial instruments	–	–	–	–

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also enters into derivative transactions, including forward currency contracts. The purpose is to manage the currency risk arising from the Group's operations and its sources of finance.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on minimising the potential adverse effects of these risks, with material impact, on the Group's financial performance. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term interest-bearing bank borrowings with floating interest rates. The effective interest rates and terms of repayment of the short term interest-bearing bank borrowings of the Group are disclosed in note 27 to the financial statements.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax RMB'000**
2017		
RMB	**100**	**(1,522)**
RMB	**(100)**	**1,522**

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2016		
RMB	100	(1,222)
RMB	(100)	1,222

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from purchases by operating units in currencies other than the units' functional currencies. In order to minimise the impact of foreign exchange exposure, the Group has entered into forward currency contracts with creditworthy banks to manage its exchange rate exposure.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the CHF exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in foreign exchange rate %	**Increase/ (decrease) in profit before tax RMB'000**
2017		
If RMB weakens against CHF	**5**	**(74)**
If RMB strengthens against CHF	**(5)**	**74**

	Increase/ (decrease) in foreign exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2016		
If RMB weakens against CHF	5	(510)
If RMB strengthens against CHF	(5)	510

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. In addition, banking facilities have been put in place for contingency purposes.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

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

	2017		
	On demand or less than 3 months RMB'000	**3 to less than 12 months RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**71,919**	**267,163**	**339,082**
Trade and bills payables	**230,420**	**8,425**	**238,845**
Other payables	**25,323**	**–**	**25,323**
Derivative financial instruments	**130**	**–**	**130**
	327,792	**275,588**	**603,380**

	2016		
	On demand or less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Interest-bearing bank borrowings	117,141	220,655	337,796
Trade and bills payables	221,892	14,695	236,587
Other payables	27,680	–	27,680
	366,713	235,350	602,063

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is interest-bearing bank borrowings divided by total equity. The Group's policy is to maintain the gearing ratio as low as possible. The gearing ratios as at the end of the reporting periods were as follows:

	2017 RMB'000	2016 RMB'000
Interest-bearing bank borrowings	**327,184**	327,357
Total equity	**1,521,153**	1,029,126
Gearing ratio	**21.5%**	31.8%

42. EVENTS AFTER THE REPORTING PERIOD

(1) Subsequent to the end of the reporting period, in January 2018, 5,822,000 ordinary shares were cancelled by the Group.

(2) Subsequent to the end of the reporting period, 14,900,000 share options, 2,353,000 share options and 1,596,000 share options with exercise prices of HK$0.55 per share, HK$0.68 per share and HK$0.69 per share, respectively, were exercised.

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2017 **RMB'000**	2016 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**537,905**	515,748
Total non-current assets	**537,905**	515,748
CURRENT ASSETS		
Deposits and other receivables	**4,482**	40
Due from a subsidiary	**152,809**	98,930
Cash and cash equivalents	**228,864**	5,039
Total current assets	**386,155**	104,009
CURRENT LIABILITIES		
Other payables and accruals	**5,029**	3,946
Interest-bearing bank borrowings	**17,471**	–
Total current liabilities	**22,500**	3,946
NET CURRENT ASSETS	**363,655**	100,063
Net assets	**901,560**	615,811
EQUITY		
Issued capital	**137,476**	119,283
Treasury shares	**(8,773)**	–
Reserves (note)	**772,857**	496,528
Total equity	**901,560**	615,811

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

	Share premium account RMB'000	Employee share-based compensation reserve RMB'000	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000	Other reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
Balance at 1 January 2016	411,695	26,451	288	6,294	42,519	(15,576)	471,671
Profit and total comprehensive income for the year	–	–	–	–	–	39,433	39,433
Share-based payments	–	6,374	–	–	–	–	6,374
Exercise of share options	4,100	(1,346)	–	–	–	–	2,754
Final 2015 dividend	–	–	–	–	–	(11,689)	(11,689)
Interim 2016 dividend	–	–	–	–	–	(12,015)	(12,015)
At 31 December 2016 and 1 January 2017	**415,795**	**31,479**	**288**	**6,294**	**42,519**	**153**	**496,528**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**37,201**	**37,201**
Share-based payments	**–**	**3,702**	**–**	**–**	**–**	**–**	**3,702**
Exercise of share options	**14,354**	**(4,789)**	**–**	**–**	**–**	**–**	**9,565**
Final 2016 dividend	**(18,214)**	**–**	**–**	**–**	**–**	**–**	**(18,214)**
Interim 2017 dividend	**–**	**–**	**–**	**–**	**–**	**(23,868)**	**(23,868)**
Issue of shares	**274,072**	**–**	**–**	**–**	**–**	**–**	**274,072**
Shares cancelled	**(6,129)**	**–**	**–**	**–**	**–**	**–**	**(6,129)**
At 31 December 2017	**679,878**	**30,392**	**288**	**6,294**	**42,519**	**13,486**	**772,857**

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 March 2018.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below:

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**1,155,400**	856,952	781,993	517,301	739,865
PROFIT/(LOSS) BEFORE TAX	**249,954**	171,104	79,147	(32,243)	56,816
Income tax expense	**(46,213)**	(24,230)	(17,928)	(6,357)	(14,913)
PROFIT/(LOSS) FOR THE YEAR	**203,741**	146,874	61,219	(38,600)	41,903
Attributable to:					
Owners of the parent	**194,887**	143,856	62,272	(32,138)	42,917
Non-controlling interests	**8,854**	3,018	(1,053)	(6,462)	(1,014)
	203,741	146,874	61,219	(38,600)	41,903

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**2,272,024**	1,800,600	1,588,235	1,362,174	1,439,596
TOTAL LIABILITIES	**(750,871)**	(771,474)	(697,264)	(530,170)	(560,869)
NON-CONTROLLING INTERESTS	**(79,078)**	(24,622)	(16,239)	(37,460)	(46,152)
	1,442,075	1,004,504	874,732	794,544	832,575