中国优通控股
China UT Holding

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6168

2017
Annual Report

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Jiang Changqing (姜長青) (Chairman)
Guo Aru (郭阿茹)
Li Qingli (李慶利) (resigned on 28th January 2018)
Zhao Feng (趙峰) (appointed on 9 May 2017)
Ji Huifang (計惠芳) (appointed on 9 May 2017)

Non-Executive Director

Ge Lingyue (葛淩躍) (appointed on 9 May 2017)

Independent Non-Executive Directors

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

Company Secretary

Chan Oi Chong (陳愛莊) (ICS, HKICS)

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Company's Website

www.chinauton.com

Auditor

KPMG

Legal Adviser to the Company (Hong Kong Law)

Li & Partners

Registered Office

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

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

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

Principal Place of Business in Hong Kong

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

Principal Bankers

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

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

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

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Place of Listing

The Stock Exchange of Hong Kong Limited

Stock Code

6168

CHAIRMAN'S STATEMENT

Dear shareholders,

The Company reported its audited results for the year ended 31 December 2017 with a loss attributable to the equity holders of the Company of RMB178,984,000, representing a decrease of loss of RMB74,219,000 from loss of RMB253,203,000 for the year ended 31 December 2016, or approximately 29.3% when compared with the corresponding period of the previous financial year. The Group's revenue from continuing operations for the year ended 31 December 2017 decreased by approximately 30% to RMB171,929,000. During the year ended 31 December 2017, due to increased competition in the traditional optical fiber deployment business, the Group adjusted its allocation of resources by taking the initiative to reduce the amount of business undertaken in 2017 and foster new potential business growth drivers. The strategy adjustment leads to a significant decrease in revenue of design, deployment and maintenance services of optical fibers. The Group recorded a substantial loss attributable to the equity holders of the Company due to the following reasons, 1) fall in revenue as a result of strategy adjustment, 2) increased costs due to delay in construction progress for a number of projects, and some construction contracts had not reached the stage to recognise contract revenue but costs incurred were recorded, 3) recognition of provisions for trade receivables from non-operator customers and other receivables from third parties that were in financial difficulties, 4) increase in borrowing costs due to increasing interest rates, 5) recognition of share option costs lead to a significant increase in administrative expenses.

BUSINESS DEVELOPMENT

The Group is principally engaged in the provision of design, deployment and maintenance services of optical fibers, other integrated services relating to the design, construction and maintance of communication networks, and low-voltage equipment related integration services, which was intended to be disposed, for details of the disposal, please refer to Note 5. Apart from optical fibers related services, the Group is also engaged in money lending business since July 2017. It is the Group's strategy to become a significant optical fiber deployment service provider for telecommunication operators in the PRC by further strengthening our microducts and mini-cable system integration deployment services of optical fibers in the PRC.

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

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

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

Based on the experience of the Group and the results of detailed analysis, it has been shown that laying optical fiber cables through combining the use of drainage system and mini-cable and mirco-ducts technology is a technology that can construct networks with the most extensive coverage in a shorter time and at a lower cost, and it is expected that no alternative technology with a lower cost will be available in the foreseeable future. As an "operator of operators", we have competitive and cost advantages in using the technology. The business model of "operators of operators" involves a one-off cash payment by the customer to acquire the right to use optical fiber and conduits (IRU), and operation and maintenance fees are paid on an annual basis. This is expected to substantially improve the cash flow of the Group.

In order to diversify and strengthen our revenue streams to maximise returns to the Company's shareholders, the directors have identified money lending business to be an area where the Group can generate regular and long-term sustainable income. The Group has obtained a money lenders license in Hong Kong under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) in July 2017 with a view to develop its money lending business.

DIVIDENDS

The Board of directors does not recommend payment of dividend for the year ended 31 December 2017 (2016: Nil).

FUTURE PLANS AND PROSPECTS

Looking forward, the Group expects the operating environment will continue to be challenging. However, the application of wireless technology by the market and the promotion of cloud computing, big data and data centres, together with upgrades in systems and skills and application of 4G and development of 5G, is expected to lead to a multi-fold increase in the global demand for bandwidth in the next few years. Optical fiber broadband network construction is the forerunner of all infrastructure, and the most important ring for the economic development of countries in the surrounding areas under the One Belt One Road initiative, as well as those in the Middle East and Africa. Upgrade of existing networks and laying of new networks are required to cope with the local needs for future development. The Group is proactively looking for business opportunities to expand its existing business in the PRC and overseas. In order to cope with the anticipated challenges and staying competitive, more efforts will be made to strengthen internal control and management, strictly control production costs and operating expenses. The Group will also continue to explore any opportunities to diversify our business with the ultimate aim of bringing greater value to our shareholders in the long run.

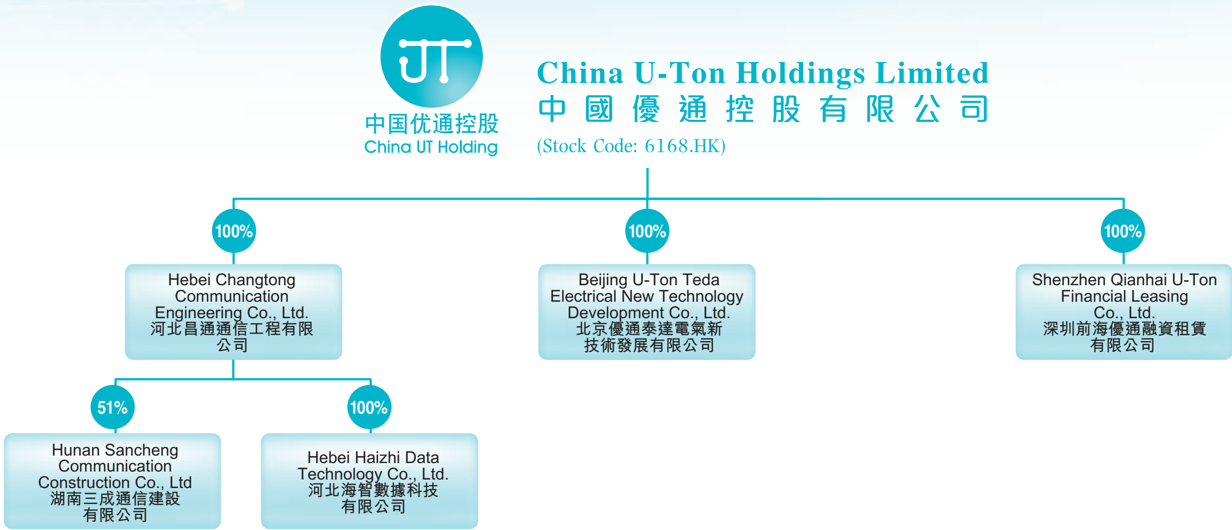
APPRECIATION

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

Jiang Changqing
Chairman and Executive Director

Hong Kong, 29 March 2018

GROUP STRUCTURE OF MAJOR OPERATING SUBSIDIARIES



HISTORY

2015

Established overseas business development department and incorporated 2 subsidiaries in Africa

August 2014

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

2013

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

June 2012

Successfully listed on the GEM Board of the Stock Exchange

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

2011

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

2007 and 2008

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

2006

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

2004

Secured exclusive right to use sewage system in Baoding

2001

Established in the PRC

FINANCIAL HIGHLIGHTS & SUMMARY

FINANCIAL HIGHLIGHTS

	Year ended 31 December				
in RMB'000	**2017**	2016	2015	2014	2013
Continuing operations					
Revenue	**171,929**	245,677	475,507	511,472	377,619
Cost of Sales/services	**(213,094)**	(269,416)	(329,773)	(349,324)	(230,004)
Gross (loss)/profit	**(41,165)**	(23,739)	145,734	162,148	147,615
Impairment	**(35,936)**	(64,605)	(2,923)	(5,282)	(625)
Listing Expenses	—	—	—	—	—
(Loss)/profit for the year attributable to equity holders of the Company	**(173,101)**	(197,367)	48,732	74,695	85,234
Discontinued operations					
(Loss)/profit for the year attributable to equity holders of the Company	**(5,883)**	(55,836)	—	—	—

FINANCIAL SUMMARY

	Year ended 31 December				
in RMB'000	**2017**	2016	2015	2014	2013
Continuing operations					
RESULTS					
Revenue	**171,929**	245,677	475,507	511,472	377,619
Profit before income tax	**(178,046)**	(200,526)	56,490	89,191	101,773
Income tax expenses	**(1,554)**	(3,150)	(7,861)	(13,078)	(12,490)
(Loss)/profit for the year	**(179,600)**	(203,676)	48,629	76,113	89,283
Discontinued operations					
Loss for the year	**(5,883)**	(55,836)	—	—	—

	At 31 December				
in RMB'000	**2017**	2016	2015	2014	2013
ASSETS AND LIABILITIES					
Total assets	**1,392,583**	1,427,379	1,240,682	1,019,626	692,936
Total liabilities	**1,062,522**	994,746	653,577	457,753	292,916
Net assets	**330,061**	432,633	587,105	561,873	400,020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Deployment and maintenance services of optical fibers

During the year ended 31 December 2017, decrease in revenue of deployment services of optical fibers was mainly due to significant decrease in traditional deployment construction revenue in Hebei Province due to keen competition of the market. While costs increased as a result of delay in construction progress for a number of projects, a number of projects with relatively low gross profit margins were undertaken by the Group to maintain a certain market share. The above factors led to a decrease in revenue and gross margin of the optical fiber deployment business in 2017.

Low-voltage equipment integration

The business environment for low-voltage equipment integration services engaged by Qiushi has been competitive in the past two years. Qiushi's business declined significantly and recorded negative operating result in the past two years and dragged down the financial performance of the Group as a whole. During the year, the Group entered into the Disposal Agreement to dispose all of its interest in Qiushi. The management considers that the Proposed Disposal is expected to allow the Group to dispose of a loss-making business and reallocate the Company's resources to expand it business with higher growth potential. For details of the Proposed Disposal, please refer to section "Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies - Disposal of Qiushi".

Other communication network services

Except for optical fibers related services, the group also provides other integrated services relating to design, construction and maintenance of communication networks.

Money lending

Money lending business is a new operating segment as a result of the commencement of the new operations in the current financial period. The money lending segment principally earns interest income from loans to third parties.

FINANCIAL REVIEW

	Year ended 31 December		
	2017	2016	Increase
Continuing operations	**RMB'000**	RMB'000	(Decrease)%
Revenue	**171,929**	245,677	(30.0)
Gross loss	**(41,165)**	(23,739)	73.4
EBITDA	**(131,823)**	(128,617)	2.2
EBITDA margin %	**(76.7%)**	(52.4%)	(24.1)
Net loss	**(179,600)**	(203,676)	(11.8)
Loss for the year attributable to the equity holders of the Company	**(173,101)**	(197,367)	(12.3)
Net loss margin	**(100.7%)**	(80.3%)	20.4
Continuing and discontinued operations	**RMB cents**	RMB cents	RMB cents
Basic loss per share	**(9.26)**	(13.75)	(4.49)

	As at 31 December 2017	As at 31 December 2016
Current ratio	**2.0**	2.1
Gearing ratio	**117.4%**	82.5%

Revenue

The Group's revenue from continuing operations for the year ended 31 December 2017 was RMB171,929,000, representing a decrease of approximately 30.0% over the corresponding period of the previous financial year. The decrease in the Group's revenue from continuing operations was mainly due to decrease of construction contract revenue of deployment services of optical fibers.

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

	Year ended 31 December		
	2017	2016	Increase (Decrease)
	RMB'000	RMB'000	%
Continuing operations			
Revenue from the provision of design, deployment and maintenance of optical fibers services			
– Traditional deployment methods	**77,954**	160,955	(51.6)
– Micro-ducts and mini-cables system integration methods	**73,649**	67,183	9.6
Sub-total	**151,603**	228,138	(33.5)
Other communication networks services	**17,772**	15,711	13.1
Money lending	**2,554**	—	100.0
Rental income	**—**	1,828	(100.0)
Total	**171,929**	245,677	**(30.0)**
Discontinued operation			
Revenue from the installation and sales of low-voltage system equipment and related accessories	**80,958**	57,004	42.0
Total	**252,887**	302,681	(16.5)

Design, deployment and maintenance of optical fibers

Revenue generated from our provision of design, deployment and maintenance of optical fibers services, was RMB151,603,000, representing approximately 88.2% of the total revenue from continuing operations of the Group for the year ended 31 December 2017. The decrease in construction revenue for the year ended 31 December 2017 as compared to 2016 was mainly due to the decrease in the revenue derived from the provision of deployment services of optical fibers in Hebei Province due to keen competition.

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

	Year ended 31 December			
	2017		2016	
	(RMB'000)	**%**	(RMB'000)	%
Hebei Province	**75,785**	**50.0**	157,476	69.0
Liaoning Province	**20,224**	**13.3**	14,384	6.3
Yunnan Province	**11,631**	**7.7**	2,413	1.1
Shanxi Province	**8,804**	**5.8**	3,100	1.4
Tianjin	**8,375**	**5.5**	2,455	1.1
Shandong Province	**4,960**	**3.3**	7,079	3.1
Guizhou Province	**2,841**	**1.9**	13,687	6.0
Henan Province	**2,137**	**1.4**	5,775	2.5
Sichuan Province	**295**	**0.2**	8,464	3.7
Others	**16,551**	**10.9**	13,305	5.8
	151,603	**100.0**	228,138	100.0

Other communication networks services

The increase in other communication networks services was mainly due to overseas expansion.

Money lending

Money lending business is a new business commenced in current year. The Group recorded turnover of approximately RMB2.55 million for the year ended 31 December 2017, representing approximately 1.5% of the total revenue from continuing operations of the Group for the year ended 31 December 2017.

Cost of sales and services

The Group's cost of sales and services from continuing operations for the year ended 31 December 2017 was approximately RMB213,094,000, representing a decrease of approximately 20.9% over the corresponding period of the previous year. The decrease in the Group's cost of sales was due to decrease of construction costs for deployment services of optical fibers.

Gross loss

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

	Year ended 31 December			
	2017		2016	
	RMB'000	**%**	RMB'000	%
Gross (loss)/profit by services				
Continuing Operations				
Revenue from the provision of design, deployment and maintenance of optical fibers services				
– Traditional deployment methods	**(53,679)**	**130.4**	(33,275)	140.2
– Micro-ducts and mini-cables system integration methods	**6,742**	**(16.4)**	5,684	(23.9)
Sub-total	**(46,937)**	**114.0**	(27,591)	116.3
Other communication networks services	**4,418**	**(10.7)**	2,210	(9.3)
Money lending	**1,354**	**(3.3)**	—	—
Rental income	**—**	**—**	1,642	(7.0)
	(41,165)	**100.0**	(23,739)	100.0
Discontinued operation				
Revenue from the installation and sales of low-voltage system equipment and related accessories	**8,141**		(22,276)	
	(33,024)		(46,015)	

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

	Year ended 31 December		
	2017	2016	Increase/ (Decrease)
	%	%	percent point
Continuing Operations			
Gross margin by services			
Revenue from the provision of design, deployment and maintenance of optical fibers services			
– Traditional deployment methods	**(68.9)**	(20.7)	(48.2)
– Micro-ducts and mini-cables system integration methods	**9.2**	8.5	0.7
Overall	**(31.0)**	(12.1)	(18.9)
Other communication networks services	**24.9**	14.1	10.8
Money lending	**53**	—	53
Rental income	**—**	89.8	(89.8)
Overall gross margin	**(23.9)**	(9.7)	(14.2)
Discontinued operation			
Revenue from the installation and sales of low-voltage system equipment and related accessories	**10.1**	(39.1)	49.2

There was a decrease in overall gross margin from continuing operations for the year ended 31 December 2017 as compared with the corresponding period of the previous financial year.

The decrease in our gross margin was primarily due to the decrease in gross margin of construction contract revenue in relation to traditional deployment of optical fibers from loss of approximately 20.7% in year ended 31 December 2016 to loss of approximately 68.9% in year ended 31 December 2017. In general, the gross margin of construction contract varies according to the difficulties and complexities of each project.

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

The gross profit margin of construction contracts of deployment services of optical fibers using micro-ducts and mini-cables system integration methods increased from approximately 8.5% for the year ended 31 December 2016 to approximately 9.2% for the year ended 31 December 2017.

Major customers and service network

Based in Hebei Province, the Group principally provides one-stop optical fiber deployment solutions for telecommunication operators and provides low-voltage equipment integration services in China. Our major customers include China Mobile Communications Corporation ("China Mobile"), a major telecommunication operator in China which contributed approximately 53% of total revenue from continuing operations for the year of 2017, and other regional telecommunication operators. As the Group maintains a favourable position in terms of resource in the industry of both micro-ducts and mini-cables system deployment technology, we obtain our contracts of that kind mainly through negotiated tender, while for traditional deployment business we mainly compete for contracts through open tender.

As at 31 December 2017, the Group's service network included Hebei Province, Shandong Province, Liaoning Province, Henan Province, Sichuan Province, Guizhou Province, Shanxi Province and Yunnan Province and etc.

Other income from continuing operations

Other income mainly included the interest income and government grants received by the Group, which amounted to RMB7,989,000 for the year ended 31 December 2017, representing an increase of RMB5,042,000 from RMB2,947,000 for the corresponding period of the previous year due to the increase in interest income.

Selling expenses and administrative expenses from continuing operations

The Group's selling expenses and administrative expenses for the year ended 31 December 2017 were RMB75,545,000, representing a decrease of RMB7,141,000 from RMB82,686,000 for the corresponding period of the previous year. The decrease in selling expenses and administrative expenses is a net effect of recognition of share option cost of RMB9,876,000 (31 December 2016: Nil) and a decrease of RMB17,017,000 in selling expenses and administrative expenses due to cost control.

Impairment losses from continuing operations

Impairment losses mainly included impairment losses of RMB16,526,000 on trade receivables, impairment losses of RMB16,740,000 on other receivables and impairment losses of RMB2,670,000 on goodwill. The impairment losses on trade receivables was mainly due to certain non-operator customers encountered financial difficulties in 2017 and upon management's assessment only a portion of the receivables is expected to be recovered. The significant decrease in impairment losses on other receivables was mainly due to recognition impairment of RMB23,700,000 on the difference between original consideration and amended consideration for disposal of Nanjing Newlixon in 2016.

Finance cost from continuing operations

Finance cost mainly included interest charged from bank and other borrowings, corporate bonds, convertible bonds and guaranteed notes and net foreign exchange differences on debts. The decrease in finance cost was mainly due to the net foreign exchange difference which changed from loss of RMB23,441,000 to gain of RMB27,259,000.

Net gain on disposal of subsidiary

Net gain on disposal of subsidiary represented disposal gain of Chengdu Hop Environmental Protection Technology Co., Ltd. in 2017 and disposal gain of Nanjing Newlixon of RMB37,700,000 in 2016.

Loss from continuing operations attributable to equity holders of the Company

The Group recorded net loss from continuing operations attributable to equity holders of the Company of RMB173,101,000 for the year ended 31 December 2017 compared to net loss of RMB197,367,000 for the corresponding period in 2016, representing a decrease of loss approximately 12.3%. The decrease in loss attributable to equity holders of the Company was mainly due to the net effect of the decrease in impairment losses of RMB28,669,000, the decrease in finance costs of RMB24,473,000, the decrease in selling expenses and administration expenses of an aggregate amount of RMB7,141,000, the increase in gross loss of RMB17,426,000 and the decrease in net gain on disposal of subsidiary of RMB32,347,000.

Trade and bill receivables

There was a decrease in trade and bills receivables as at 31 December 2017 of approximately RMB40,064,000 as compared to 31 December 2016, which was mainly due to the net effect of the settlement from customers, impairment losses recognised and new trade receivables provided by the Group during the year ended 31 December 2017.

Amount due from customers for contract works

There was a decrease in the amount due from customers for contract works as at 31 December 2017 of RMB168,425,000 as compared to 31 December 2016, which was mainly due to the net effect of decrease in revenue and construction revenue recognized in year 2017 but not certified by customers.

Goodwill

The decrease in goodwill was mainly due to the reclassification of goodwill of RMB30,099,000 relating to Qiushi to the assets held-for-sale as the low-voltage system segment has been reclassified as discontinued operation as at 31 December 2017. For details of the proposed disposal, please refer to section “Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies - Disposal of Qiushi”.

Available-for-sale financial assets

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

Trading securities

Trading securities represented an investment in listed equity security at fair value in Hong Kong, which amounted to RMB8,897,000 as at 31 December 2017.

Assets and liabilities held-for-sale

Assets and liabilities held-for-sale represented assets and liabilities relating to Qiushi and was stated at the lower of its carrying value and its fair value less costs to sell. All assets and liabilities of Qiushi were reclassified to assets held-for-sale and liabilities held-for-sale, respectively, as the low-voltage system segment has been reclassified as discontinued operation as at 31 December 2017. For details of the proposed disposal, please refer to section "Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies - Disposal of Qiushi".

Bank and other borrowings

The Group had short-term and long-term bank and other borrowings as at 31 December 2017 amounted to RMB53,000,000 and RMB48,000,000 respectively. No financial instruments were used for hedging purposes. The Group's bank loans were made in Hong Kong dollars and Renminbi, RMB59,000,000 (31 December 2016: RMB78,726,000) of bank loans are carried at floating rates, and the remaining bank and other borrowings are carried at fixed rates.

Placing of Shares

On 23 June 2017, the Company and Partners Capital Securities Limited as the placing agent entered into the placing agreement, pursuant to which the Company has agreed to offer for subscription, and the placing agent has agreed to procure on a best effort basis, placees to subscribe for up to 100,000,000 placing Shares at a price ofHK$0.88 per placing Share (the "Placing"). The net issue price was approximately HK$0.8702 per placing Share. The closing price was HK$0.92 per placing Share on 23 June 2017, being the date of the placing agreement. The Placing completed on 21 July 2017, and the Company 100,000,000 ordinary shares at HK $0.88 per share to not less than six placees. The Directors are of the view that the Placing can strengthen the financial position and liquidity of the Group to meet any future development and financial obligations. The Placing also represents good opportunities to broaden the Company's funding channels. For details, please refer to the Company's announcements dated 23 June 2017 and 21 July 2017.

Convertible bonds

On 7 June 2016, 9 February 2017 and 27 June 2017, the Company issued convertible bonds with a nominal value of HK$50,000,000, USD10,000,000 (equivalent to HK$78,000,000) and USD4,000,000 (equivalent to HK$31,200,000), respectively. These convertible bonds are guaranteed by Mr. Jiang Changqing ("Mr. Jiang"). In addition, the occurrence of any of the following events, among others, shall constitute an event of default under the corresponding convertible bond instrument: (i) Mr. Jiang ceases to be the chairman of the Board; (ii) Mr. Jiang, in his personal capacity or through any entity controlled by him, ceases to, in aggregate own and control more than 30% of the issued shares of the Company; and (iii) all or any substantial part of the assets of the Mr. Jiang is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government. For details, please refer to Note 29 of the Notes to the Financial Statements in this report and the Company's announcements dated 16 May 2016, 7 June 2016, 18 January 2017, 10 February 2017, 15 June 2017 and 27 June 2017.

During the year ended 31 December 2016 and 31 December 2017, there was no conversion of the convertible bonds issued by the Company into share by the bondholders. As at 31 December 2017, the outstanding principal amount of all convertible bonds was approximately HK$159,200,000 (31 December 2016: HK$50,000,000). Based on the conversion price of the convertible bonds of HK$1.00 per share of the Company, a maximum number of 159,200,000 shares of the Company (31 December 2016: 50,000,000 shares) would be allotted and issued upon exercise of the conversion rights attaching to the outstanding convertible bonds in full, which represent approximately 8.01% of the total number of issued shares of the Company as at 31 December 2017, and approximately 7.42% of the enlarged total number of issued shares immediately after full conversion of convertible bonds at the conversion price of HK$1.00, respectively.

Below is an analysis of the shareholding structure of the Company (i) as at 31 December 2017; and (ii) immediately after full conversion of the convertible bonds at the initial conversion price of HK$1.00.

Shareholders	As at 31 December 2017		Immediately after full conversion of the Convertible Bond at the initial Conversion Price of HK$1.00	
	No. of Shares	Approximate %	No. of Shares	Approximate %
Mr. Jiang and his associates	648,502,000 (Note)	32.63	648,502,000 (Note)	30.21
The bondholders	—	—	159,200,000	7.42
Other substantial shareholders	470,273,000	23.66	470,273,000	21.91
Public	868,845,000	43.71	868,845,000	40.46
Total	1,987,620,000	100.00	2,146,820,000	100.00

Note: These comprise (i) 10,195,000 Shares owned by his spouse, Ms. Guo Aru, as beneficial owner; (ii) 638,307,000 Shares through his interest in Bright Warm Limited which is owned beneficially as to 100% by Mr. Jiang.

During the year ended 31 December 2016 and 31 December 2017, there was no dilutive effect attributable to the convertible bonds on the loss per share. Additional information of the convertible bonds issued by the Company, including but not limited to, analysis on the financial and liquidity position of the Group and discussion on the ability to meet its redemption obligations under the convertible bonds are set out in the paragraph "Liquidity and financial resources" in this report.

Guaranteed notes

In May 2016, January 2017 and June 2017, the Company issued guaranteed notes with a nominal value of HK$50,000,000, USD10,000,000 (equivalent to approximately HK$78,000,000) and USD4,000,000 (equivalent to approximately HK$31,200,000), respectively. These guaranteed notes are guaranteed by Mr. Jiang. In addition, the occurrence of any of the following events, among others, shall constitute an event of default under the corresponding note instrument: (i) Mr. Jiang ceases to be the chairman of the Board; (ii) Mr. Jiang, in his personal capacity or through any entity controlled by him, ceases to, in aggregate own and control more than 30% of the issued shares of the Company; and (iii) all or any substantial part of the assets of the Mr. Jiang is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government. For details, please refer to Company's announcements dated 16 May 2016, 7 June 2016, 18 January 2017, 10 February 2017, 15 June 2017 and 27 June 2017. All guaranteed notes have a maturity period of 2 years, with interest bearing at 11% per annum and are repayable semi-annually.

Related Party Balances and Transactions

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

Name of related party	**Relationship**
Mr. Li Qingli	Beneficial shareholder and director of the Company
Mr. Jiang Changqing	Beneficial shareholder and director of the Company
Ms. Guo Aru	Beneficial shareholder and director of the Company

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

	At 31 December	
	2017	2016
	RMB'000	RMB'000
Non-trade nature:		
Ms. Guo	**—**	575
Mr. Li	**41**	—
	41	575

(c) Bank borrowings of RMB74,000,000 (31 December 2016: RMB72,945,000) are secured by personal guarantee from Mr. Jiang Chanqing and Ms. Guo Aru, directors of the Company. The guaranteed notes of RMB88,464,000 (31 December 2016: RMB45,132,000) and convertible bonds of RMB112,860,000 (31 December 2016: RMB49,139,000) are guaranteed by Mr. Jiang Changqing, director of the Company.

(d) The remuneration paid and payable to the key management of the Company who are also the directors for the year amounted to RMB8,051,000 (31 December 2016: RMB3,708,000).

Liquidity and financial resources

As at 31 December 2017, the Group had current assets of approximately RMB1,258,975,000 (31 December 2016: RMB1,229,635,000) which comprised cash and cash equivalents amounted to approximately RMB195,061,000 as at 31 December 2017 (31 December 2016: RMB128,057,000). As at 31 December 2017, the Group had non-current liabilities and current liabilities amounted to approximately RMB442,803,000 and RMB619,719,000 (31 December 2016: RMB415,750,000 and RMB578,996,000), consisting mainly of payables, corporate bonds, convertible bonds, guaranteed notes, bank and other borrowings arising in the normal course of operation. Accordingly, the current ratio, being the ratio of current assets to current liabilities, was around 2.0 as at 31 December 2017 (31 December 2016: 2.1).

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

Gearing ratio

The gearing ratio of the Group is calculated on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bank and other borrowings, corporated bonds, convertible bonds and guaranteed notes less cash at bank and on hand and restricted bank deposits. Capital comprises all components of equity. The gearing ratio was approximately 117.4% as at 31 December 2017 (31 December 2016: approximately 82.5%).

Treasury policies

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

Foreign exchange exposure

For the year ended 31 December 2017, we had partial bank balances and corporate bonds which are denominated in foreign currencies and consequently we have foreign exchange risk exposure from translation of amount denominated in foreign currencies as at the report date. During the year ended 31 December 2017, the Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its exposure to foreign exchange risk.

Capital structure

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

Distributable Reserves

As at 31 December 2017, the Company's distributable reserves amounted to approximately RMB173 million (2016: RMB279 million).

Capital commitments

Capital commitments contracted but not provided for in the financial statements as at 31 December 2017 were RMB 37,500,000 (31 December 2016: Nil). Capital commitments were mainly related to the acquisition of 51% equity interest in Yourui. For details of the Acquisition of Yourui, please refer to "Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies – Acquisition of Yourui" in this report.

Dividend

The Board does not recommends the payment of dividend for the year ended 31 December 2017 (2016: Nil).

Information on employees

As at 31 December 2017, the Group had 462 employees (31 December 2016: 503), including the executive directors. Total staff costs (including directors' emoluments) were approximately RMB47,967,000 for the year ended 31 December 2017 as compared to approximately RMB54,073,000 for the year ended 31 December 2016. Remuneration is determined with reference to market norms and individual employees' performance, qualification and experience.

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

Significant investments held

Except for investment in subsidiaries, available-for-sale financial assets and trading securities during the year ended 31 December 2017, the Group did not hold any significant investment in equity interest in other company.

Future Plans for Material Investments and Capital Assets

The Group did not have any plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

Acquisition of Yourui

In order to explore and make strategic investments in other new business opportunities, the Group acquired 51% of equity interest in Beijing Yourui Jiahe Electronic Technology Co., Ltd.* (北京優瑞嘉和電子科技有限公司) ("Yourui") at a consideration of maximum of RMB321,300,000 (the "Acquisition"), among which RMB37,500,000 shall be settled in cash, and the remaining consideration shall be settled in cash or by issuing new ordinary shares of the Company at the discretion of the Company if Yourui meets the performance guarantee as stipulated in the share purchase agreement dated 20 October 2017. The Acquisition is completed on 12 February 2018, upon fulfillment of all the conditions precedent set out in the share purchase agreement. After completion, Yourui becomes a subsidiary of the Company. Accordingly, the assets, liabilities and financial results of Yourui, together with its subsidiaries, will be consolidated into the financial statements of the Group. Yourui is principally engaged in the provision of environmentally intelligent technical products and services in the PRC. For details, please refer to the announcements of the Company dated 20 October 2017, 19 January 2018 and 12 February 2018.

Disposal of Qiushi

As approved by the Board, the Company entered into a share sale and purchase agreement (the "Disposal Agreement") with Ordillia Group Limited, a limited liability company incorporated in the BVI and wholly-owned by Mr. Li Qingli, a former executive director of the Company, on 26 November 2017, pursuant to which the Company agreed to dispose and Ordillia Group Limited agreed to purchase all of the shares of the Company in Shijiazhuang Qiushi Communication Facilities Co., Ltd. (the "Disposal Company" or "Qiushi") at a consideration with the net amount of RMB82,000,000 (the "Proposed Disposal"). Mr.Li Qingli also tendered his resignation as an executive director of the Company of the Company with effect from 28 January 2018. As Mr. Li Qingli is a connected person under Chapter 14A of the Listing Rules, the Proposed Disposal also constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Qiushi is principally engaged in the provision of low-voltage system related business. The low-voltage system segment has been reclassified as discontinued operation as at 31 December 2017 due to the Proposed Disposal. For details, please refer to the announcements of the Company dated 26 November 2017, 28 November 2017, 15 December 2017, 27 December 2017, 10 January 2018, 24 January 2018, 8 February 2018, 7 March 2018 and 27 March 2018.

During the year ended 31 December 2017, save as disclosed above the Group did not have any other material acquisitions or disposals of subsidiaries and affiliated companies.

Charges on assets

As at 31 December 2017, the Group had pledged bank deposits with carrying amount of RMB2,270,000 to secure the bank and other borrowings (31 December 2016: RMB170,697,000).

Contingent liabilities

The Group had no material contingent liabilities as at 31 December 2017 (31 December 2016: Nil).

DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS

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

Name	Appointment Date	Age
Executive Directors		
Jiang Changqing (姜長青) (Chairman)	31 March 2011	52
Guo Aru (郭阿茹)	31 March 2011	52
Li Qingli (李慶利) (resigned on 28th January 2018)	31 March 2011	49
Zhao Feng (趙峰)	9 May 2017	46
Ji Huifang (計惠芳)	9 May 2017	43
Non-Executive Director		
Ge Lingyue (葛淩躍)	9 May 2017	58
Independent Non-executive Directors		
Meng Fanlin (孟繁林)	27 May 2012	73
Wang Haiyu (王海玉)	27 May 2012	65
Li Xiaohui (李曉慧)	27 May 2012	50

Chairman & Executive Director

Mr. Jiang Changqing (姜長青), aged 52, is our founder, chairman, and was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012. He joined Hebei Changtong as a director since its incorporation in June 2000 and joined Beijing U-Ton in July 2010 when he was firstly appointed as the manager, and has been appointed as the director of Beijing U-Ton since April 2011 and has been primarily responsible for overall corporate strategies, planning, management and business development of our Group. Mr. Jiang was a director of Hebei Deer between April 2005 and October 2010 and a director of Partnerfield since December 2010. Mr. Jiang has approximately 20 years' working experience in the telecommunications industry specialising in optical fiber deployment technology and has over five years' experience in in-sewer deployment methods such as in-sewer, pipe jacking and cable troughing which utilise miro-ducts, mini-cables and related techniques. Prior to the establishment of our Group, Mr. Jiang worked at Hengshui Technology Intelligence Office (衡水科技情報所) from March 1998 to June 2000 responsible for the management of the operation. Mr. Jiang worked in a department of People's Liberation Army of the PRC from October 1981 to June 1993 and was mainly responsible for coaching telecommunication equipment maintence and construction. Mr. Jiang obtained a diploma in law through self-studying from the Hebei University (河北大學) in June 1996.

Executive Directors

Ms. Guo Aru (郭阿茹), aged 52, is the spouse of Mr. Jiang. Ms. Guo was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012 and is primarily responsible for the research and development of new equipment and technology for our Group. Ms. Guo joined our Group as a manager in 2007. Ms. Guo was a director of Beijing U-Ton between July 2010 and April 2011 and a director of Partnerfield since December 2010. From July 1986 to September 2006, Ms. Guo worked as a mathematics teacher in No. 4 and No. 7 Middle School of Hengshui City in Hebei Province. Ms. Guo is certified as a senior communications engineer (通信高級工程師) by Gansu Province Title Reform Organisation (甘肅省職稱改革工作小組) in November 2008. Ms. Guo obtained a diploma in mathematics from the Hengshui University (衡水學院) in July 1986. Through self-studying and with the support of Mr. Jiang, Ms. Guo has invented several connectors for the purposes of protecting optical fibers, of which seven were granted patents in the PRC and are being transferred to our Group (please see the section headed "Further information about the business of our Group — Intellectual property rights of our Group" in Appendix IV to the Prospectus for further details about such patents).

Mr. Li Qingli (李慶利), aged 49, joined our Group and was appointed as a Director on 31 March 2011 and redesignated as an executive Director with effect from 27 May 2012 and is mainly responsible for the management of the low-voltage equipment integration services of our Group. Mr. Li has been a director of Shijiazhuang Qiushi responsible for its daily operations and management since its incorporation in March 1999. Mr. Li has been a director of Hebei Deer since its incorpration in October 2003 and a director of Partnerfield since September 2005. Mr. Li worked at Shijiazhuang Changan Xunbo Telecommunication Equipment Operation Office (石家莊市長安迅波通信器材經營處) from March 1994 to March 1999. Mr. Li worked as an external welfare officer at Plant 4511 (4511廠) from September 1991 to March 1994. Mr. Li obtained a diploma in wireless construction from the Guilin University of Electronic Technology (桂林電子科技大學) (formerly known as Guilin Institute of Electronic Technology (桂林電子工業學院)) in June 1991. Mr. Li obtained a Qualification Certificate of Junior Professional Rank (初級專業技術職務任職) from The Title Reform Leading Group Office of Shijiazhuang (石家莊職稱改革領導小組辦公室) in December 1994 qualifying him as an assistant engineer specialising in electrons. Mr. Li resigned on 28 January 2018. He also disposed all of his shares in the Company on 26 January 2018 and as a result, he ceased to be a shareholder of the Company.

Mr. Zhao Feng (趙峰), aged 46, served as a broker and the manager of the trading department in Nanjing Zhongqi Futures Co., Ltd* (南京中期期貨經紀有限公司) from 1993 to 1999. From 2000 to 2010, Mr. Zhao served as the general manager of the investment department in Shanghai Baolai Investment Co., Ltd.* (上海寶來投資管理有限公司). From 2010 to 2014, Mr. Zhao served as the general manager of the business department of Nanjing office of Zhejiang Zhongda Futures Co., Ltd.* (浙江省中大期貨有限公司). From 2015 to October 2016, Mr. Zhao served as the general manager of the asset management center of Nanzheng Futures Co. Ltd (南證期貨有限責任公司資管中心). From February 2017 to present, Mr. Zhao serves as the chairman of Shenzhen Qianhai U-Ton Financial Leasing Co. Ltd., a subsidiary of the Company. Mr. Zhao graduated from Nanjing Normal University (南京師範大學) with a bachelor's degree in Foreign Language Studies in 1993, and obtained a bachelor's degree in Financial Engineering from Southeast University (東南大學) in 1996. In 1995, Mr. Zhao completed the Jiangsu Province futures practitioners (management) training courses at China International Futures Co., Ltd.. In 1997, he had a three-months studies in interest arbitrage transactions and fixed price trading in London Metal Exchange. In 2009, he passed the qualification exam for futures practitioners by CSRC.

Ms. Ji Huifang (計惠芳), aged 43, served as a marketing engineer of Siemens electrical Apparatus Ltd., Suzhou from 1996 to 1998. From 1998 to 2003, Ms. Ji served as the experienced sales engineer of the power distribution products department of Shanghai branch of Schneider Electric Investment Co. Ltd. From 2003 to 2007, Ms. Ji served as the market intelligence analysis supervisor of industry automation activity department of Schneider Electric Investment Co. Ltd. From 2007 to 2012 and from 2012 to 2014, Ms. Ji served as the industry manager of industry and automation activity department and national marketing manager of PKA (smart infrastructure) department of Schneider Electric Co. Ltd., respectively. Ms. Ji completed the major course of management at East China Normal University (上海華東師範大學) in July 1996, and obtained a MBA degree from South Cross University of Australia (澳大利亞南格斯大學) in October 2002.

Non-Executive Director

Mr. Ge Lingyue (葛淩躍), aged 58, has over 20 years' experience in the telecommunications, media and IT technology industries. From 1993 to 1997, Mr. Ge was appointed as the senior consultant of the first chairman of China Unicom and participated in the preparatory and sponsorship work of China United Network Communications Corporation Limited, the planning and design of China Unicom's nationwide fiber-optic network, and the investment and construction work of GSM mobile communication network and China Unicom satellite signalling system number 7 communications network. Since 1998, Mr. Ge has served as the managing director in Century Investment (Holding) Limited ("**Century Investment**"), which is principally engaged in the planning and investment in large-scale projects in satellite mobile broadcasting, TV broadcasting media and the mobile internet. In 2006, Mr. Ge, through the wholly owned subsidiary of Century Investment, CII Satellite Communications Limited ("**CII Satellite**"), established China Mobile Broadcasting Satellite Limited ("**CMBSat**") in Hong Kong with Echostar, a leading satellite operator in US, and Mr. Ge served as the chairman of the board of directors of CMBSat. In the same year, CII Satellite cooperated with the State Administration of Press, Publication, Radio Film and Television of PRC (formerly known as the State Administration of Radio, Film, and Television) to plan and prepare for the offer of China mobile multimedia broadcasting services jointly. CMBSat invested USD0.2 billion to build a high-power satellite. In 2010, Mr. Ge, through China Satellite Mobile Media Limited, a joint venture company established by China Telecom and Beijing Gaosheng Times Technology Co., Ltd., invested in the construction and operation of the satellite mobile multimedia broadcasting network for providing satellite mobile multimedia content delivery, location-based and real-time data broadcasting services for mobile phone users and car users. As at the date of this announcement, Mr. Ge is also an executive Director of Greens Holdings Ltd (stock code: 1318) (shares of which are listed on The Stock Exchange of Hong Kong Limited and trading of which has been suspended since 2 June 2015), the chairman and general manager of Beijing Century Fortunet Technology Co., Ltd. and Beijing Gaosheng Times Technology Co., Ltd. and the vice chairman and general manager of China Satellite Mobile Media Limited, a subsidiary of China Telecom, and a director of Century Investment (Holding) Limited, Century East Network Limited and Century Network Holding Limited. Mr. Ge graduated from the department of Business Management from the Academy of Social Science Graduate School in 1991.

Independent Non-executive Directors

Mr. Meng Fanlin (孟繁林), aged 73, was appointed as our independent non-executive Director on 27 May 2012. Prior to joining our Group, Mr. Meng worked for China Mobile Communications Corporation's Hebei branch Qinhuangdao office (河北移動通信秦皇島分公司) as a senior consultant from December 2003 to January 2005 and as a general manager from July 1999 to December 2003. Mr. Meng had also worked for China Telecom Group's Langfang city telecommunication office (中國電信廊坊市電信局) as the director from November 1998 to July 1999. Mr. Meng had worked for Post and Telecommunication Administration of Hebei Qinhuangdao (秦皇島市郵電局) as vice head and acting head from September 1983 to October 1998 primarily responsible for production management, and as the head of the telecommunication department from October 1980 to February 1983 and was a technician from July 1966 to September 1980. Mr. Meng obtained a bachelor's degree in local telecommunications (市內電話通信) from Jilin University (吉林大學) (formerly known as Changchun Post and Telecommunication Institute (長春郵電學院)) in July 1966.

Mr. Wang Haiyu (王海玉), aged 65, was appointed as our independent non-executive Director on 27 May 2012. Mr. Wang is a registered qualification certificate constructor (中華人民共和國一級建造師) by Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部) with expertise in communication, a senior engineer (高級工程師) and telecommunication and national bid evaluation expert (通信建設評標專家) by the Ministry of Information Industry. Mr. Wang had worked for Fifth Construction Bureau of China International Telecommunication Construction Corporation ("CITCC") (中國通信建設集團有限公司第五工程局) which does not have any current or prior relationship with our Group, as the bureau's chief from November 2007 to March 2011; as a senior consultant from March 2011 to September 2012. Mr. Wang had also worked as a general manager of the domestic engineering department of China International Telecommunication Construction Corporation from February 2006 to November 2007 and as a general manager of the engineering and marketing department of CITCC from September 2001 to February 2006. Mr. Wang had also worked for Second Construction Bureau of CITCC (中國通信建設集團有限公司第二工程局) as a senior engineer, director and assistant of bureau chief from February 1978 to December 2000. Mr. Wang received his bachelor's degree in telecommunications from the Nanjing University of Posts and Telecommunications (南京郵電大學) in 1978. Mr. Wang retired in October 2012 and he is not engaging in any daily business operation activities or decision making in CITCC.

Ms. Li Xiaohui (李曉慧), aged 50, was appointed as our independent non-executive Director on 27 May 2012. Ms. Li is a Certified Public Accountant in China and is a non-practising member of the Chinese Institute of Certified Public Accountants. Ms. Li has been a lecturer since 2004 and the vice dean since July 2006 of the department of accountancy of the Central University of Finance and Economics (中央財經大學). Ms. Li had worked for the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) from July 2001 to August 2003 with the responsibilities of researching and formulating independent auditing principles. From 1999 to 2004, Ms. Li wrote books and other publications in relation to auditing, accounting and risk management. Ms. Li had also worked for the Hebei Province Finance Department (河北省財政廳) from January 1997 to August 1998. Ms. Li had worked at Canshi Certified Public Accountants (滄獅會計師事務所) as a partner from August 1996 to January 1997 and Canzhou Certified Public Accountants (滄洲會計師事務所) as an external affairs manager from April 1993 to July 1996. Ms. Li is a member of the Technical Consultation Committee (技術指導委員會) of the Chinese Institute of Certified Public Accountants, the Professional Supervision Committee (監督專業委員會) of the Accounting Society of China (中國會計學會), the CERM (China) Committee of the Asia Association of Risk and Crisis Management ("AARCM") (亞洲風險與危機管理協會), a certified senior enterprise risk manager by AARCM, and the Practice Guidance Committee (執業指導委員會) of the Beijing Institute of Certified Public Accountants (北京註冊會計師協會). Ms. Li obtained her bachelor's degree in economics from Yangzhou University (揚州大學) (formerly known as Yangzhou Normal Institute (揚州師範學院)) in June 1989. Ms. Li obtained her master's degree in economics from Renmin University of China (中國人民大學) in January 1993. Ms. Li was awarded the degree of Doctor of Economy by the Central University of Finance and Economics (中央財經大學) in July 2001. Ms. Li is an independent non-executive director of Poly Culture Group Corporation Limited, a company listed on the Stock Exchange (stock code: 3636), independent director of Jiangsu Welle Environmental Co., Limited, a company listed on Shenzhen Stock Exchange (stock code: 300190), independent director of Kailuan Energy Chemical Co., Limited, a company listed on Shanghai Stock Exchange (stock code: 600997) and independent director of Bank of Beijing Co., Ltd., a company listed on Shanghai Stock Exchange (stock code: 601169). Ms. Li also served as an independent non-executive director of China Titans Energy Technology Group Co., Limited, a company listed on the Stock Exchange (Stock code: 2188), from November 2009 to May 2013.

Senior Management

Mr. Dong Baoyi (董寶義), aged 69, joined our Group as our technical director in November 2006 and was promoted as our chief technical officer in March 2011 and is mainly responsible for technology development and management of our Group. Mr. Dong worked for China Netcom's Tangshan branch as an assistant manager from March 2005 to November 2006 and was primarily responsible for management assistance. Mr. Dong had worked for the Post and Telecommunication Administration of Tangshang city (唐山市郵電局) as a vice department head of long-distance machinery department (長遠機械科), vice manager and manager of telecommunication department from April 1981 to March 2005 and was primarily responsible for telecommunication equipment management and monitoring of its maintenance and repair. Mr. Dong worked for the local telecommunication bureau in Xingyi City, Guizhou Province, as a technician from December 1968 to March 1981 and was primarily responsible for telecommunication equipment maintenance and repair. Mr. Dong obtained a diploma in telecommunication enterprise and power source facilities (電信企業動力和電源設備) from Shijiazhuang Post and Telecommunication School (石家莊郵電學校) in July 1968 and obtained a diploma in economic management (經濟管理) through distance learning from the Hebei Provincial Committee Party School of Correspondence Education (河北省委黨校函授學院) in July 2005.

Ms. Fu Jie (傅捷), aged 39, was appointed as the chief financial officer of the Group on April 2016 and is mainly responsible for the Group's financial management, investment and financing and investor relations. Ms. Fu is a member of the China Institute of Certified Public Accountants and the Association of Chartered Certified Accountants (ACCA). Ms. Fu worked as a senior account manager at the Kunming Sales Department of Southwest Securities Company Limited (西南證券股份有限公司) from September 2000 to July 2004, and was engaged in investment and customer relationship work. Ms. Fu worked for Ernst & Young Hua Ming LLP from August 2004 to March 2016, and served as the senior manager of audit department from October 2012 to March 2016. She participated in the audit work for a number of Hong Kong listed companies and A-share listed companies in China. She was the certified public accountant who signed the audit report of ZTE Corporation from 2012 to 2015. Ms. Fu was appointed as an independent non-executive director of Dynagreen Environmental Protection Group Co., Ltd. (a company listed on the Main Board of the Stock Exchange, stock code: 1330) in February 2018. Ms. Fu graduated from the Finance Major of The Central University of Finance and Economics in 2000 with a bachelor's degree in economics.

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

Name	Age	Positions within the Company
Dong Baoyi (董寶義)	69	Chief Technical Officer of the Group
Fu Jie (傅捷)	39	Chief Financial Officer of the Group

Company Secretary

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

Corporate Governance Code

In the opinion of the directors, throughout the year ended 31 December 2017 the Company has complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Lising Rules except Code Provision A.2.1.

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

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rule 5.48 to Rule 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the GEM Listing Rules") for the period where the Company's shares were listed on GEM. Since the Company's shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014, the Group continues and will continue to ensure compliance with the corresponding provisions set out in Appendix 10 of the Listing Rules. Having made specific enquiries to all the directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the year ended 31 December 2017.

The Board of Directors

Composition

The Board comprises nine Directors, of which five are executive Directors, one are non-executive Director and three are independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:
Jiang Changqing (姜長青) (Chairman)
Guo Aru (郭阿茹)
Li Qingli (李慶利) (resigned on 28th January 2018)
Zhao Feng (趙峰) (appointed on 9 May 2017)
Ji Huifang (計惠芳) (appointed on 9 May 2017)

Non-Executive Director
Ge Lingyue (葛淩躍) (appointed on 9 May 2017)

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

During the year ended 31 December 2017, there was no change in the composition of the Board.

The biographical details of each Director are set out in the section "Directors and Senior Management Profile" on pages 24 to 29 in this annual report.

Board Meetings

The Board is scheduled to meet regularly at least four times a year at approximately quarterly intervals, to discuss the overall strategy as well as the operational and financial performance of the Company. Other Board meetings will be held when necessary. Such Board meetings involve the active participation, either in person or through other electronic means of communication, of a majority of Directors. During the year ended 31 December 2017, 15 Board meetings were held and the attendance records of individual Directors are set out below:

	Number of Meetings Attended in person/Held
Executive Directors	
Jiang Changqing (姜長青) (Chairman)	15/15
Guo Aru (郭阿茹)	15/15
Li Qingli (李慶利)	9/15
Zhao Feng (超峰) (appointed on 9 May 2017)	11/15
Ji Huifang (計惠芳) (appointed on 9 May 2017)	11/15
Non-Executive Director	
Ge Lingyue (葛淩躍) (appointed on 9 May 2017)	5/15
Independent Non-executive Directors	
Meng Fanlin (孟繁林)	15/15
Wang Haiyu (王海玉)	12/15
Li Xiaohui (李曉慧)	12/15

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

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

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

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

General Meetings

An annual general meeting was held on 26 June 2017, all the executive directors and independent non-executive directors attended.

Responsibilities of the Board and Management

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

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

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

The Board acknowledges its responsibility for the preparation of the financial statements which give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The financial statements set out on pages 69 to 170 were prepared on the basis set out in Note 2 to the Consolidated Financial Statements. Financial results of the Group are announced in a timely manner in accordance with statutory and/or regulatory requirements. The declaration of reporting responsibility issued by the external auditors of the Company on the Company's financial statements is set out in the Independent Auditors' Report on pages 69 to 76.

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

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

Confirmation of Independence

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

Continuous Professional Development

For the year ended 31 December 2017, all Directors namely Mr. Jiang Changqing, Ms. Guo Aru, Mr. Li Qingli, Mr. Zhao Feng, Ms. Ji Huifang, Mr. Ge Lingyue, Mr. Meng Fanlin, Mr. Wang Haiyu and Ms. Li Xiaohui have been given relevant guideline materials and physically attended a training regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. Particulars of which are as follows:

Directors	**Type of trainings**
Executive Directors	
Jiang Changqing	A,B
Guo Aru	A,B
Li Qingli	A,B
Zhao Feng	A,B
Ji Huifang	A,B
Non-Executive Director	
Ge Lingyue	A,B
Independent Non-Executive Directors	
Meng Fanlin	A,B
Wang Haiyu	A,B
Li Xiaohui	A,B

A: attending seminars and/or conferences

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

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

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

Appointment, Re-election and Removal

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

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

Nomination Committee

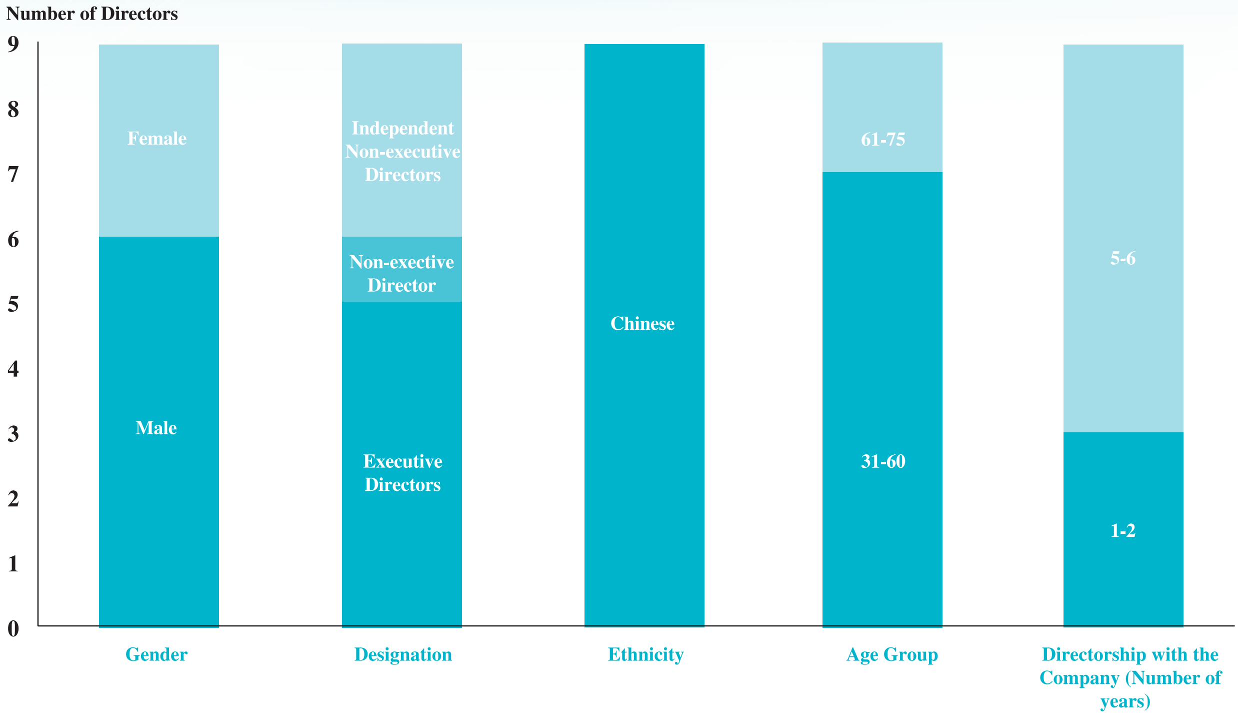
The Company established a nomination committee pursuant to a resolution of the Directors passed on 27 May 2012. The terms of reference of the nomination committee are in compliance with paragraph A.5.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and the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

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

During the year ended 31 December 2017, 1 nomination committee meeting was held and all nomination committee members attended.

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

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



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

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

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

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

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

Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 27 May 2012. The terms of reference of the remuneration committee are in compliance with Rule 3.25 and Rule 3.26 of the Listing Rules and paragraph B.1.2 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group and to ensure none of the Directors determine their own remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration of the Company's performance and prevailing market conditions. The remuneration policy of independent non-executive Directors is to ensure that the independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs including their participation in respective Board committees. The emoluments of independent non-executive Directors are determined with reference to their skills, experience, knowledge, duties and market trends. As at 31 December 2017, the remuneration committee consists of three independent non-executive Directors namely Mr. Wang Haiyu (Chairman), Ms. Li Xiaohui and Mr. Meng Fanlin.

Details of remuneration of Directors are set out in Note 10 to the consolidated financial statements.

Save as disclosed in Note 36 to the Consolidated Financial Statements, for the year ended 31 December 2017, no payment was made or benefit provided in respect of termination of service of directors, whether in the capacity of directors or in any other capacity while as directors.

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

During the year ended 31 December 2017, there was no loan, quasi-loan or other dealing in favour of directors of the Company and of a holding company of the Company, bodies corporate controlled by such directors, and entities connected with such directors.

During the year ended 31 December 2017, no consideration was provided to or receivable by third parties for making available the services of any person as director or in any other capacity while as a director.

During the year ended 31 December 2017, 1 remuneration committee meeting was held and all remuneration committee members attended.

Pursuant to code provision B.1.5 of the Corporate Governance Code, the remuneration of the members of the senior management who are not directors by band for the year ended 31 December 2017 is set out below:

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

Audit Committee

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

The primary duties of the audit committee are, among other things, to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, review the financial statements and to render material advice in respect of financial reporting and overseas risk management and internal control procedures of the Company. As at 31 December 2017, the audit committee consists of three independent non-executive Directors, namely Ms. Li Xiaohui (Chairlady), Mr. Wang Haiyu and Mr. Meng Fanlin.

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

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

During the year ended 31 December 2017, two audit committee meetings were held and the attendance records of individual committee members are set out below:

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

Our Group's annual results for the year ended 31 December 2017 have been reviewed by the audit committee. The audit committee has discussed with KPMG regarding the matters disclosed in "Qualified opinion" and "Basis for qualified opinion" in the Independent Auditor's Report and had no disagreement with the management's or KPMG's position on the same. The audit committee is of the opinion that except for the matters dislosed in the paragraphs "Qualified opinion" and "Basis for qualified opinion" in the Independent Auditor's Report, the financial statements of the Company and the Group for the year ended 31 December 2017 complied with applicable accounting standards, Listing Rules and the legal requirements, and that adequate disclosures have been made.

During the year ended 31 December 2017, the board has not taken a different view from the audit committee on the selection, appointment, resignation or dismissal of external auditors.

Auditors' Remuneration

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

As at 31 December 2017, the fees paid and payable to the Group's auditors in respect of their assurance services (including audit and interim review services) provided to the Group were as follows:

	Amount (RMB)
Types of services	
Audit services	2,550,000
Non-audit services	480,000
Total	3,030,000

The reporting responsibilities of KPMG are set out in the Independent Auditors' Report on pages 69 to 76.

Company Secretary

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

Risk Management and Internal Control

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

Risk Management System

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

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

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

Internal Control System

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

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

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

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

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

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

Based on the internal control reviews conducted in 2017, no significant control deficiency was identified.

Effectiveness of the Risk Management and Internal Control Systems

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

The Board, through its review and the reviews made by external internal control auditor and Audit Committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, employee qualifications and experience of relevant employee were adequate and the training programs and budget provided were sufficient.

Shareholders' Rights

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

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

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

Principal place of business of the Company in Hong Kong

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

Registered office of the Company

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

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

(4) If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

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

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

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

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

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

Investor Relations and Communication

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

The Company updates its shareholders on its latest business developments and financial performance through its corporate publications including annual reports and public announcements. Extensive information about the Company's activities for the year ended 31 December 2017 has been provided in this Annual Report. While the AGM provides a valuable forum for direct communication between the Board and its shareholders, the Company also maintains its website (www.chinauton.com) to provide an alternative communication channel for the public and its shareholders. All corporate communication and Company's latest updates are available on the Company's website for public's information.

During the year ended 31 December 2017, there has been no significant change in the Company's constitutional documents.

Hong Kong, 29 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE ESG REPORT

This report is the second Environmental, Social and Governance Report (the "ESG Report") issued by China U-Ton Holdings Limited ("the Company") and its subsidiaries (collectively "the Group" or "we") to elaborates on the corporate social responsibility, principles and work performed by the Group in the course of business operations in the past year. For contents of corporate governance, please refer to the Corporate Governance Report in this annual report.

Scope of the report

The ESG Report covers the performance of principal business of the Group in the People's Republic of China (the "PRC") and the Hong Kong Special Administrative Region ("Hong Kong") in respect of environmental management and social responsibility from 1 January 2017 to 31 December 2017 (the "current year"). During the current year, principal business of the Group did not change significantly. It was principally engaged in the provision of underground optical fibers deployment, low-voltage equipment integration, provision of application services and pipeline maintenance services, as well as the research and development of technologies for installing optical fibers in pipelines. The key performance indicators in environmental aspects disclosed in the ESG Report focused on Hebei Changtong Communication Engineering Co., Ltd. ("Hebei Changtong"), a subsidiary of the Group located in Shijiazhuang, Hebei Province.

Reporting framework

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

Stakeholder engagement

The Group understands the close relationship between stakeholders and the business development of the Group. The Group communicates with key stakeholders through various channels and the preparation of the ESG Report also received the participation of colleagues from various departments, which have laid a solid foundation for the formulation and implementation of the Group's short-term and long-term development strategies.

Information and feedbacks

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

ENVIRONMENT AND RESOURCES

2017 was the year when the "13th Five-Year Plan" is fully implemented and China's ecological and environmental protection still faces many challenges. The Group understood that enterprises played a decisive role in environmental protection and pollution control. To this end, we continued to adhere to the concept of sustainable development and follow environmental laws and regulations such as the Law of the People's Republic of China on Environmental Protection (《中華人民共和國環境保護法》) and the Law of the People's Republic of China on Environmental Impact Assessment (《中華人民共和國環境影響評價法》) and strictly monitor all aspects of our business operations. We strived to reduce the impact of business operations on the environment through effective energy-saving and emission-reduction measures, and actively promote ecological environmental protection and ecological civilization construction.

Emission management

The office premises of the Group produce a small amount of domestic sewage which is discharged into municipal sewage treatment plants through the municipal pipe network. In addition, greenhouse gases, other exhaust gases and solid wastes are the major emissions of the Group during its operation.

Greenhouse gases

The greenhouse gas emitted during the Group's operation mainly comes from direct emission from the burning of fossil fuels as well as indirect emission from purchased electricity and heating, outbound business trips, water and wastewater treatment, and waste paper landfills. During the current year, Hebei Changtong produced a total greenhouse gas emission of approximately 463 tons of CO_2 equivalent, representing an average greenhouse gas emission of approximately 2.77 tons of CO_2 equivalent for each employee.

Other exhaust gases

The air pollutants emitted during the operation of the Group mainly include nitrogen oxides, sulfur oxides and particles, the main source of which is vehicle exhaust. During the current year, Hebei Changtong produced a total nitrogen oxide emission of approximately 1,066 kg, a total sulfur oxide emission of approximately 1 kg, and a total particle discharge of approximately 91 kg.

To improve the use efficiency of vehicles and reduce environmental pollution by exhaust emissions, on the one hand, the Group constantly optimizes the maintenance and management of vehicles, periodically checks the tire inflation situation, provides maintenance for the fleet, provides driving training for the drivers and optimizes transportation routes; on the other hand, we encourage our employees to travel by public transports, by bikes, on foot or by other green alternatives.

Solid wastes

During construction works, the Group only produces non-hazardous wastes which mainly include excavated original soils and the waste soils generated in cavities formed by drilling wells in municipal roads construction. Non-hazardous wastes from workplace mainly include waste paper, waste cartons, old tables and chairs, and general domestic wastes, while hazardous wastes mainly include disused computers, waste batteries, waste ink cartridges. During the current year, Hebei Changtong produced approximately 79 tons of non-hazardous wastes, representing an average of 0.47 tons of non-hazardous wastes per employee; and produced approximately 0.05 tons of hazardous wastes, representing an average of approximately 0.28 kg of hazardous wastes per employee.

In order to reduce the harm caused by wastes to the environment, the Group continues to store and dispose of all types of wastes strictly in accordance with relevant standards and regulations. The original soil excavated during construction is generally backfilled underground and waste soil generated through wells construction by the construction party is shipped to backfill sites according to the requirement of local government. To facilitate the management of wastes, we installed a refuse sorting device in our office space. Apart from documents involving confidential information, all the waste paper is handled by waste paper recycling companies. Waste cartons and old tables and chairs are transported to the local waste recycling station, while general household garbage. and a small amount of waste batteries are passed to municipal sanitation departments for central removal and handling, and used computers are collected by electronics companies, waste ink cartridges are collected and treated by ink cartridges suppliers.

Resource consumption

The Group's energy consumption is mainly derived from the fuel used for construction equipment and vehicles, and purchased electricity and heating. During the current year, the total energy consumption of Hebei Changtong was approximately 1,487 MWh, and the average energy consumption per employee was approximately 8.90 MWh. The Group's production and operation use less water which is mainly consumed during employees' daily office activities. There was no issue in sourcing water that is fit for purpose. In the current year, the total water consumption of Hebei Changtong was approximately 609 cubic meters, and the average water consumption per employee was approximately 3.65 cubic meters. Since the business operation of Hebei Changtong does not involve production and packaging of products, the total amount and density of packaging materials used in finished products will not be disclosed.

Resources saving and environment protection

To improve efficient use of resources and reduce carbon emissions, the Group continued to implement various measures to save electricity, save water, save paper and recycle office supplies, which include the following:

- Use energy-efficient luminaires in office premises, divide office premises into different lighting areas with independent lighting control, and encourage employees to use natural light illumination and turn off lighting facilities when not using office premises;
- Use central air-conditioning with energy-saving signs to strengthen the maintenance and management of air-conditioning systems, set the air-conditioning temperature to not less than 25.5 degrees Celsius, and allow employees to wear casual clothes in hot weather;
- Remind employees to turn off unused electrical and electronic equipment during non-working hours, and to set an automatic standby or hibernation mode when not using the computer to improve server utilization;
- Carry out monthly electricity statistics on office premises to monitor electricity usage;
- Put up water-saving slogans in the restrooms, recycle wash water for cleaning and irrigation, regularly check water meter readings and water leakage, and install faucets and urinals with water-saving labels;
- Use digitalized office platform to further promote OA System;
- Promote the use of environmentally friendly paper, double-sided printing, reuse, encourage employees to give priority to the use of electronic communication technology to circulate internal documents, post notices on printing equipment to remind employees to save papers, check documents before printing, promote presentation in meeting by way of multimedia, install electronic hand dryers to reduce the amount of paper towels used, and regularly count paper usage;
- Purchase recyclable cartridges and rechargeable batteries, call on employees to reuse office supplies, and reduce the use of disposable products and over-packaged products.

In addition, the Group has also taken measures to enhance employees' awareness of environmental protection and improve employees' participation. For example, we advocate employees to use stairs instead of taking escalator unless necessary. We also spread energy saving and emission reduction and environmental protection knowledge by e-mail, posters, internal network and other ways, and encourage employees to participate in activities organized by environmental protection organizations.

Based on its business nature, the Group does not have significant impact on the environment and on natural resources during its operation. In the current year, Hebei Changtong and Shijiazhuang Qiushi Communication Equipment Co., Ltd. respectively have carried out re-certification of the ISO14001:2015 Environmental Management System. The Group has not incurred any issues which have violated laws and regulations relating to environmental protection.

EMPLOYEES' RIGHTS

Employees are the core forces to maintain the survival and development of enterprises. The Group respects and treats every employee equally. It not only safeguards the legitimate rights and interests of employees, but also focuses on the development needs of employees, providing diversified development channels for employees while promoting the development of the Group to help them realize their personal values.

Employment policy

The Group continues to abide by the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and the Employment Ordinance of Hong Kong and other the laws and regulations on labour, and adheres to the concept of fair competition and merit-based employment. The Group only takes candidates' personal ability, qualifications and experience as the evaluation criteria in recruiting. The candidates and employees will not be treated differently merely because of factors like gender, age, religion, or ethnic. We also continue to advocate the diversification of employees and the establishment of a diversified team to enhance our competitiveness and creativity. In order to avoid the employment of child labour, we continue to comply with the Provisions on the Prohibition of Using Child Labour (《禁止使用童工規定》), and strictly check the age of candidates when going through the employment and filing procedures. Those who do not meet the requirements will not be admitted. We have the right to terminate our employment relationship with employees who are in serious violation of the Group's discipline or committed a crime.

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

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

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

Talent development

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

During the current year, the Group continued to organize a number of training sessions based on its business operations and the needs for different employee development. For example, Hebei Changtong organized its employees to participate in trainings such as professional skills and team awareness training, safety production essential common sense and awareness training, communication construction works safety production operation specification, ISO9001:2008 standard training, etc.; organized management of all departments to study the "Five steps and nineteen methods for Middle Management to Complete Targets", provided project managers with trainings such as the study of "Quality Management Practices for Engineering Construction Enterprises (《工程建設施工企業質量管理規範》)" (GB/T 50430-2007) and completion data production; and provided leaders of construction teams with trainings such as the use and maintenance of optical fiber fusion splicer. Shijiazhuang Qiushi Communication Facilities Co., Ltd. provided all employees with smart city construction program training and communication business training, provided staff of the human resources department with training on social security policies, provided computer lab management with training on the engine room power environment monitoring system, and employed lawyers to provide construction management personnel with trainings on common issues of construction contracts for construction works and job integrity training.

Health and safety

Our operations involve civil construction, aerial work and operation of electrical equipment, therefore work safety is essential in the day-to-day operations of the Group. During the process of production and operation, we continue to strictly abide the Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), Measures for the Supervision and Administration of Power Work (《電力安全生產監督管理辦法》), Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), the Special Rules on the Labour Protection of Female Employees (《女職工勞動保護特別規定》) and Regulations on Work-related Injury Insurance (《工傷保險條例》) and other relevant laws and regulations. To ensure the health and safety of our employees and avoid accidents which may cause casualties and economic losses, we continued to implement the "Compilation of Occupational Health and Safety Systems" and other rules and systems which clearly define the responsibilities division of safety supervisory work and supervise the relevant personnel to maintain records in accordance with the requirements of the management system.

In view of the characteristics of the Group's production and operation, dust, noise and radiation are the main factors that harm the health and safety of our employees. To ensure avoidance of occupational hazards to our employees, on the one hand, we always require the special operators to obtain certificates, provide employees with protective products, guide them on the proper use and regularly check the effectiveness. On the other hand, we have installed dust and noise monitoring devices for the construction department to ensure that the site has met the relevant standards before starting construction. In addition, as a practice, we arrange at least an occupational health examination for employees who are exposed to occupational hazards at least once a year. If an employee is found sick, he or she will be relieved from the post, given proper treatment and insured in accordance with the relevant regulations. To protect the health of our female employees, we prohibit our female employees from taking jobs like cable-running at a high level, scaffolding and other jobs which violate the Special Rules on the Labour Protection of Female Employees (《女職工勞動保護特別規定》). Pregnant employees are prohibited from doing the painting work, the jobs in which they may contact harmful gas or the jobs with intensity of Grade 4 or above as provided in the Physical Labour Intensity Grading (《體力勞動強度分級》) (GB3869-1997).

To ensure the safe and smooth progress of projects, when signing construction contracts with the customers, the Group also enters into the "Construction Safety Production Agreement" which stipulates the standards and safety production operation specifications that the construction party must comply with. In the current year, Hebei Changtong and Shijiazhuang Qiushi Communication Facilities Co., Ltd. respectively carried out the re-certification of OHSAS18001: 2007 Occupational Health and Safety Management System. The Group has never experienced major safety incidents and injury or death of employees due to work.

Product liability

Good reputation and sound operation management are guarantee for the long-term healthy development of a company. The Group has always been committed to serving the communications industry in a responsible manner and returning customers and society.

Supply chain management

We purchase construction materials such as PVC pipe, fittings and mini-cables for construction. The Group continued to implement regulation of the "Procurement Management System": Before inputting the information of a supplier to the database, the purchasing department must conduct a comprehensive evaluation of factors such as the supplier's quality and environmental management qualification, personnel composition, equipment conditions, product characteristics, production capacity, quality assurance, price and payment terms, and after-sales service. All employees of the Group have the right to recommend excellent suppliers, which will be incorporated into the material procurement information database upon approval. We select suppliers from the supplier database, and carry out procurement by the following means, i.e. inviting tender, negotiating tender, purchase by inquiry and signing purchase contract directly (with long-term strategic partners). We may resort to open tender, if necessary. For typical regional materials or special substances, we may choose suppliers from outside. If it is necessary to subcontract part of the project to a third party, we will evaluate and select the third-party supplier based on three criteria, i.e. a valid business license, a healthy financial condition and the ability to make advances, and a reasonable subcontracting price. To reduce the risk and ensure that the supplied products meet the requirements, we also regularly dispatch our technical and management personnel to factories or construction sites for inspection, and our procurement employees also regularly assess or update the information of the suppliers.

The ordinary cables, poles, woods and other materials required for the construction are generally provided by the customer, and the Group strictly inspects the materials provided by the customers in accordance with the requirements and technical specifications set forth in the contract. If the contract provides that such part of the materials is to be provided by the Group, we will carry out procurement in accordance with the relevant requirements, and obtain the product certification from the supplier. In addition to the above materials, for the procurement of office supplies and protective products, we also continue to integrate of the sustainable development concept into procurement strategies, processes and supplier management, and adhere to the principle of proximity procurement to reduce carbon emission during transportation and enhance the sustainability of the supply chain.

Products and services

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

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

During the acceptance phase of projects, with reference to applicable standards and norms, the project department and the engineering team check whether each item on the list meets the acceptance standard or not one by one, and record the acceptance status in the quality management system in detail. If a non-standard phenomenon is found, the settlement of the construction party is deducted according to the deduction standard and rework is required until meets the standards. In addition, we also provide a certain period of warranty and maintenance for projects.

In the current year, Hebei Changtong and Shijiazhuang Qiushi Communication Facilities Co., Ltd. respectively have carried out re-certification of the ISO9001:2015 Quality Management System. The Group has never experienced substandard project quality or received customer complaints.

Intellectual property

The development of enterprises relies on innovation. The Group attaches importance to cultivate the employees' ability to innovate and encourages employees to carry out inventions. W not only provides publicity and education on patent law and patent knowledge to our employees on a regular basis, but also standardize the management and maintenance of intellectual property, encourage employees' enthusiasm of invention and creation and facilitate the promotion and application of scientific and technological achievements in compliance with the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識產權法》), the Patent Law of the People's Republic of China (《中華人民共和國專利法》) and other laws and regulations to standardize the management of intellectual property, encourage employees' enthusiasm of invention and creation and facilitate the promotion and application of scientific and technological achievements.

For employees who have made outstanding achievements in the application, protection, management of appraise intellectual property and the transformation of scientific and technological achievements, or have effectively stopped the infringement and protected the rights of the Group's intellectual property, we not only offer them bonus and promotion, title assessment and other forms of material and spiritual rewards, but also appraise the annual "Invention Award" for the authorised patent of high creativity and good practical value, and the "Excellent Patent Workers "to motivate outstanding employees according to practice.

To avoid repeated research and infringement of others' intellectual property, the Group always carries out retrieval and analysis of patent documents before setting up projects of product and technology. The Group also conducts follow-up and search on and after the development of a research. To avoid infringement disputes, we require that terms of intellectual property protection should be set out in the contracts.

As of the end of 2017, the Group have been obtained 58 patents. During the current year, Beijing U-Ton Teda Electrical New Technology Development Co., Ltd., a subsidiary of the Group, obtained the "High-tech Enterprise" certification, demonstrating our efforts and results achieved in innovation and research and development.

Advertising and Promotion

In respect of advertising and promotion, the Group continued to strictly abide by laws and regulations on advertisements and trademarks such as the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and the Trademark Law of the People's Republic of China (《中華人民共和國商標法》). The Group promises that all the information relating to products and technologies are subject to strict examination before publication, and false advertisements or instructions misleading customer are never used.

Privacy Protection

The Group respects and values the privacy of its customers, and strictly abides the laws and regulations on privacy protection in the countries and the confidentiality agreements signed with the customers. Employees are prohibited from disclosing the customers' information to a third party without permission and we strive to ensure that customer information will not be stolen, distorted or destroyed.

The Group also emphasizes protection of internal privacy, and enters into agreements with employees to prevent them from serving employers that constitute competition with the Group during the competition restriction period. Management and circulation of important documents should be timely, accurate, safe and confidential. Confidential documents can only be borrowed when getting official approval, and employees shall not take out or copy privately. Employees shall keep confidential and shall not copy, or transfer to other companies or people skills and information acquired and accumulated during their training.

The Group has also managed archives in unity and kept them by levels based on laws and regulations such as the Archives Law of the People's Republic of China (《中華人民共和國檔案法》), the Measures for the Implementation of the Archives Laws of the People's Republic of China (《中華人民共和國檔案法實施辦法》) and the "Company Archives Management System" to ensure proper maintenance of important information and data.

Anti-corruption

The Group has always adhered to the attitude of zero tolerance of corruption, and sticks to the integrity of operation. We continue to implement various code of conduct and an anti-corruption mechanism, and regularly organize anti-corruption education activities to improve the legal awareness of all employees. We also sign the anti-corruption agreement with customers to prevent the occurrence of improper behaviors.

The Group has strictly complied with the Law of the People's Republic of China on Anti-Money Laundering (《中華人民共和國反洗錢法》) and other laws and regulations as well as the "Anti-Money Laundering Training and Publicity System". To enhance employees' awareness of anti-money laundering and effectively prevent and fight crimes, we continue to follow the practice to organize anti-money laundering training at least once a quarter for all employees, and also provide trainings of the basic knowledge of anti-money laundering for new recruits. In addition, we also provide annual trainings for all financial employees to enhance their professional competence and integrity.

To prevent the abuse of authority and bribery, the Group continues to implement the "Anti-Corruption and Anti-Bribery Procedures", and conducts investigation, handling, and timely prevention of any bribery behaviors that may occurs. Meanwhile, management and procurement employees are required to consciously abide by relevant laws and regulations and internal rules and regulations, and cannot use their positions to seek personal gains.

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

COMMUNITY CONTRIBUTIONS

During the current year, the Group continued to uphold the mission of serving the society and giving back to society by actively promoting and encouraging employees to participate in public welfare activities, and continued to create environmental and social values while building high-quality projects and serving the public.

The directors of the Company (the "Directors") have pleasure in presenting their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 (the "Consolidated Financial Statements").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of the principal subsidiaries of the Company are set out in Note 15 to the Consolidated Financial Statements.

Further discussion and analysis of the Group's principal activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 10 to 23 of this annual report. This discussion forms part of this director's report.

Compliance with Laws and Regulations

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

Key Relationships

(i) Employees

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

(ii) Suppliers

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

(iii) Customers

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

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2017 are set out in Note 15 of the Consolidated Financial Statements.

BUSINESS REVIEW

A review and analysis on the Group's business for the year ended 31 December 2017 and a discussion on the Group's future development are set out in page 10-23, 4-6 which form part of the Report of the Directors.

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

Comparison of Future Plans with the Actual Business Progress

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress for the year ended 31 December 2017. Capitalised terms used herein shall have the same meanings as those defined in the Prospectus unless the content requires otherwise.

Business plan as set out in the Prospectus	Actual business progress up to 31 December 2017
1. Further strengthening our deployment services of optical fibers in the PRC	
(i) Investment in equipment	The Group has purchased various equipment, spare parts of equipment and motor vehicles for construction projects.
(ii) Market expansion	The Group has built sixteen experimental sections and purchased motor vehicles for marketing purposes. In addition, the Group has established three representative office in Chongqing, Tianjin and Shenzhen.
(iii) Securing strategic assets/rights	The Group has signed one co-operation memorandum with a government department and the Group is communicating with various relevant governmental departments in various cities of the PRC.

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

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

Use of Proceeds

The net proceeds from the Placing on 12 June 2012 (the "Listing Date") were approximately HK$108.7 million (equivalent to approximately RMB88.7 million). The net proceeds from the Listing Date to 31 December 2017 had been applied as follows:

	Use of proceeds from the Listing Date to period ended 31 December 2017 as shown in the Prospectus HK$ (million)	Actual use of proceeds from the Listing Date to 31 December 2017 HK$ (million)
1. Further strengthening our deployment services of optical fibers in the PRC		
(i) Investment in equipment	26.18	11.86
(ii) Market expansion	15.50	15.50
(iii) Securing strategic assets/rights	23.42	23.42
(iv) Acquisition	12.20	12.20
(v) Human resources	2.60	2.60
(vi) Research and development	3.70	3.70
Sub-total	83.60	69.28
2. Expanding our business of low-voltage equipment integration services in the PRC		
(i) Sales and marketing	2.40	2.40
3. Repayment of bank and other borrowings	14.30	14.30
4. General working capital (Note)	8.40	8.40
Total	108.70	94.38

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

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

On 29 September 2014, placing of 62,500,000 new shares was completed and net proceeds were approximately HK$96.75 million (equivalent to approximately RMB76.70 million). On 11 February 2016, placing of 50,000,000 shares was completed and net proceeds were approximately HK$47.6 million (equivalent to approximately RMB 40.26 million). On 21 July 2017, placing of 100,000,000 new shares was completed and net proceeds were approximately HK$87.02 million (equivalent to approximately RMB 75.11 million). The net proceeds from the completion date of the aforesaid subscription to 31 December 2017 had been applied as follows:

		Planned use HK$ (million)	Actual use HK$ (million)
1.	Acquisition	21.30	21.30
2.	General working capital	146.85	146.85
3.	Repayments of debts	63.22	63.22
		231.37	231.37

On 7 June 2016, 9 February 2017 and 27 June 2017, the Company issued convertible bonds with a nominal value of HK$50,000,000, USD10,000,000 (equivalent to HK$78,000,000) and USD4,000,000 (equivalent to HK$31,200,000), respectively. The net proceeds from the issue of the Convertible Bonds were approximately HK$49,500,000, HK$78,000,000 and HK$31,175,000 respectively. The net proceeds from the completion date of the aforesaid issuances to 31 December 2017 had been applied as follows:

		Planned use HK$ (million)	Actual use HK$ (million)
1.	Day-to-day operations	146.82	146.82
2.	Investments and acquisitions	11.86	11.86
		158.68	158.68

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 24 January 2017, 60,000,000 share options were granted to directors of the Company and employees of the Group under the above share option scheme. All share options granted will vest six months from the date of grant. The share options granted will lapse on 23 July 2020. Each share option gives the holder the right to subscribe for one ordinary share in the Company at HK$0.9 each and is settled gross in shares. For details, please refer to the announcement of the Company dated 24 January 2017.

(i) The terms and conditions of the options granted are as follows:

	Number of share options	Vesting conditions	Contractual life of share options
Share options granted to directors	21,600,000	Six months from the date of grant	3.5 years
Share options granted to employees	38,400,000	Six months from the date of grant	3.5 years
Total	60,000,000		

(ii) Reconciliation of outstanding share options:

	Weighted average exercise price	Numbers of options 2017
Outstanding at 1 January	—	—
Granted during the year	HK$0.90	60,000,000
Forfeited during the year	HK$0.90	(15,000,000)
Outstanding/Exercisable at 31 December	HK$0.90	45,000,000

The share options outstanding at 31 December 2017 had an exercise price of HK$0.90 and a remaining contractual life of 2.57 years.

(iii) Measurement of fair value

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial Model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions	Share options granted to directors	Share options granted to employees
Fair value at measurement date	HK$0.27	HK$0.237
Share price	HK$0.90	HK$ 0.90
Exercise price	HK$0.90	HK$ 0.90
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	39.469%	39.469%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	3.5	3.5
Expected dividends	0.000%	0.000%
Risk-free interest rate (based on Exchange Fund Notes)	1.364%	1.364%

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted either with or without a service condition. This condition, if any, has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

The estimated fair values of the options granted during the reporting period is approximately RMB9,876,000 (31 December 2016: Nil). All options vested in current year and the estimated fair values were recognised as expense to the profit or loss accordingly.

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

As at 31 December 2017, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Appendix 10 of the Listing Rules relating to securities transactions by the directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Company

Name of director	Name of Group member/ associated corporation	Capacity/ nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Jiang Changqing (Note 2 and note 3)	Our Company	Interest of a controlled corporation	638,307,000 Shares (L)	32.11%
	Our Company	Interest of Spouse	10,195,000 Shares (L)	0.51%
Ms. Guo Aru (Note 3)	Our Company	Interest of Spouse	638,307,000 Shares (L)	32.11%
	Our Company	Beneficial owner	10,195,000 Shares (L)	0.51%
Mr. Li Qingli (Note 4)	Our Company	Interest of a controlled corporation	104,065,000 Shares (L)	5.24%
	Our Company	Benecial owner	6,640,000 Shares (L)	0.33%

Notes:

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

2. The 638,307,000 Shares are held by Bright Warm Limited, the entire issued capital of which is beneficially owned by Mr. Jiang Changqing, one of the controlling shareholders of the Company and an executive director. Mr. Jiang Changqing is also interested in 1,800,000 share options granted under the Share Option Scheme.

3. Ms. Guo Aru is the spouse of Mr. Jiang Changqing. Therefore, Ms. Guo Aru is deemed to be interested in the 638,307,000 Shares owned by Mr. Jiang Changqing in the Company and 1 share owned by Mr. Jiang Changqing in Bright Warm Limited by virtue of the SFO. Moreover, Ms. Guo Aru held 10,195,000 Shares directly. Mr. Jiang Changqing is deemed to be interested in the 10,195,000 Shares held by Ms. Guo Aru. Ms. Guo Aru is also interested in 1,800,000 share options granted under the Share Option Scheme.

4. The 104,065,000 Shares are held by Ordillia Group Limited, the entire issued capital of which is beneficially owned by Mr. Li Qingli, who was an executive director as at 31 December 2017 and tendered his resignation as an executive director of the Company with effect from 28 January 2018. Mr. Li Qingli is also interested in 18,000,000 share options granted under the Share Option Scheme. Mr. Li Qingli (through himself and Ordillia Group Limited) disposed all of his 110,705,000 shares of the Company at the price of HKD1.00 per share on 26 January 2018. Since then Mr. Li Qingli ceased to be a shareholder of the Company.

Save as disclosed above, as at 31 December 2017, none of the directors and chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to Rules Appendix 10 of the Listing Rules relating to securities transactions by the directors, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2017, so far as was known to the directors, the following persons/entities (other than the directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	**Name of Group member**	**Capacity/ nature of interest**	**Number and class of securities** (Note 1)	**Approximate percentage of shareholding**
Bright Warm Limited (Note 2)	Our Company	Beneficial owner	638,307,000 Shares (L)	32.11%
China Fund Limited	Our Company	Beneficial owner	359,568,000 Shares (L)	18.09%
Ordillia Group Limited (Note 3)	Our Company	Beneficial owner	104,065,000 Shares (L)	5.24%
Ms. Ren Yanping (Note 4)	Our Company	Interest of spouse	110,705,000 Shares (L)	5.57%

Notes:

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

2. Bright Warm Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Jiang Changqing, one of the controlling shareholders of the Company and an executive director. Therefore, Mr. Jiang Changqing is also deemed to be interested in the 638,307,000 Shares owned by Bright Warm Limited by virtue of the SFO.

3. Ordillia Group Limited is a company incorporated in the BVI and the entire issued share capital of which is beneficially owned by Mr. Li Qingli, one of the substantial shareholders of our Company and an executive director as at 31 December 2017. Therefore, Mr. Li Qingli is also deemed to be interested in the 104,065,000 Shares owned by Ordillia Group Limited by virtue of the SFO. Mr. Li Qingli had tendered his resignation as an executive director of the Company with effect from 28 January 2018. Mr. Li Qingli (through himself and Ordillia Group Limited) disposed all of his 110,705,000 shares of the Company at the price of HKD1.00 per share on 26 January 2018. Since then Mr. Li Qingli ceased to be a shareholder of the Company.

4. Ms. Ren Yanping is the spouse of Mr. Li Qingli. Therefore, Ms. Ren Yanping is deemed to be interested in the 110,705,000 Shares owned by Mr. Li Qingli by virtue of the SFO. As Mr. Li Qingli ceased to be a shareholder of the Company since 26 January 2018, Ms. Ren Yanping also ceased to be interested in the Company.

Save as disclosed above, as at 31 December 2017, the directors were not aware of any other persons/entities (other than the directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2017.

SERVICE CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 December 2017.

PERMITTED INDEMNITY

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

SUFFICIENCY OF PUBLIC FLOAT

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

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

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Completion of the acquisition of Yourui

On 12 February 2018, the Group completed the acquisition of Yourui. The directors are of the view that the Acquisition will provide opportunities to the Company to diversify its existing business and broaden its revenue stream. For details of the Acquisition, please refer to section "Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies – Acquisition of Yourui".

Resignation of Mr. Li Qingli

Mr. Li Qingli, who was an executive director as at 31 December 2017, tendered his resignation as an executive director of the Company with effect from 28 January 2018. Mr. Li Qingli disposed all of his 110,705,000 shares of the Company at the price of HKD1.00 per share on 26 January 2018 and as a result Mr. Li Qingli ceased to be a shareholder of the Company.

COMPETING INTERESTS

Save and except for interests in the Group, none of the directors and Mr. Jiang nor their respective associates (as defined under the Listing Rules) had any interest in any other companies as at 31 December 2017 which may, directly or indirectly, compete with the Group's business.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rule 5.48 to Rule 5.67 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the GEM Listing Rules") for the period where the Company's shares were listed on GEM. Since the Company's shares were successfully listed on Main Board of the Stock Exchange on 1 August 2014, the Group continues and will continue to ensure compliance with the corresponding provisions set out in Appendix 10 of the Listing Rules. Having made specific enquiries to all the directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors throughout the year ended 31 December 2017.

CORPORATE GOVERNANCE CODE

In the opinion of the directors, throughout the year ended 31 December 2017 the Company has complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Lising Rules except Code Provision A.2.1.

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

ANNUAL GENERAL MEETING ("AGM")

The AGM will be held on Wednesday, 23 May 2018. The circular of the Company containing details of the AGM together with the notice of AGM and form of proxy will be issued and disseminated to the shareholders in due course.

CLOSURE OF THE REGISTER OF MEMBERS

To determine the eligibility of the shareholders of the Company to attend the AGM to be held on Wednesday, 23 May 2018, the register of members will be closed from Thursday, 17 May 2018 to Wednesday, 23 May 2018, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4 p.m. on Wednesday, 16 May 2018.

PUBLICATION OF THE ANNUAL RESULTS AND THE ANNUAL REPORT

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

The Company's 2017 annual report containing all the information required under the Listing Rules will be despatched to the relevant shareholders and will be published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

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

Hong Kong, 29 March 2018

As at the date of this report, the executive directors of the Company are Mr. Jiang Changqing, Ms. Guo Aru, Mr. Zhao Feng and Ms. Ji Huifang; the non-executive director of the Company is Mr. Ge Lingyue; the independent non-executive directors of the Company are Mr. Meng Fanlin, Mr. Wang Haiyu and Ms. Li Xiaohui.

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

Qualified opinion

We have audited the consolidated financial statements of China U-Ton Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 77 to 170 which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects on the corresponding figures of the matters described in the *Basis for qualified opinion* section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for qualified opinion

Our auditor's report dated 31 March 2017 on the Group's consolidated financial statements for the year ended 31 December 2016 was qualified, given the circumstances as described in Note 2(a) to the consolidated financial statements, in respect of:

(a) insufficient audit evidence to determine (i) the commercial substance of the acquisition and disposal of Nanjing Newlixon Electric Appliance Co., Ltd. ("Nanjing Newlixon"), (ii) whether the Group obtained control of Nanjiang Newlixon and (iii) whether the amounts related to Nanjiang Newlixon were free from material misstatement; and

(b) departure from IFRS 3, *Business Combinations* and IFRS 10, *Consolidated financial statements*, if we had satisfied ourselves that the Group had obtained control over Nanjing Newlixon upon the completion of the acquisition until the time of disposal.

Our opinion on the current year's consolidated financial statements is also qualified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income.

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

Key audit matters

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

Recognition of construction contract revenue

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

The key audit matter	How the matter was addressed in our audit
The Group is primarily engaged in the design, deployment and maintenance of optical fibers, and the installation and sale of low-voltage system equipment and related accessories. The Group normally enters into construction contracts with major state-owned telecommunication network and equipment operators and independent third parties. The Group recognises construction contract revenue based on the percentage of completion ("POC") of individual contracts, calculated based on the proportion of total contract costs incurred at the end of the reporting period compared with the estimated total budgeted contract costs to complete the contract. The measurement of the POC and revenue therefore relies on estimations of total budgeted contract costs. Changes to estimated total budgeted contract costs could give rise to material variances in the amount of revenue recognised.	Our procedures to assess the recognition of construction contract revenue included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the budgeting process for construction contracts; • scrutinising the key clauses of construction contracts, on a sample basis, and assessing whether these key clauses had been appropriately reflected in the estimation of total budgeted contract costs and contract variations applied in calculating contract revenue; • challenging the Group's estimates of budgeted costs to complete contracts, on a sample basis, by considering the Group's historical records of gross profit margins for similar contracts and comparing budgeted costs with sub-contracts, where relevant;

Recognition of construction contract revenue

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

The key audit matter	How the matter was addressed in our audit
Contracts entered into by the Group are mostly fixed price contracts, although there may be variations which are required by certain customers for changes in the scope of the work to be performed under the construction contracts. A variation is included in contract revenue when it is probable that the customer will approve the variation and the amount of revenue arising from the variation can be reliably measured. We identified the recognition of construction contract revenue as a key audit matter because there is a high degree of risk and associated management judgement in estimating total budgeted contract costs and the timing of recognition of variation orders and, consequently, the amount of revenue to be recognised by the Group.	• assessing whether major costs incurred were accounted for in the appropriate accounting period by comparing major costs incurred during the current year with purchase invoices and other relevant underlying documentation on a sample basis; • performing a re-calculation of revenue recognised for individual contracts based on the estimated total budgeted contract costs, the costs incurred to date and the agreed contract price (including variations); • performing site visits for selected major contracts in progress, physically observing the stage of completion of the contract and discussing the status of the contract with the site supervisor; • discussing material contract variations with management and challenging their estimation of the recoverability of contract variations and timing of recognition of the related revenue by inspecting correspondence with customers, bank statements and other relevant underlying documentation indicating subsequent settlement, where applicable; and • assessing the disclosures in the consolidated financial statements in respect of construction contract revenue with reference to the requirement of the prevailing accounting standards.

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

Refer to Notes 20 and 21 to the consolidated financial statements and the accounting policies in Notes 2(l), 2(n) and 2(o).

The key audit matter

Trade and bill receivables and amounts due from customers for contract work amounted to RMB47,679,000 (current and non-current) and RMB337,394,000 as at 31 December 2017, respectively; and mainly comprised amounts due from major state-owned telecommunication network and equipment operators and other independent third parties.

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

How the matter was addressed in our audit

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

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

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

Refer to Notes 20 and 21 to the consolidated financial statements and the accounting policies in Notes 2(l), 2(n) and 2(o).

The key audit matter	How the matter was addressed in our audit
We identified assessing the recoverability of trade and bill receivables and amounts due from customers for contract work as a key audit matter because of the significance of the balances of trade and bill receivables and amounts due from customers for contract work to the consolidated financial statements and because of the inherent uncertainty in management's exercise of judgement in determining the provisions for doubtful debts.	• assessing the assumptions and estimates made by the management for the provisions for doubtful debts calculated based on a collective assessment by performing a retrospective review of the historical accuracy of these estimates and recalculating the Group's provision with reference to the Group's policy for collective assessment; • comparing cash receipts from customers subsequent to the financial year end relating to trade receivable balances as at 31 December 2017 with bank statements and other relevant underlying documentation; • comparing progress billings to customers issued after the financial year end with the balances of amounts due from customers for contract work as at 31 December 2017; and • assessing the disclosures in the consolidated financial statements in respect of assessing impairment of trade and bill receivables and amounts due from customers for contract work and credit risk management with reference to the requirements of the prevailing accounting standards.

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

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

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
29 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in Renminbi ("RMB"))

	Note	**2017**	2016
		RMB'000	RMB'000
			Re-presented
			(Note 5)
Continuing operations			
Revenue	4	**171,929**	245,677
Cost of sales/services		**(213,094)**	(269,416)
Gross loss	4(b)	**(41,165)**	(23,739)
Other income	6	**7,989**	2,947
Selling expenses		**(6,431)**	(24,616)
Administrative expenses		**(69,114)**	(58,070)
Research and development expenses		**(2,142)**	(6,447)
Impairment losses	7	**(35,936)**	(64,605)
Operating loss from continuing operations		**(146,799)**	(174,530)
Finance costs	8(a)	**(39,223)**	(63,696)
Changes in fair value of trading securities		**2,623**	—
Net gain on disposal of subsidiaries	35	**5,353**	37,700
Loss before taxation from continuing operations	8	**(178,046)**	(200,526)
Income tax	9	**(1,554)**	(3,150)
Loss for the year from continuing operations		**(179,600)**	(203,676)
Discontinued operation			
Loss for the year from discontinued operation, net of tax	5	**(5,883)**	(55,836)
Loss for the year		**(185,483)**	(259,512)

The notes on pages 85 to 170 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in RMB)

	Note	**2017** **RMB'000**	2016 RMB'000 *Re-presented* (Note 5)
Attributable to:			
Equity shareholders of the Company			
– Continuing operations		**(173,101)**	(197,367)
– Discontinued operation		**(5,883)**	(55,836)
		(178,984)	(253,203)
Non-controlling interests			
– Continuing operations		**(6,499)**	(6,309)
Loss for the year		**(185,483)**	(259,512)
Basic and diluted loss per share (RMB cents)	12		
Continuing and discontinued operations		**(9.26)**	(13.75)
– Continuing operations		**(8.96)**	(10.72)
– Discontinued operation		**(0.30)**	(3.03)

The notes on pages 85 to 170 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in RMB)

	2017 RMB'000	2016 RMB'000 *Re-presented* (Note 5)
Loss for the year	**(185,483)**	(259,512)
Other comprehensive income for the year (after tax):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements into presentation currency	**(3,780)**	671
Total comprehensive income for the year	**(189,263)**	(258,841)
Attributable to:		
Equity shareholders of the Company		
– Continuing operations	**(176,881)**	(196,696)
– Discontinued operation	**(5,883)**	(55,836)
	(182,764)	(252,532)
Non-controlling interests		
– Continuing operations	**(6,499)**	(6,309)
Total comprehensive income for the year	**(189,263)**	(258,841)

The notes on pages 85 to 170 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	13	**39,046**	47,590
Intangible assets	14	**1,174**	5,074
Goodwill	16	**—**	32,769
Available-for-sale financial assets	17	**84,098**	86,598
Prepayments for investments in financial assets	17	**9,290**	16,790
Non-current trade receivables	20	**—**	7,933
Deferred tax assets	31(b)	**—**	990
		133,608	197,744
Current assets			
Trading securities	18	**8,897**	—
Inventories	19	**6,156**	11,459
Trade and bill receivables	20	**120,164**	152,295
Amounts due from customers for contract work	21	**337,394**	505,819
Other receivables, deposits and prepayments	22	**134,499**	261,308
Restricted bank deposits	23	**2,270**	170,697
Cash at bank and on hand	24	**195,061**	128,057
Assets held-for-sale	25	**454,534**	—
		1,258,975	1,229,635

The notes on pages 85 to 170 form part of these financial statements.

	Note	2017 RMB'000	2016 RMB'000
Current liabilities			
Trade and other payables	26	**194,853**	315,776
Bank and other borrowings	27(a)	**53,000**	237,275
Corporate bonds	28	**22,411**	3,578
Convertible bonds	29	**41,439**	—
Guaranteed notes	30	**25,325**	—
Income tax payable	31(a)	**18,526**	21,761
Provision for warranties		**680**	606
Liabilities held-for-sale	25	**263,485**	—
		619,719	578,996
Net current assets		**639,256**	650,639
Total assets less current liabilities		**772,864**	848,383
Non-current liabilities			
Bank and other borrowings	27(b)	**48,000**	133,726
Corporate bonds	28	**193,212**	186,847
Convertible bonds	29	**112,860**	49,139
Guaranteed notes	30	**88,464**	45,132
Deferred tax liabilities	31(b)	**267**	906
		442,803	415,750
NET ASSETS		**330,061**	432,633
Capital and reserves	33		
Share capital		**162,874**	154,242
Reserves		**173,152**	279,479
Equity attributable to equity shareholders of the Company		**336,026**	433,721
Non-controlling interests		**(5,965)**	(1,088)
TOTAL EQUITY		**330,061**	432,633

Approved and authorised for issue by the board of directors on 29 March 2018

Jiang Changqing	**Zhao Feng**
Chairman and Executive Director	Executive Director

The notes on pages 85 to 170 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in RMB)

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 (Note 33(c))	Share premium RMB'000 (Note 33(d) (i))	Other reserve RMB'000 (Note 33(d) (ii))	Statutory surplus reserve RMB'000 (Note 33(d) (iv))	Exchange reserve RMB'000 (Note 33(d) (v))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2016	143,139	100,179	10,142	56,359	—	272,065	581,884	5,221	587,105
Changes in equity for 2016:									
Loss for the year	—	—	—	—	—	(253,203)	(253,203)	(6,309)	(259,512)
Other comprehensive income	—	—	—	—	671	—	671	—	671
Total comprehensive income for the year	—	—	—	—	671	(253,203)	(252,532)	(6,309)	(258,841)
Issuance of shares	11,103	93,266	—	—	—	—	104,369	—	104,369
Balance at 31 December 2016	154,242	193,445	10,142	56,359	671	18,862	433,721	(1,088)	432,633

	Attributable to equity shareholders of the Company									
	Share capital RMB'000 (Note 33(c))	**Share premium RMB'000 (Note 33(d) (i))**	**Other reserve RMB'000 (Note 33(d) (ii))**	**Capital Reserve RMB'000 (Note 33(d) (iii))**	**Statutory surplus reserve RMB'000 (Note 33(d) (iv))**	**Exchange reserve RMB'000 (Note 33(d) (v))**	**Retained profits/ (accumulated losses) RMB'000**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
Balance at 31 December 2016 and 1 January 2017	**154,242**	**193,445**	**10,142**	**—**	**56,359**	**671**	**18,862**	**433,721**	**(1,088)**	**432,633**
Changes in equity for 2017:										
Loss for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(178,984)**	**(178,984)**	**(6,499)**	**(185,483)**
Other comprehensive income	**—**	**—**	**—**	**—**	**—**	**(3,780)**	**—**	**(3,780)**	**—**	**(3,780)**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**(3,780)**	**(178,984)**	**(182,764)**	**(6,499)**	**(189,263)**
Issuance of shares (Note 33(c) (i))	**8,632**	**66,561**	**—**	**—**	**—**	**—**	**—**	**75,193**	**—**	**75,193**
Disposal of a subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,622**	**1,622**
Equity-settled share based transactions (Note 32)	**—**	**—**	**—**	**9,876**	**—**	**—**	**—**	**9,876**	**—**	**9,876**
	8,632	**66,561**	**—**	**9,876**	**—**	**—**	**—**	**85,069**	**1,622**	**86,691**
Balance at 31 December 2017	**162,874**	**260,006**	**10,142**	**9,876**	**56,359**	**(3,109)**	**(160,122)**	**336,026**	**(5,965)**	**330,061**

The notes on pages 85 to 170 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Operating activities			
Loss before taxation			
– Continuing operations		**(178,046)**	(200,526)
– Discontinued operation	5	**(4,264)**	(54,847)
		(182,310)	(255,373)
Adjustments for:			
Depreciation and amortisation	8(c)	**7,364**	8,534
Impairment losses	7	**39,076**	88,239
Net (gain)/loss on disposal of property, plant and equipment	6	**(39)**	40
Finance costs	8(a)	**41,228**	65,506
Interest income	6	**(9,239)**	(3,469)
Changes in fair value of trading securities		**(2,623)**	—
Net gain on disposal of subsidiaries	35	**(5,353)**	(37,700)
Equity-settled share-based payment expenses	32	**9,876**	—
Changes in working capital:			
Increase in inventories		**(5,519)**	(4,440)
(Increase)/decrease in trade and bill receivables		**(16,293)**	2,744
Decrease in amounts due from customers for contract work		**14,857**	71,790
Increase in other receivables, deposits and prepayments		**(106,742)**	(89,291)
Increase in trade and other payables		**156,327**	42,585
Net cash used in operations		**(59,390)**	(110,835)
Income tax paid	31(a)	**(3,419)**	(10,484)
Net cash used in operating activities		**(62,809)**	(121,319)

The notes on pages 85 to 170 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

(Expressed in RMB)

	Note	2017 RMB'000	2016 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment and intangible assets		**(4,417)**	(27,925)
Proceeds from disposal of property, plant and equipment		**202**	1,187
Purchases and prepayments of available-for-sale financial assets		**—**	(26,790)
Proceeds from sale of available-for-sale financial assets		**—**	20,000
Payments for purchase of trading securities		**(82,062)**	—
Proceeds from sale of trading securities		**75,788**	—
Net increase in loans to third parties		**(10,000)**	(53,390)
Net cash inflow on disposal of subsidiaries		**4,038**	18,000
Net cash inflow/(outflow) from Nanjing Newlixon and Newlixon NCEH		**32,342**	(15,852)
Net decrease/(increase) in restricted bank deposits		**168,427**	(33,812)
Interest received		**7,649**	3,469
Net cash generated from/(used in) investing activities		**191,967**	(115,113)
Financing activities			
Proceeds from issuance of shares	33(c) (i)	**75,193**	40,259
Proceeds from bank and other borrowings		**84,250**	416,002
Repayments of bank and other borrowings		**(344,501)**	(231,042)
Net proceeds from issuance of corporate bonds	28	**36,476**	25,339
Repayments of corporate bonds	28	**(3,365)**	(6,583)
Net proceeds from issuance of convertible bonds	29	**96,027**	42,240
Net proceeds from issuance of guaranteed notes	30	**95,714**	41,727
Repayments of guaranteed notes	30	**(17,342)**	—
Net decrease in amounts due to related parties		**(534)**	(925)
Interest paid		**(49,072)**	(28,272)
Net cash (used in)/generated from financing activities		**(27,154)**	298,745
Net increase in cash and cash equivalents		**102,004**	62,313
Cash and cash equivalents at 1 January	24(a)	**128,057**	63,595
Effect of foreign exchange rate changes		**(3,648)**	2,149
Cash at bank and on hand classified as held-for-sale	25	**(31,352)**	—
Cash and cash equivalents at 31 December	24(a)	**195,061**	128,057

The notes on pages 85 to 170 form part of these financial statements.

1 CORPORATE INFORMATION

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

In May 2015, the Group acquired 90% equity interests in Nanjing Newlixon Electric Appliance Co., Ltd. ("Nanjing Newlixon"). As disclosed in Note 30 to the consolidated financial statements for the year ended 31 December 2015, subsequent to the above acquisition of Nanjing Newlixon by the Group, the Group and the non-controlling equity holder of Nanjing Newlixon (the "Newlixon NCEH") had disagreements in different areas including business development strategy, business revenue model and allocation of resources. The directors of the Company had planned the disposal of the Group's 90% equity interests in Nanjing Newlixon to the Newlixon NCEH prior to 31 December 2015. Given these circumstances, in preparation of the Group's consolidated financial statements for the year ended 31 December 2015, the directors of the Company have excluded the results and cash flows from Nanjing Newlixon for the period from the acquisition of Nanjing Newlixon to the date when the Group classified Nanjing Newlixon as assets and liabilities held-for-sale in the consolidated statement of financial position.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Statement of compliance *(Continued)*

The Group recorded the following balances and amounts in connection with the acquisition and disposal of Nanjing Newlixon in the consolidated financial statements for the year ended 31 December 2016:

	2016 RMB'000
Other receivables, deposits and prepayments	88,833
Net gain on disposal of a subsidiary	37,700
Impairment loss on advances to Nanjing Newlixon and Newlixon NCEH	(5,400)
Impairment loss on consideration receivable	(23,700)

The exclusion of the results and cash flows of Nanjing Newlixon from the consolidated financial statements prior to the disposal, the presentation of the investment in Nanjing Newlixon at cost less impairment, and the recognition of disposal gain based on the difference between the consideration received/receivable and the cost of investment were departures from the requirements of IFRS 3, *Business Combinations*, and IFRS 10, *Consolidated Financial Statements*, the financial impact of which are included in the consolidated financial statements of the Group for the year ended 31 December 2017 as comparative figures.

For the year ended 31 December 2017, the Group had incurred net loss of RMB185,483,000 and net cash used in operating activities of RMB62,809,000. Notwithstanding of the above, based on a cash flow forecast of the Group for the twelve months ending 31 December 2018 prepared by the management, the directors of the Company are of the opinion that the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

Significant accounting policies adopted by the Group are disclosed below.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Group.

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

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

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

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

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

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in Note 24(b) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, *Statement of cash flows: Disclosure initiative*, which require entities 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.

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

(d) Presentation currency

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Goodwill

Goodwill represents the excess of:

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

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

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

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

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

(g) Other investments in debt and equity securities

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Other investments in debt and equity securities *(Continued)*

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

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

(h) Derivative financial instruments

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

(i) Property, plant and equipment

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Property, plant and equipment *(Continued)*

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

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

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

(j) Intangible assets (other than goodwill)

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

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

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

Both the period and method of amortisation are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leased assets

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

(i) Classification of assets leased to the Group

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

(ii) Operating lease charges

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets

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

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

— significant financial difficulty of the debtor;

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

(ii) Impairment of other assets

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

— property, plant and equipment;

— intangible assets;

— goodwill; and

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

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Impairment of assets *(Continued)*

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

— Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Construction contracts

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

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

(o) Trade and other receivables

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Convertible bonds

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

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

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

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

(q) Interest-bearing borrowings

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

(r) Trade and other payables

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

(s) Cash and cash equivalents

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Employee benefits

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

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

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the share options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the share option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the share option expires (when it is released directly to retained profits).

(iii) Termination benefits

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax *(Continued)*

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

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

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

(v) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Revenue recognition

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

(i) Sale of goods

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

(ii) Contract revenue

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

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

(iii) Rental income from operating leases

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

(iv) Service income

Service income is recognised when the related service is rendered

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Revenue recognition *(Continued)*

(v) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Interest income

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

(vii) Government grants

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

(x) Translation of foreign currencies

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Borrowing costs

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

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

(z) Non-current assets held-for-sale and discontinued operations

(i) Non-current assets held-for-sale

A non-current asset or disposal group is classified as held-for-sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset or disposal group is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Non-current assets held-for-sale and discontinued operations *(Continued)*

(ii) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale (see Note 2(z) (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

— the post-tax profit or loss of the discontinued operation; and

— the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(bb) Segment reporting

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

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

3 KEY SOURCES OF ESTIMATION UNCERTAINTY

Notes 16, 32 and 34 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of share options and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Construction contracts

As explained in the accounting policies set out in Notes 2(n) and 2(w) (ii), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached, the amounts due from customers for contract work as disclosed in Note 21 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

3 KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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

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

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

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

(d) Deferred tax

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

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

Revenue mainly represents contract revenue from the design, deployment and maintenance of optical fibers services, contract revenue from the installation and sale of low-voltage system equipment and related accessories, contract revenue from the design, construction and maintenance of communication networks services, and money lending.

As disclosed in Note 5, the Group's activities in the installation and sale of low-voltage system equipment and related accessories have been reclassified as discontinued operation as at 31 December 2017.

The amount of each significant category of revenue from continuing operations and discontinued operation recognised during the year is as follows:

	2017	2016
	RMB'000	RMB'000
		Re-presented
		(Note 5)
Continuing operations:		
Revenue from the provision of design, deployment and maintenance of optical fibers services	**151,603**	228,138
Revenue from the provision of the design, construction and maintenance of communication networks services	**17,772**	15,711
Revenue from the provision of money lending services	**2,554**	—
Rental income	**—**	1,828
	171,929	245,677
Discontinued operation:		
Revenue from the installation and sales of low-voltage system equipment and related accessories (Note 5)	**80,958**	57,004
	252,887	302,681

For the year ended 31 December 2017, revenue from transactions with one (2016: two) customer have exceeded 10% of the Group's revenue. Revenue from these customers amounted to RMB91,186,000 for the year ended 31 December 2017 (2016: RMB154,260,000).

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

4 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information

The Group manages its businesses by lines of business. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following five reportable segments.

In view of the continuous diversification of the Group's business and growth in certain segments, the Group has added two new segments, namely communication networks and money lending, for the year ended 31 December 2017. The comparative figures have been adjusted to conform to current year's presentation. No operating segments have been aggregated to form the following reportable segments.

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

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

As disclosed in Note 5, this segment has been reclassified as discontinued operation as at 31 December 2017.

— Communication networks: this segment provides the design, construction and maintenance of communication networks.

— Rental: this segment leases out machinery and equipment.

— Money lending: this segment provides lending services under Hong Kong money lenders license.

(i) Segment results

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

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment results is gross (loss)/profit. No inter-segment sales have occurred for the years ended 31 December 2017 and 2016. The Group's other income and expense items, such as other income, selling expenses, administrative expenses, research and development expenses, impairment losses, finance cost, changes in fair value of trading securities and net gain on disposal of subsidiaries, and assets and liabilities, are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure is presented.

4 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	2017					
	Continuing operations				Discontinued operation	
	Optical fibers RMB'000	Communicaton networks RMB'000	Money lending RMB'000	Sub-total RMB'000	Low-voltage system RMB'000 (Note 5)	Total RMB'000
Revenue from external customers and reportable segment revenue	151,603	17,772	2,554	171,929	80,958	252,887
Reportable segment gross (loss)/profit	(46,937)	4,418	1,354	(41,165)	8,141	(33,024)

	2016					
	Continuing operations				Discontinued operation	
	Optical fibers RMB'000	Communicaton networks RMB'000	Rental RMB'000	Sub-total RMB'000	Low-voltage system RMB'000 (Note 5)	Total RMB'000
Revenue from external customers and reportable segment revenue	228,138	15,711	1,828	245,677	57,004	302,681
Reportable segment gross (loss)/profit	(27,591)	2,210	1,642	(23,739)	(22,276)	(46,015)

4 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

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

	Continuing operations		Discontinued operation		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
			(Note 5)	(Note 5)		
Segment results	**(41,165)**	(23,739)	**8,141**	(22,276)	**(33,024)**	(46,015)
Other income	**7,989**	2,947	**1,723**	912	**9,712**	3,859
Selling expenses	**(6,431)**	(24,616)	**(6,090)**	(5,315)	**(12,521)**	(29,931)
Administrative expenses	**(69,114)**	(58,070)	**(2,893)**	(2,724)	**(72,007)**	(60,794)
Research and development expenses	**(2,142)**	(6,447)	**—**	—	**(2,142)**	(6,447)
Impairment losses	**(35,936)**	(64,605)	**(3,140)**	(23,634)	**(39,076)**	(88,239)
Finance costs	**(39,223)**	(63,696)	**(2,005)**	(1,810)	**(41,228)**	(65,506)
Changes in fair value of trading securities	**2,623**	—	**—**	—	**2,623**	—
Net gain on disposal of subsidiaries	**5,353**	37,700	**—**	—	**5,353**	37,700
Loss before taxation	**(178,046)**	(200,526)	**(4,264)**	(54,847)	**(182,310)**	(255,373)

4 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(iii) Geographic information

At 31 December 2017 and 2016, substantially all of the Group's property, plant and equipment, intangible assets and goodwill are physically located or allocated to operations in the PRC. The following table sets out information about the geographic location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services provide or the goods delivered.

	Continuing operations		Discontinued operation		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
The People's Republic of China (including Hong Kong) (the "PRC")	**151,303**	231,907	**80,958**	57,004	**232,261**	288,911
Africa	**20,626**	13,770	**—**	—	**20,626**	13,770
	171,929	245,677	**80,958**	57,004	**252,887**	302,681

5 DISCONTINUED OPERATION

In November 2017, the Company entered into a share sale and purchase agreement with Ordillia Group Limited, a company wholly-owned by Mr Li Qingli who was also an executive director of the Company. Pursuant to the above agreement, the Company is to dispose of its 100% equity interests in one of the Group's subsidiaries, namely Shijiazhuang Qiushi Communication Facilities Co., Ltd. ("Shijiazhuang Qiushi"), at a cash consideration of RMB82,000,000. Up to the date of these consolidated financial statements, the above transaction has yet to be completed. Nonetheless, all of the assets and liabilities of Shijiazhuang Qiushi are presented as assets and liabilities held-for-sale in the consolidated statement of financial position at 31 December 2017 (Note 25).

In addition, as the operation of the installation and sale of low-voltage system equipment and related accessories owned by Shijiazhuang Qiushi represented a separate major line of business of the Group, it has been presented as a discontinued operation in the consolidated statement of profit or loss for the year ended 31 December 2017. The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 have been re-presented to show the discontinued operation separately from the continuing operations.

	Note	**2017**	2016
		RMB'000	RMB'000
Revenue	4	**80,958**	57,004
Cost of sales/services		**(72,817)**	(79,280)
Gross profit/(loss)	4(b)	**8,141**	(22,276)
Other income	6	**1,723**	912
Selling expenses		**(6,090)**	(5,315)
Administrative expenses		**(2,893)**	(2,724)
Impairment losses	7	**(3,140)**	(23,634)
Operating loss from discontinued operation		**(2,259)**	(53,037)
Finance costs	8(a)	**(2,005)**	(1,810)
Loss before taxation from discontinued operation	8	**(4,264)**	(54,847)
Income tax	9	**(1,619)**	(989)
Loss for the year from discontinued operation attributable to equity shareholders of the Company		**(5,883)**	(55,836)

5 DISCONTINUED OPERATION *(Continued)*

The information on cash flows incurred by the discontinued operation is as follow:

	2017	2016
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	**1,771**	(416)
Net cash used in investing activities	**(3,423)**	(45,566)
Net cash (used in)/generated from financing activities	**(18,127)**	91,094
	(19,779)	45,112

6 OTHER INCOME

	Continuing operations		**Discontinued operation**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
			(Note 5)	(Note 5)		
Interest income	**7,916**	2,557	**1,323**	912	**9,239**	3,469
Government grants	**34**	430	**400**	—	**434**	430
Net gain/(loss) on disposal of property, plant and equipment	**39**	(40)	**—**	—	**39**	(40)
	7,989	2,947	**1,723**	912	**9,712**	3,859

7 IMPAIRMENT LOSSES

	Continuing operations		**Discontinued operation**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
			(Note 5)	(Note 5)		
Impairment losses on trade and bill receivables (Note 20(b))	**16,526**	19,712	**3,140**	21,434	**19,666**	41,146
Impairment losses on other receivables, deposits and prepayments (Note 22(b))	**16,740**	40,126	**—**	2,200	**16,740**	42,326
Impairment losses on goodwill (Note 16)	**2,670**	4,767	**—**	—	**2,670**	4,767
	35,936	64,605	**3,140**	23,634	**39,076**	88,239

8 LOSS BEFORE TAXATION

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

(a) Finance costs

	Continuing operations		Discontinued operation		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
			(Note 5)	(Note 5)		
Interest on bank and other borrowings	**14,770**	12,717	**2,005**	1,810	**16,775**	14,527
Finance charges on corporate bonds (Note 28)	**19,327**	18,726	**—**	—	**19,327**	18,726
Finance charges on convertible bonds (Note 29)	**12,960**	2,544	**—**	—	**12,960**	2,544
Finance charges on guaranteed notes (Note 30)	**7,908**	3,120	**—**	—	**7,908**	3,120
Total borrowing costs*	**54,965**	37,107	**2,005**	1,810	**56,970**	38,917
Net foreign exchange (gain)/loss	**(27,259)**	23,441	**—**	—	**(27,259)**	23,441
Changes in fair value on the derivative components of convertible bonds (Note 29)	**11,517**	3,148	**—**	—	**11,517**	3,148
	39,223	63,696	**2,005**	1,810	**41,228**	65,506

* No borrowing costs have been capitalised for the year ended 31 December 2017 (2016: RMBNil).

8 LOSS BEFORE TAXATION *(Continued)*

(b) Staff costs

	Continuing operations		Discontinued operation		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
			(Note 5)	(Note 5)		
Salaries, wages and other benefits	**29,064**	46,729	**6,356**	4,757	**35,420**	51,486
Contributions to defined contribution retirement plans	**2,037**	2,074	**634**	513	**2,671**	2,587
Equity-settled share-based payment expenses (Note 32)	**9,876**	—	**—**	—	**9,876**	—
	40,977	48,803	**6,990**	5,270	**47,967**	54,073

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

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

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

8 LOSS BEFORE TAXATION *(Continued)*

(c) Other items

	Continuing operations		Discontinued operation		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
			(Note 5)	(Note 5)		
Cost of inventories (Note 19(b))	**15,249**	27,869	**10,665**	6,543	**25,914**	34,412
Depreciation and amortisation (Notes 13 and 14)	**7,000**	8,213	**364**	321	**7,364**	8,534
Operating lease charges in respect of office premises and sewer usages	**4,421**	6,693	**79**	34	**4,500**	6,727
Auditor's remuneration	**2,550**	2,400	**—**	—	**2,550**	2,400

9 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Continuing operations		Discontinued operation		Total	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
			(Note 5)	(Note 5)		
Current taxation: (Note 31 (a))						
– PRC Corporate Income Tax	**1,203**	3,918	**1,619**	989	**2,822**	4,907
Deferred taxation: (Note 31 (b))						
– Origination and reversal of temporary differences	**351**	(768)	**—**	—	**351**	(768)
	1,554	3,150	**1,619**	989	**3,173**	4,139

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

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

	Continuing operations		Discontinued operation		Total	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000 (Note 5)**	2016 RMB'000 (Note 5)	**2017 RMB'000**	2016 RMB'000
Loss before taxation	**(178,046)**	(200,526)	**(4,264)**	(54,847)	**(182,310)**	(255,373)
Income tax on loss before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	**(34,695)**	(7,055)	**—**	—	**(34,695)**	(7,055)
Tax effect of taxable income on revenue (Note (iv))	**—**	3,300	**1,619**	989	**1,619**	4,289
Tax effect of non-deductible expenses	**54**	44	**—**	—	**54**	44
Tax effect of unused tax losses not recognised	**35,052**	6,861	**—**	—	**35,052**	6,861
Tax effect of unused tax losses not recognised in previous year but utilised or recognised in current year	**162**	—	**—**	—	**162**	—
Tax effect of write-down of deferred tax recognised in previous years	**981**	—	**—**	—	**981**	—
Actual tax expense	**1,554**	3,150	**1,619**	989	**3,173**	4,139

Notes:

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

The Company and the subsidiaries of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% for the year ended 31 December 2017 (2016: 16.5%).

(ii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2017 (2016: 25%).

(iii) One of the subsidiaries of the Group established in the PRC have obtained approvals from the tax bureaux to be taxed as enterprises with advanced and new technologies. As a result, the subsidiary enjoyed a preferential PRC Corporate Income Tax rate of 15% for the three years ended 31 December 2019.

(iv) Pursuant to the approvals obtained from the tax authorities, certain subsidiaries of the Group established in the PRC are being taxed at fixed percentages of the respective subsidiaries' revenue for the year, ranging from 7% to 10% (2016: 7% to 10%).

10 DIRECTORS EMOLUMENTS

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

	2017				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Share based payments RMB'000 (Note)	Total RMB'000
Executive directors:					
Jiang Changqing	800	136	24	960	1,920
Guo Aru	600	144	17	761	1,522
Li Qingli (resigned on 28 January 2018)	600	100	7	707	1,414
Zhao Feng (appointed on 9 May 2017)	400	—	—	—	400
Ji Huifang (appointed on 9 May 2017)	400	—	—	—	400
Non-executive directors					
Ge Lingyue (appointed on 9 May 2017)	80	—	—	—	80
Independent non-executive directors:					
Meng Fanlin	120	—	—	—	120
Wang Haiyu	120	—	—	—	120
Li Xiaohui	120	—	—	—	120
	3,240	380	48	2,428	6,096

10 DIRECTORS EMOLUMENTS *(Continued)*

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

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(t) (ii). The details of these benefits in kind, including the principal terms and number of share options granted, are disclosed under the paragraph" Share option scheme" in the Director's Report and Note 32.

There were no amounts paid during the year ended 31 December 2017 to the directors or any of the five highest paid individuals as set out in Note 11 as an inducement to join or upon joining the Group or as compensation for loss of office.

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2016: three) are directors whose emoluments are disclosed in Note 10. The aggregate of the emoluments in respect of the other two (2016: two) individuals are as follows:

	2017 **RMB'000**	2016 RMB'000
Salaries, allowances and benefits in kind	**1,285**	1,064
Retirement scheme contributions	**30**	19
Share based payments	**1,097**	—
	2,412	1,083

The emoluments of the two (2016: two) individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	2017 **Number of** **individuals**	2016 Number of individuals
Hong Kong dollar ("HK$") Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$2,500,000	**1**	—

12 LOSS PER SHARE

(a) Basic loss per share

The basic loss per share for the year ended 31 December 2017 is calculated based on the loss attributable to the equity shareholders of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

Loss attributable to ordinary equity shareholders of the Company:

	2017	2016
	RMB'000	RMB'000
From continuing operations	**173,101**	197,367
From discontinued operation	**5,883**	55,836
	178,984	253,203

Weighted average number of ordinary shares:

	2017	2016
	'000	'000
Issued ordinary shares at 1 January	**1,887,620**	1,757,620
Effect of shares issued to equity shareholders of the Company in 2016	**—**	83,525
Effect of shares issued to equity shareholders of the Company in 2017 (Note 33(c)(i))	**44,932**	—
Weighted average number of ordinary shares at 31 December	**1,932,552**	1,841,145

(b) Diluted loss per share

There were no dilutive potential shares outstanding during the years ended 31 December 2017 and 2016. The Group's convertible bonds (Note 29) and share options (Note 32) could potentially dilute basic earnings/loss per share in the future, but were not included in the calculation of diluted loss per share because they are antidilutive during the years ended 31 December 2017 and 2016.

13 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Machinery RMB'000	Office equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2016	3,286	1,035	17,405	16,559	5,329	43,614
Additions	23,329	195	191	3,788	348	27,851
Disposals	—	—	—	(1,248)	(30)	(1,278)
At 31 December 2016	26,615	1,230	17,596	19,099	5,647	70,187
Accumulated depreciation:						
At 1 January 2016	459	509	6,783	4,378	3,677	15,806
Charge for the year	238	421	2,762	2,600	821	6,842
Written back on disposals	—	—	—	(30)	(21)	(51)
At 31 December 2016	697	930	9,545	6,948	4,477	22,597
Carrying amount:						
At 31 December 2016	25,918	300	8,051	12,151	1,170	47,590

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Machinery RMB'000	Office equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2017	26,615	1,230	17,596	19,099	5,647	70,187
Additions	22	1,751	1,804	403	432	4,412
Disposals	—	(668)	(159)	(36)	(262)	(1,125)
Decrease through disposal of subsidiaries (Note 35)	—	(109)	(196)	(2,082)	(111)	(2,498)
Reclassified as assets held-for-sale (Note 25)	—	(1,751)	(3,432)	(244)	(530)	(5,957)
At 31 December 2017	26,637	453	15,613	17,140	5,176	65,019
Accumulated depreciation:						
At 1 January 2017	697	930	9,545	6,948	4,477	22,597
Charge for the year	1,238	165	2,661	1,883	689	6,636
Written back on disposals	—	(650)	(137)	(21)	(154)	(962)
Decrease through disposal of subsidiaries (Note 35)	—	(26)	(62)	(230)	(102)	(420)
Reclassified as assets held-for-sale (Note 25)	—	—	(1,341)	(125)	(412)	(1,878)
At 31 December 2017	1,935	419	10,666	8,455	4,498	25,973
Carrying amount:						
At 31 December 2017	24,702	34	4,947	8,685	678	39,046

14 INTANGIBLE ASSETS

	Customer relationships RMB'000	Patents RMB'000	Software RMB'000	Total RMB'000
Cost:				
At 1 January 2016	5,000	3,000	342	8,342
Additions	—	—	74	74
At 31 December 2016 and 1 January 2017	5,000	3,000	416	8,416
Additions	—	—	5	5
Decrease through disposal of subsidiaries (Note 35)	(1,700)	(3,000)	(39)	(4,739)
Reclassified as assets held-for-sale (Note 25)	—	—	(208)	(208)
At 31 December 2017	3,300	—	174	3,474
Accumulated amortisation:				
At 1 January 2016	1,258	261	131	1,650
Charge for the year	1,227	391	74	1,692
At 31 December 2016 and 1 January 2017	2,485	652	205	3,342
Charge for the year	660	—	68	728
Decrease through disposal of subsidiaries (Note 35)	(944)	(652)	(9)	(1,605)
Reclassified as assets held-for-sale (Note 25)	—	—	(165)	(165)
At 31 December 2017	2,201	—	99	2,300
Carrying amount:				
At 31 December 2017	1,099	—	75	1,174
At 31 December 2016	2,515	2,348	211	5,074

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

15 INVESTMENTS IN SUBSIDIARIES

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

Name of subsidiaries	Place and date of establishment/ incorporation	Registered/issued and paid up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activities
Shijiazhuang Qiushi. (石家莊求實通信設備有限公司)*(Notes 5 and 25)	The PRC 25 March 1999	RMB30,180,000	100%	–	100%	Installation and sale of low-voltage system equipment and related accessories
Hebei Changtong Communication Engineering Co., Ltd. (河北昌通通信工程有限公司)*	The PRC 22 June 2001	RMB50,000,000	100%	–	100%	Design, deployment and maintenance of underground optical fibers
Beijing U-Ton Teda Electrical New Technology Development Co., Ltd. (北京優通泰達電氣新技術發展有限公司)*	The PRC 22 January 2007	RMB30,000,000	100%	–	100%	Design, deployment and maintenance of underground optical fibers
Hebei Haizhi Data Technology Co.,Ltd. (河北海智數據科技有限公司)*	The PRC 24 May 2007	RMB6,100,000	100%	–	100%	Design, deployment and maintenance of underground optical fibers
Hunan Sancheng Communication Construction Co., Ltd. (湖南三成通信建設有限公司)*	The PRC 10 May 2012	RMB5,000,000	51%	–	51%	Design, deployment and maintenance of underground optical fibers
China U-Ton Trading Co., Ltd. (中國優通貿易有限公司)	Hong Kong 4 May 2016	1 share	100%	100%	–	Provision of money lending services
U-Ton International Communication Technology Service Consulting (Shenzhen) Co., Ltd. (優通國際通信技術服務諮詢 (深圳) 有限公司)*	The PRC 11 March 2015	HKD6,250,000	100%	–	100%	Design, construction and maintenance of communication networks
U-Ton International Lybia Ltd.	State of Lybia 5 March 2017	USD250,000	100%	–	100%	Design, construction and maintenance of communication networks

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

15 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The directors of the Company consider that the Group's non-controlling interests are not material to the consolidated financial statements for the years ended 31 December 2017 and 2016.

16 GOODWILL

	RMB'000
Cost:	
At 1 January 2016, 31 December 2016 and 1 January 2017	37,536
Reclassified as assets held-for-sale (Note 25)	(30,099)
At 31 December 2017	7,437
Accumulated impairment losses:	
At 1 January 2016	—
Impairment losses	(4,767)
At 31 December 2016 and 1 January 2017	(4,767)
Impairment losses (Note 7)	(2,670)
At 31 December 2017	(7,437)
Carrying amount:	
At 31 December 2017	—
At 31 December 2016	32,769

16 GOODWILL *(Continued)*

Impairments tests for cash-generating units containing goodwill

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

	Note	**2017** **RMB'000**	2016 RMB'000
Installation and sale of low-voltage system equipment operations located in:			
Shijiazhuang, the PRC	(i)	—	30,099
Design, deployment and maintenance of optical fibers operations located in:			
Hebei Province, the PRC	(ii)	—	2,343
Hunan Province, the PRC	(ii)	—	327
		—	32,769

Notes:

(i) The recoverable amount of the CGU is determined based on value-in-use calculation. These calculations use cash flow projections based on financial budgets prepared by the directors of the Company covering a period from 1 January 2018 to the expected completion date of the disposal of Shijiazhuang Qiushi and the expected cash inflow from the disposal. The operating cash flows and consideration receivable from the disposal of Shijiazhuang Qiushi are discounted using a discount rate of 18% (2016: 18%). The discount rate used is pre-tax and reflect specific risks relating to Shijiazhuang Qiushi.

As disclosed in Note 5, the Group's installation and sale of low-voltage system equipment and related accessories operations has been reclassified as discontinued operation as at 31 December 2017. The goodwill relating to Shijiazhuang Qiushi was presented as assets held-for-sale in the consolidated financial statement of financial position as at 31 December 2017.

(ii) The recoverable amounts of the CGUs in connection with the design, deployment and maintenance of optical fibers operations are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets prepared by the directors of the Company covering a five-year period. These cash flow projections adopted annual growth rates ranging from 0% to 3%, which are based on the Group's experience and future business plans for this business and adjusted for other factors that are specific to the design, deployment and maintenance of optical fibers operations' CGUs. Cash flows beyond the five-year period are extrapolated using a 3% long-term growth rate, which is based on the relevant industry growth forecasts. The cash flows are discounted using a discount rate of 18%. The discount rate used is pre-tax and reflects specific risks relating to the design, deployment and maintenance of optical fibers operations' CGUs.

Based on the above value-in-use calculations, the recoverable amounts are less than the carrying amounts of the respective CGUs. Accordingly, impairment losses of RMB2,670,000 have been recognised for the goodwill allocated to the design, deployment and maintenance of optical fibers operations' CGUs for the year ended 31 December 2017.

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

	Note	**2017** **RMB'000**	2016 RMB'000
Available-for-sale financial assets included in non-current assets:			
Unlisted equity securities, at cost			
– Investment in Hebei Huaxun	(i)	**13,916**	13,916
– Investment in Sino Partner	(ii)	**64,110**	64,110
– Investment in Tian Bao	(iii)	**—**	10,000
– Investment in Jiaxing Jiamiao	(iv)	**7,500**	—
		85,526	88,026
Less: impairment losses		**(1,428)**	(1,428)
		84,098	86,598
Prepayments for investments in financial assets		**9,290**	16,790

17 AVAILABLE-FOR-SALE FINANCIAL ASSETS/PREPAYMENTS FOR INVESTMENTS IN FINANCIAL ASSETS *(Continued)*

Notes:

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

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

(iii) In January 2016, Shijiazhuang Qiushi acquired 10% equity interests in Tian Bao Fortune Equity Investment Fund (Shanghai) Co., Ltd. (天寶財富股權投資基金(上海) 有限公司) ("Tian Bao"), a fund established to invest in government infrastructure projects carried out in Hebei Province, with a cash consideration of RMB10,000,000. As disclosed in Notes 5 and 25, the investment in TianBao is owned by Shijiazhuang Qiushi and has been reclassified as assets held-for-sale on the consolidated statement of financial position as at 31 December 2017.

(iv) In January 2017, the Group acquired 3.75% equity interests and became a limited partner in Jiaxing Jiamiao Equity Investment Partnership (Limited Partnership) (嘉興嘉淼股權投資合夥企業(有限合夥)) ("Jiaxing Jiamiao").

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

18 TRADING SECURITIES

	2017	2016
	RMB'000	RMB'000
Listed equity securities at fair value		
– in Hong Kong (Note 34(e) (i))	**8,897**	—

19 INVENTORIES

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

	2017	2016
	RMB'000	RMB'000
Optical fibers deployment services related materials	**6,156**	6,744
Low-voltage system equipment and related accessories (Note 25)	**—**	4,715
	6,156	11,459

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

	2017	2016
	RMB'000	RMB'000
Carrying amount of inventories sold	**15,249**	34,412

20 TRADE AND BILL RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bill receivables - current portion	**147,982**	199,741
Less: allowance for doubtful debts	**(27,818)**	(47,446)
	120,164	152,295
Trade receivables - non-current portion	**—**	7,933
	120,164	160,228

All of the current trade and bill receivables are expected to be recovered or recognised as expenses within one year.

(a) Ageing analysis

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

	2017 RMB'000	2016 RMB'000
Within 90 days	**74,948**	53,444
91 to 180 days	**25,690**	23,784
181 to 365 days	**9,227**	20,998
Over 1 year	**10,299**	62,002
	120,164	160,228

The credit period of individual customer is considered on a case-by-case basis. Further details on the Group's credit policy are set out in Note 34(a).

20 TRADE AND BILL RECEIVABLES *(Continued)*

(b) Impairment of trade and bill receivables

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

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

	2017	2016
	RMB'000	RMB'000
At 1 January	**47,446**	6,300
Impairment losses recognised (Note 7)	**19,666**	41,146
Uncollectible amounts written off	**(14,142)**	—
Reclassified as assets held-for-sale	**(25,152)**	—
At 31 December	**27,818**	47,446

At 31 December 2017, trade and bill receivables of RMB52,237,000 (2016: RMB91,432,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered.

(c) Trade and bill receivables that are not impaired

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

	2017	2016
	RMB'000	RMB'000
Neither past due nor impaired	**79,683**	17,978
Within 90 days past due	**7,774**	48,041
91 to 180 days past due	**536**	22,722
181 to 365 days past due	**3,289**	11,748
Over 1 year past due	**4,463**	15,753
	16,062	98,264
	95,745	116,242

20 TRADE AND BILL RECEIVABLES *(Continued)*

(c) Trade and bill receivables that are not impaired *(Continued)*

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

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

(d) Retentions receivable

The amount of retentions receivable from customers, recorded within "trade and bill receivables" at 31 December 2017 is RMB7,198,000 (2016: RMB10,045,000). The amount of those retentions receivable expected to be recovered after more than one year is RMB3,121,000 (2016: RMB4,916,000).

21 AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2017	2016
	RMB'000	RMB'000
Contracts in progress at 31 December:		
Contract costs incurred plus recognised profits less losses	**435,590**	786,362
Less: progress billings	**(98,196)**	(280,543)
	337,394	505,819

As at 31 December 2017, the amounts due from customers for contract work represented the unbilled contract revenue of uncompleted projects, which included an aggregate amount of RMB239,534,000 (2016: RMB319,732,000) due from state-owned telecommunication operators in the PRC. The directors of the Company confirm that the above unbilled contract work are generally parts of larger scale projects undertaken by the owners, and consider it is the general practice within the construction industry in the PRC in which the owners will usually accept the contractors, such as the Group, to issue billings upon the completion of the larger scale projects. The directors of the Company confirm that they are in negotiations with the various owners and expect a substantial portion of the above contract work to be billed within one year.

22 OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Note	2017 RMB'000	2016 RMB'000
Amounts due from Nanjing Newlixon and Newlixon NCEH		**23,333**	88,833
Loans to third parties	(a)	**26,480**	53,390
Prepayments for inventories		**26,950**	64,928
Deposits for construction contracts' bidding and performance		**37,504**	48,410
Others		**53,398**	48,073
		167,665	303,634
Less: allowance for doubtful debts	(b)	**(33,166)**	(42,326)
		134,499	261,308

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

(a) The balance comprise guaranteed loans to third parties bearing interest ranging from 10% to 15% (2016: 15%). All of the loans are expected to be recovered within one year.

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

	2017 RMB'000	2016 RMB'000
Balance at 1 January	**42,326**	—
Impairment losses recognised (Note 7)	**16,740**	42,326
Uncollectiable amounts written off	**(23,700)**	—
Reclassified as assets held-for-sale	**(2,200)**	—
Balance at 31 December	**33,166**	42,326

23 RESTRICTED BANK DEPOSITS

Restricted bank deposits were mainly used to secure the Group's bank borrowings. These bank deposits will be released upon the repayment of the relevant bank borrowings as set out in Note 27.

24 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION

(a) Cash at bank and on hand comprise:

	2017	2016
	RMB'000	RMB'000
Cash at bank and on hand	**195,061**	128,057

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

24 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of liabilities arising from financing activities

	Bank and other borrowings RMB'000 (Note 27)	Corporate bonds RMB'000 (Note 28)	Convertible bonds RMB'000 (Note 29)	Guaranteed notes RMB'000 (Note 30)	Interest payable RMB'000 (Note 26)	Amounts due to related parties RMB'000 (Notes 26 and 36(a))	Total RMB'000
At 1 January 2017	371,001	190,425	49,139	45,132	12,657	575	668,929
Changes from financing cash flows:							
Proceeds from bank and other borrowings	84,250	—	—	—	—	—	84,250
Repayments of bank and other borrowings	(344,501)	—	—	—	—	—	(344,501)
Net proceeds from issuance of corporate bonds	—	36,476	—	—	—	—	36,476
Repayments of corporate bonds	—	(3,365)	—	—	—	—	(3,365)
Net proceeds from issuance of convertible bonds	—	—	96,027	—	—	—	96,027
Net proceeds from issuance of guaranteed notes	—	—	—	95,714	—	—	95,714
Repayments of guaranteed notes	—	—	—	(17,342)	—	—	(17,342)
Net decrease due to related parties	—	—	—	—	—	(534)	(534)
Interest paid	—	(14,192)	(7,142)	(8,306)	(19,432)	—	(49,072)
Total changes from financing cash flows	(260,251)	18,919	88,885	70,066	(19,432)	(534)	(102,347)
Exchange adjustments	—	(13,048)	(8,202)	(9,317)	—	—	(30,567)
Changes in fair value on the derivative components of convertible bonds (Note 8(a))	—	—	11,517	—	—	—	11,517
Interest expenses (Note 8(a))	—	19,327	12,960	7,908	16,775	—	56,970
Reclassified as liabilities held-for-sale (Note 25)	(9,750)	—	—	—	—	—	(9,750)
At 31 December 2017	101,000	215,623	154,299	113,789	10,000	41	594,752

25 ASSETS AND LIABILITIES HELD-FOR-SALE

As disclosed in Note 5, the intended disposed of Shijiazhuang Qiushi resulted in the assets and liabilities of Shijiazhuang Qiushi being presented as assets and liabilities held-for-sale in the consolidated statement of financial position at 31 December 2017.

At 31 December 2017, the assets and liabilities held-for-sale comprise the following:

	Note	2017 RMB'000
Property, plant and equipment	13	4,079
Intangible assets	14	43
Goodwill	16	30,099
Inventories		1,645
Trade and bill receivables		33,278
Amounts due from customers for contract work		153,568
Other receivables, deposits and prepayments		200,470
Cash at bank and on hand		31,352
Assets held-for-sale		454,534
Trade and other payables		251,097
Bank and other borrowings		9,750
Income tax payable	31(a)	2,638
Liabilities held-for-sale		263,485

26 TRADE AND OTHER PAYABLES

	Note	2017 RMB'000	2016 RMB'000
Trade payables due to third parties		**126,632**	212,850
Other payables and accrued expenses:			
– payables for staff related costs		**18,540**	22,117
– other taxes payables		**15,210**	24,253
– payables for interest expenses		**10,000**	12,657
– payables for acquisition of available-for-sale financial assets	17(i)	**12,488**	12,488
– amounts due to non-controlling equity holders	(i)	**467**	5,604
– amounts due to related parties		**41**	575
– others		**11,475**	24,638
		68,221	102,332
Financial liabilities measured at amortised cost		**194,853**	315,182
Receipts in advance from customers		**—**	594
		194,853	315,776

Note:

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

At 31 December 2017, all of the trade and other payables are expected to be settled or recognised as revenue within one year or are repayable on demand.

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

	2017 RMB'000	2016 RMB'000
Within 90 days	**38,113**	169,199
91 to 180 days	**13,622**	15,395
181 to 365 days	**24,087**	7,380
Over 1 year	**50,810**	20,876
	126,632	212,850

27 BANK AND OTHER BORROWINGS

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

	2017 RMB'000	2016 RMB'000
Secured by bank deposits (Note 27(c))	—	173,330
Guaranteed by directors of the Company (Note 27(c))	25,000	22,945
Unguaranteed and unsecured	27,000	40,000
	52,000	236,275
Add: current portion of long-term bank and other borrowings (Note 27(b))	1,000	1,000
	53,000	237,275

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

	2017 RMB'000	2016 RMB'000
Guaranteed by directors of the Company (Note 27(c))	49,000	50,000
Unguaranteed and unsecured	—	84,726
	49,000	134,726
Less: current portion of long-term bank and other borrowings (Note 27(a))	(1,000)	(1,000)
	48,000	133,726

27 BANK AND OTHER BORROWINGS *(Continued)*

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

	2017	2016
	RMB'000	RMB'000
Within 1 year or on demand	**1,000**	1,000
After 1 year but within 2 years	**48,000**	59,628
After 2 years but within 5 years	**—**	74,098
	49,000	134,726

(c) Bank borrowings of RMB74,000,000 (2016: RMB72,945,000) are secured by personal guarantees from Mr Jiang Changqing, the controlling shareholder (the "Controlling Shareholder") and director of the Company, and Ms Guo Aru, a director of the Company.

(d) At 31 December 2017, the Group's banking facilities amounted to RMB200,077,000 (2016: RMB364,791,000) were utilised to the extent of RMB25,000,000 (2016: RMB176,670,000).

(e) Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 34(b). At 31 December 2017, none of the covenants relating to the bank loans had been breached (2016: None).

28 CORPORATE BONDS

In 2017, the Group issued unsecured corporate bonds with an aggregate principal amount of HK$50,000,000 (equivalent to approximately RMB42,414,000) (2016: HK$36,000,000, equivalent to approximately RMB31,000,000). The bonds issued in 2017 will mature in 2 years from the respective dates of issuance (2016: 2 to 7.5 years) and bear interest at 6% per annum payable annually (2016: 6.5% to 7% per annum payable annually). The movements of the balance of corporate bonds are as follows:

	2017	2016
	RMB'000	RMB'000
At 1 January	**190,425**	147,355
Net proceeds received	**36,476**	25,339
Repayments during the year	**(3,365)**	(6,583)
Finance charges accrued for the year (Note 8(a))	**19,327**	18,726
Interest paid during the year	**(14,192)**	(13,626)
Exchange adjustments	**(13,048)**	19,214
At 31 December	**215,623**	190,425
Less: Amounts repayable within one year	**(22,411)**	(3,578)
Amounts repayable after one year	**193,212**	186,847

The Group's corporate bonds are repayable as follows:

	2017	2016
	RMB'000	RMB'000
Within 1 year	**22,411**	3,578
After 1 year but within 2 years	**37,332**	23,020
After 2 years but within 5 years	**121,839**	49,708
After 5 years	**34,041**	114,119
	215,623	190,425

29 CONVERTIBLE BONDS

On 9 February 2017 and 27 June 2017, the Company issued convertible bonds with principal amounts of USD10,000,000 (equivalent to approximately RMB68,710,000) and USD4,000,000 (equivalent to approximately RMB27,317,000), respectively, to Donghai Investment Fund Series SPC. All of these convertible bonds have a maturity period of 2 years from their respective dates of issuance, bear interest at 8% per annum payable semi-annually. All of these convertible bonds are guaranteed by the Controlling Shareholder. The bonds are convertible at the option of the bondholder into ordinary shares during the conversion period beginning on the first anniversary of the issue date or such earlier date as may be agreed by the issuer and bondholder and ending on maturity date. The bondholder has the right to convert all or any part of the outstanding principal amount of the convertible bonds with the initial conversion price of HK$1.00 per conversion share, subject to any adjustment from time to time (i.e. the conversion options).

29 CONVERTIBLE BONDS *(Continued)*

The conversion options are classified as derivative financial instruments and have been included in the balance of convertible bonds in the consolidated statement of financial position. The convertible bonds are analysed as follows:

	2017			2016		
	Liability components RMB'000	**Derivative components RMB'000**	**Total RMB'000**	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
At 1 January	**42,716**	**6,423**	**49,139**	—	—	—
Net proceeds received	**89,914**	**6,113**	**96,027**	39,313	2,927	42,240
Finance charges accrued for the year (Note 8(a))	**12,960**	**—**	**12,960**	2,544	—	2,544
Interest paid during the year	**(7,142)**	**—**	**(7,142)**	(1,774)	—	(1,774)
Exchange adjustments	**(7,124)**	**(1,078)**	**(8,202)**	2,633	348	2,981
Fair value adjustment to the derivative components (Note 8(a))	**—**	**11,517**	**11,517**	—	3,148	3,148
At 31 December	**131,324**	**22,975**	**154,299**	42,716	6,423	49,139
Less: amounts repayable within one year	**41,439**	**—**	**41,439**	—	—	—
Amounts repayable after one year	**89,885**	**22,975**	**112,860**	42,716	6,423	49,139

30 GUARANTEED NOTES

In January 2017, the Company issued guaranteed notes with an aggregate principal amount of USD10,000,000 (equivalent to approximately RMB68,432,000). In June 2017, the Company issued guaranteed notes with an aggregate principal amount of USD4,000,000 (equivalent to approximately RMB27,282,000). The guaranteed notes will mature in January 2019 and June 2019 respectively, and bear interest at 11% per annum payable semi-annually. The guaranteed notes are guaranteed by the Controlling Shareholder.

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

	2017	2016
	RMB'000	RMB'000
At 1 January	**45,132**	—
Net proceeds received	**95,714**	41,727
Finance charges accrued for the year(Note 8(a))	**7,908**	3,120
Interest paid during the year	**(8,306)**	(2,439)
Repayments during the year	**(17,342)**	—
Exchange adjustments	**(9,317)**	2,724
At 31 December	**113,789**	45,132
Less: amounts repayable within one year	**(25,325)**	—
Amounts repayable after one year	**88,464**	45,132

31 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2017	2016
	RMB'000	RMB'000
At 1 January	**21,761**	27,338
Provision for the year (Note 9(a))	**2,822**	4,907
Income taxes paid	**(3,419)**	(10,484)
Reclassified as liabilities held-for-sale (Note 25(a))	**(2,638)**	—
At 31 December	**18,526**	21,761

(b) Deferred tax assets and liabilities recognised:

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

	Assets	**Liabilities**	
	Impairment losses on trade receivables	**Fair value adjustments on intangible assets and related amortisation**	**Net**
	RMB'000	**RMB'000**	**RMB'000**
At 1 January 2016	531	(1,215)	(684)
Credited to the consolidated statement of profit or loss (Note 8(a))	459	309	768
At 31 December 2016	990	(906)	84
(Charged)/credited to the consolidated statement of profit or loss (Note 8(a))	(990)	639	(351)
At 31 December 2017	—	(267)	(267)

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

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(u), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB197,624,000 at 31 December 2017 (2016: RMB54,435,000), as it is not probable that future taxable profits against which the losses and temporary differences can be utilised will be available in the relevant tax jurisdictions and entities. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2017, temporary differences relating to the undistributed profits of certain subsidiaries of the Group established in the PRC (excluding Hong Kong) amounted to RMB32,644,000 (2016: RMB31,998,000). Deferred tax liabilities of RMB3,265,000 (2016: RMB3,200,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

32 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 27 May 2012, whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up share options at HK$1 to subscribe for ordinary shares in the Company.

On 24 January 2017, 60,000,000 share options were granted to the directors of the Company and employees of the Group under the above share option scheme. All share options granted will vest six months from the date of grant. The share options granted will lapse on 23 July 2020. Each share option gives the holder the right to subscribe for one ordinary share in the Company at HK$0.90 each, and is settled gross in shares.

(i) The terms and conditions of the options granted are as follows:

	Number of share options	Vesting conditions	Contractual life of share options
Share options granted to directors	21,600,000	Six months from the date of grant	3.5 years
Share options granted to employees	38,400,000	Six months from the date of grant	3.5 years
Total	60,000,000		

32 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(ii) Reconciliation of outstanding share options:

	Weighted average exercise price	**Numbers of options**
Outstanding at 1 January 2017	**—**	**—**
Granted during the year	**HK$0.90**	**60,000,000**
Forfeited during the year	**HK$0.90**	**(15,000,000)**
Outstanding/exercisable at 31 December 2017	**HK$0.90**	**45,000,000**

The share options outstanding at 31 December 2017 had an exercise price of HK$0.90 and a remaining contractual life of 2.57 years.

(iii) Measurement of fair value

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions	**Share options granted to directors**	**Share options granted to employees**
Fair value at measurement date	HK$0.27	HK$0.237
Share price	HK$0.90	HK$ 0.90
Exercise price	HK$0.90	HK$ 0.90
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	39.469%	39.469%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	3.5	3.5
Expected dividends	0.000%	0.000%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	1.364%	1.364%

32 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(iii) Measurement of fair value *(Continued)*

The expected volatility is based on the historical volatility, adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

33 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

	Share capital RMB'000 (Note 33(c))	Share premium RMB'000 (Note 33 (d) (i))	Capital reserve RMB'000 (Note 33(d) (iii))	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2016	143,139	100,179	—	3,116	246,434
Changes in equity for 2016					
Loss and total comprehensive income for the year	—	—	—	(54,522)	(54,522)
Issuance of shares	11,103	93,266	—	—	104,369
At 31 December 2016	154,242	193,445	—	(51,406)	296,281
At 1 January 2017	**154,242**	**193,445**	**—**	**(51,406)**	**296,281**
Changes in equity for 2017:					
Loss and total comprehensive income for the year	**—**	**—**	**—**	**(72,295)**	**(72,295)**
Issuance of shares (Note 33(c) (i))	**8,632**	**66,561**	**—**	**—**	**75,193**
Equity-settled share based transactions (Note 32)	**—**	**—**	**9,876**	**—**	**9,876**
At 31 December 2017	**162,874**	**260,006**	**9,876**	**(123,701)**	**309,055**

33 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

The directors of the Company do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: RMBNil).

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

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

(c) Share capital

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

	Number of shares '000	RMB'000
Issued and fully paid:		
At 1 January 2016	1,757,620	143,139
Shares issued	130,000	11,103
At 31 December 2016	1,887,620	154,242
Shares issued (Note (i))	100,000	8,632
At 31 December 2017	1,987,620	162,874

Note:

(i) On 21 July 2017, the Company issued 100,000,000 ordinary shares at HK$0.88 per share. The Company received net proceeds of approximately HK$87,020,000 (equivalent to approximately RMB75,193,000), of which HK$10,000,000 (equivalent to approximately RMB8,632,000) was credited to share capital and HK$77,020,000 (equivalent to approximately RMB66,561,000) was credited to the share premium account.

33 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Other reserve

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

(iii) Capital reserve

Capital reserve represents the portion of the grant date fair value of unexercised share options granted to directors of the Company and employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(t) (ii).

(iv) Statutory reserve

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

(v) Exchange reserve

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

33 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Capital management

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

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

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

During 2017, the Group's strategy was to maintain the adjusted net debt-to-capital ratio at an acceptable level. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to equity shareholders, raise new debt financing or sell assets to reduce debt.

33 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Capital management *(Continued)*

The Group's adjusted net debt-to-capital ratio at 31 December 2017 and 2016 was as follows:

	Note	**2017** **RMB'000**	2016 RMB'000
Current liabilities:			
Bank and other borrowings	27(a)	**53,000**	237,275
Corporate bonds	28	**22,411**	3,578
Convertible bonds	29	**41,439**	—
Guaranteed notes	30	**25,325**	—
		142,175	240,853
Non-current liabilities:			
Bank and other borrowings	27(b)	**48,000**	133,726
Corporate bonds	28	**193,212**	186,847
Convertible bonds	29	**112,860**	49,139
Guaranteed notes	30	**88,464**	45,132
Total debt		**584,711**	655,697
Less: Cash at bank and on hand	24	**(195,061)**	(128,057)
Restricted bank deposits	23	**(2,270)**	(170,697)
Adjusted net debt		**387,380**	356,943
Total equity		**330,061**	432,633
Adjusted net debt-to-capital ratio		**117%**	83%

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

34 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer or debtor rather than the industry or country in which the customers and debtors operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers and debtors. At 31 December 2017, 56% (2016: 52%) and 72 % (2016: 66%) of the total trade and bill receivables, amounts due from customers for contract work and other receivables were due from the Group's largest debtor and five largest debtors, respectively.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bill receivables, amounts due from customers for contract work and other receivables are set out in Notes 20, 21 and 22.

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

(b) Liquidity risk

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

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

	2017 Contractual undiscounted cash outflow						2016 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Trade and other payables measured at amortised cost (Note 26)	194,853	–	–	–	194,853	194,853	315,182	–	–	–	315,182	315,182
Bank and other borrowings (Note 27)	57,251	49,823	–	–	107,074	101,000	248,937	65,531	82,182	–	396,650	371,001
Corporate bonds (Note 28)	37,643	57,020	161,040	41,123	296,826	215,623	18,170	37,598	88,803	136,523	281,094	190,425
Convertible bonds-liability components (Note 29)	50,561	93,071	–	–	143,632	131,324	3,578	46,515	–	–	50,093	42,716
Guaranteed notes (Note 30)	36,183	93,271	–	–	129,454	113,789	4,920	47,185	–	–	52,105	45,132
At 31 December 2017	376,491	293,185	161,040	41,123	871,839	756,589	590,787	196,829	170,985	136,523	1,095,124	964,456

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

(c) Interest rate risk

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

(i) Interest rate profile

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

	2017		2016	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank and other borrowings	5.66% ~ 7.00%	42,000	2.38% ~ 7.70%	292,275
Corporate bonds	10.00% ~ 14.56%	215,623	5.27% ~ 13.36%	190,425
Convertible bonds-liability components	12.00%	131,324	12.00%	42,716
Guaranteed notes	11.00% ~ 11.38%	113,789	11.38%	45,132
		502,736		570,548
Variable rate borrowings:				
Bank and other borrowings	4.75% ~ 5.00%	59,000	3.25% ~ 5.66%	78,726
Total borrowings		561,736		649,274
Fixed rate borrowings as a percentage of total borrowings		89%		88%

(ii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss after tax and the Group's accumulated losses by approximately RMB590,000 (2016: increased/decreased the Group's loss after tax and decreased/increased the Group's retained profits by approximately RMB692,400).

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative financial instruments held by the Group at the end of the reporting period. The impact on the Group's results after tax and accumulated losses is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis for 2016.

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

(d) Currency risk

(i) Exposure to currency risk

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

	Exposure to foreign currencies (expressed in RMB)			
	2017		2016	
	USD	**HKD**	USD	HKD
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash at bank and on hand	**716**	**85,847**	1,920	16,450
Trade and bill receivables	**2,625**	**74,351**	8,373	—
Other receivables, deposits and prepayments	**983**	**40,825**	684	19,698
Trade and other payables	**(151)**	**(10,404)**	(2,681)	(9,620)
Bank and other borrowings	**—**	**—**	—	(53,671)
Corporate bonds	**—**	**(215,623)**	—	(190,425)
Convertible bonds	**(107,867)**	**(46,432)**	—	(49,139)
Guaranteed notes	**(92,476)**	**(21,313)**	—	(45,132)
Net exposure arising from recognised assets and liabilities	**(196,170)**	**(92,749)**	8,296	(311,839)

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

(d) Currency risk *(Continued)*

(ii) Foreign currency sensitivity

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

	2017		2016	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in loss after tax and accumulated losses RMB'000**	Increase/ (decrease) in foreign exchange rates	Decrease/ (increase) in loss after tax and increase/ (decrease) in retained profits RMB'000
USD	**5%**	**9,809**	5%	370
	(5%)	**(9,809)**	(5%)	(370)
HKD	**5%**	**4,638**	5%	(13,018)
	(5%)	**(4,638)**	(5%)	13,018

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

(e) Fair value

(i) Fair value hierarchy

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

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

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

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

	Fair value at 31 December 2017	Fair value measurements at 31 December 2017 categorised into		Fair value at 31 December 2016	Fair value measurements at 31 December 2016 categorised into
		Level 1	Level 2		Level 2
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements					
Assets:					
Trading securities (Note 18)	8,897	8,897	—	—	—
Liabilities:					
Convertible bonds					
– derivative components (Note 29)	22,975	—	22,975	6,423	6,423

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

(e) Fair value *(Continued)*

(i) Fair value hierarchy *(Continued)*

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and Inputs used in Level 2 fair value measurements

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

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

The Group's financial instruments carried at cost or amortised cost were not materially different from their fair values at 31 December 2017 and 2016.

35 DISPOSAL OF SUBSIDIARIES

In April 2017, the Group entered into an agreement with the non-controlling shareholder to dispose of its 51% equity interests in Chengdu Hop Environmental Protection Technology Co., Ltd. with a cash consideration of RMB4,080,000. Upon the completion of the disposal, the Group recognised a disposal gain of RMB5,353,000 in the consolidated statement of profit or loss for the year ended 31 December 2017.

In November 2017, the Group entered into an agreement with a third party to dispose of its 100% equity interests in U-Ton International (Ghana) Co., Ltd. with a cash consideration of RMB164,000 which was equivalent to the net identified assets as at the disposal date. Accordingly, no gain or loss on disposal has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2017.

36 RELATED PARTY TRANSACTIONS

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

(a) Transactions with the Controlling Shareholder and his affiliates

	2017	2016
	RMB'000	RMB'000
Net decrease in non-interest bearing advances received from related parties	**(534)**	(925)

Further details on guarantees provided by the Controlling Shareholder for the Group's bank and other borrowings, convertible bonds and guarantee notes are disclosed in Notes 27(c), 29 and 30.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 10 and certain of the highest paid employees of the Group as disclosed in Note 11, is as follows:

	2017	2016
	RMB'000	RMB'000
Short-term employee benefits	**4,463**	3,686
Retirement schemes contributions	**63**	22
Share based payments	**3,525**	—
	8,051	3,708

Total remuneration is included in "staff costs" (see Note 8(b)).

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

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

37 COMMITMENTS

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

	2017	2016
	RMB'000	RMB'000
Contracted for	**37,500**	—

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

	2017	2016
	RMB'000	RMB'000
Within one year	**4,323**	3,866
In the second to fifth year inclusive	**5,520**	4,337
Over five years	**5,200**	5,100
	15,043	13,303

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

38 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Investment in a subsidiary, at cost		**47,847**	47,004
Amounts due from subsidiaries		**498,569**	323,281
Available-for-sale financial assets	17(ii)	**64,110**	64,110
		610,526	434,395
Current assets			
Trading securities	18	**8,897**	—
Other receivables, deposits and prepayments		**39,988**	42,650
Amounts due from subsidiaries		**156,690**	105,880
Cash at bank and on hand		**16,264**	16,450
		221,839	164,980
Current liabilities			
Trade and other payables		**9,490**	9,295
Amounts due to subsidiaries		**3,109**	158
Bank and other borrowings		**27,000**	8,945
Corporate bonds	28	**22,411**	3,578
Convertible bonds	29	**41,439**	—
Guaranteed notes	30	**25,325**	—
		128,774	21,976
Net current assets		**93,065**	143,004
Total assets less current liabilities		**703,591**	577,399

38 STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

	Note	**2017 RMB'000**	2016 RMB'000
Non-current liabilities			
Corporate bonds	28	**193,212**	186,847
Convertible bonds	29	**112,860**	49,139
Guaranteed notes	30	**88,464**	45,132
		394,536	281,118
NET ASSETS		**309,055**	296,281
Capital and reserves	33		
Share capital		**162,874**	154,242
Reserves		**146,181**	142,039
TOTAL EQUITY		**309,055**	296,281

Approved and authorised for issue by the board of directors on 29 March 2018.

Jiang Changqing
Chairman and Executive Director

Zhao Feng
Executive Director

39 EVENT AFTER THE END OF THE REPORTING PERIOD

(a) Proposed acquisition of 51% equity interest in Beijing Yourui Jiahe Electronic Technology Co., Ltd. (北京優瑞嘉和電子科技有限公司) ("Yourui")

On 12 February 2018, the Company announced that it, via a wholly-owned subsidiary, entered into an share sale and purchase agreement to acquire 51% equity interest in Yourui with a maximum consideration of RMB321,300,000, among which RMB37,500,000 shall be settled in cash, where the remaining consideration shall be settled in cash or by issuing new ordinary shares of the Company if Yourui meets performance guarantee as stipulated in the share sale and purchase agreement. Up to the date of issue of these financial statements, the above acquisition is yet to be completed.

(b) Disposal of Shijiazhuang Qiushi

As disclosed in Note 5, the Company entered into a share sale and purchase agreement with Ordillia Group Limited in November 2017, pursuant to which the Company is to dispose of its 100% equity interests in Shijiazhuang Qiushi. Up to the date of issuance of these financial statements, the above disposal is yet to be completed.

40 COMPARATIVE FIGURES

Certain additional information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance had been presented for the year ended 31 December 2017. Accordingly, certain comparative figures have been adjusted to conform to current year's presentation. Further details are set out in Note 4(a).

In addition, Shijiazhuang Qiushi has been presented as a discontinued operation in the consolidated statement of profit or loss for the year ended 31 December 2017. The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 have been re-presented to show the discontinued operation separately from the continuing operations. Further details are set out in Note 5.

41 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2017, the directors of the Company consider the immediate parent and ultimate holding company of the Group to be Bright Warm Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 9, *Financial instruments*	1 January 2018
IFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
IFRS 16, *Leases*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

IFRS 9, Financial instruments *(Continued)*

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

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

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

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

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of IFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to IFRS 9. The Group plans to elect this designation option for these investments held on 1 January 2018 and will recognise any fair value changes in respect of these investments in other comprehensive income as they arise. This will give rise to a change in accounting policy as currently the Group recognises the available-for-sale equity investments in the statement of financial position at cost less impairment losses when investments in equity securities do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured. The Group's assessment is in progress to determine whether this change in accounting policy may have a material impact on the Group's financial results from 2018 onwards.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

IFRS 9, Financial instruments *(Continued)*

(a) Classification and measurement *(Continued)*

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL, and therefore this new requirement will not have any impact on the Group on adoption of IFRS 9.

(b) Impairment

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

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

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

Timing of revenue recognition

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

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

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

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

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

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

Further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported by the Group in any given financial reporting period.

The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of "open" contracts at 31 December 2017 is limited, the Group expects that the transition adjustment to be made upon the initial adoption of IFRS 15 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the group's financial results from 2018 onwards.

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 *(Continued)*

IFRS 16, Leases

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

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

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in Note 37, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB15,043,000 (2016: RMB13,303,000) for properties and sewers, the majority of which is payable between 1 and 5 years after the reporting date or more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

The Group has decided not to early adopt IFRS 16 in its 2018 consolidated financial statements.