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

(incorporated in the Cayman Islands with limited liability)

Stock Code:580

Annual Report 2018

CONTENTS

CORPORATE INFORMATION

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

Non-executive Directors
Mr. Yan Fuquan
Mr. Zhu Ming
Ms. Zhang Ling

Independent non-executive Directors
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Leung Ming Shu
Mr. Zhao Hang

Authorised representatives
Mr. Yue Zhoumin
Ms. He Lina

Audit committee
Mr. Chen Shimin *(chairman of the audit committee)*
Mr. Zhang Xuejun
Mr. Leung Ming Shu
Mr. Zhu Ming

Remuneration committee
Mr. Leung Ming Shu
(chairman of the remuneration committee)
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Zhao Hang

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

Investment committee
Mr. Yan Fuquan *(chairman of the investment committee)*
Mr. Leung Ming Shu
Mr. Xiang Jie
Mr. Chen Shimin
Mr. Zhang Xuejun
Ms. Zhang Ling

Joint Company Secretaries
Ms. Mok Ming Wai (resigned on 18 October 2018)
Ms. He Lina
Ms. Ng Ka Man (appointed on 18 October 2018)

Legal advisers
Loeb & Loeb LLP

External Auditors
Ernst & Young

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

Headquarters
Building 9-A
KongGangRongHuiYuan
Yuhua Road
Tianzhu Airport Industrial Zone B
Shunyi District
Beijing
People's Republic of China (the "**PRC**")

Principal place of business in Hong Kong
31st Floor, Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

Principal share registrar and transfer office
SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

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

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

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

Company's Website
www.sunking-tech.com

Dear shareholders,

On behalf of the Board (the "**Board**") of Directors (the "**Directors**") of Sun.King Power Electronics Group Limited (the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018.

China and the world are undergoing an energy reform, with the large-scale development and use of clean energy as its key components. The Chinese government has undertaken that clean energy will account for 20% of the country's primary energy consumption by year 2030, and to this end has promoted two major initiatives: "replacement of other energy with clean energy" (清潔替代) and "replacement of other energy with electricity" (電能替代). Power electronics plays an important role in enabling new energy technologies such as high-voltage direct current ("**HVDC**") transmission for clean energy distribution capacity, and intelligent grids for effective power distribution; as well as emerging technologies such as new energy power generation, electrified railway transportation, new energy vehicles, frequency conversion energy saving and national defence equipment, and has become a key area for enhancement and innovation in energy technology.

The Group has always considered technological innovation to be the primary driver of its development. The Group has leveraged its leading independent research and development capabilities to introduce industry leading technologies and products that cater to new technology development trends. These products have gained wide usage in ultra-high-voltage direct current ("**UHVDC**") transmission, flexible direct current transmission, electrified vehicles, rail transport power supply systems, new energy vehicles, scientific research and national defence. In keeping with its corporate's mission of "promoting green energy development with technological innovation", the Group has further introduced innovative and cutting-edge technological products such as power electric capacitors for flexible direct current transmission, marine solid direct current circuit breakers, digital IGBT gate units for new energy vehicles, ground auto neutral-section passing devices with AC switches for electrified railways, and pulse power supplies for special industries. The Group will continue the exploration, research and development of cutting-edge technologies to make positive contribution to "safe, efficient and intelligent" development of electric energy in China and the world.

The year of 2018 was one of gradation in the HVDC transmission sector. Although new UHVDC transmission works projects have temporarily stagnated, the HVDC transmission market has shown a good development trend since the announcement of the Notice on Accelerating the Planning and Construction of a Batch of Key Projects for Power Transmission and Transformation (《關於加快推進一批輸變電重點工程規劃建設工作的通知》) and commencement of construction of the Experimental Flexible Direct Current Grid Demonstration Project in Zhangbei (張北柔性直流電網實驗示範工程) and Demonstration Project on Ultra-high Voltage Multi-terminal Direct Current Transmission from Wudongde Power Station to Guangdong and Guangxi (烏東德電站送廣東廣西特高壓多端直流示範工程). The issuance of initiatives to open up social capital for investment in UHVDC transmission projects by the State Grid has further guaranteed stable long-term development of the HVDC transmission market.

In 2018, the transport electrification sector continued to grow rapidly. The electric freight locomotive market entered a period of rapid development attributable to the Action Plan on Freight Growth from 2018 to 2020 (《2018-2020年貨運增量行動方案》) issued by the China Railway Corporation. The Group also made significant progress in the passenger motor unit sector, which includes products such as alpine electric motor units, domestically-made standard motor units and central power motor units, as well as sectors for new energy vehicles and electrified vessels.

The Group's overall business performance in the industrial and others sector saw steady improvement. The Group performed particularly well in the new energy power generation and special power supply applications sectors.

The Group's business development was focused on the international market. The Group had great success developing the European market through its Astrol Electronic AG subsidiary in Switzerland. In June 2018, the Group convened its first foreign business partner exchange session to strengthen the construction and management of international sales channels and paved the way for further development of international markets.

In 2018, the Group's sales revenue was approximately RMB1,290.5 million, a approximately 11.7% increase compared to the same period of 2017. Due to a lower sales of high gross profit products, the Group's net profit attributable to the parent company was approximately RMB183.3 million, representing a 5.9% reduction from the same period in 2017.

The Group consistently implements financial management policies that emphasize steadiness. In 2018, the Group's gearing ratio was maintained at a relatively low level of 20.0% to 25.0%. As the Group exercises strict management of accounts receivables, the business accounts received increased by approximately 45.4% compared to the same period of the previous year, and operating cash flow reached approximately RMB323.0 million.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to thank our shareholders, business partners, members of the Board and all our staff for their support and contributions. Together with the management team, I will continue to strive for better returns for our shareholders and for a greater corporate social value.

Xiang Jie
Chairman

Hong Kong, 13 March 2019

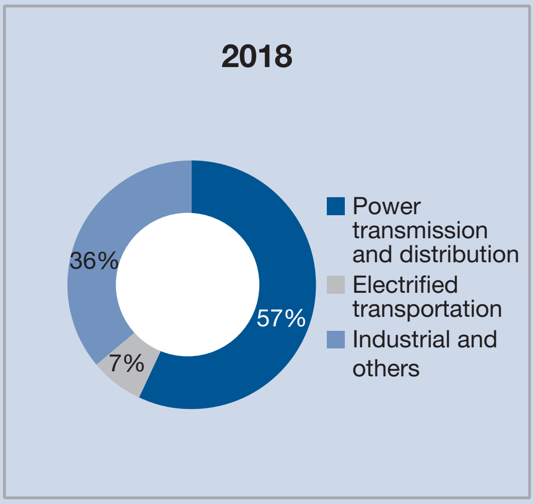
BUSINESS REVIEW

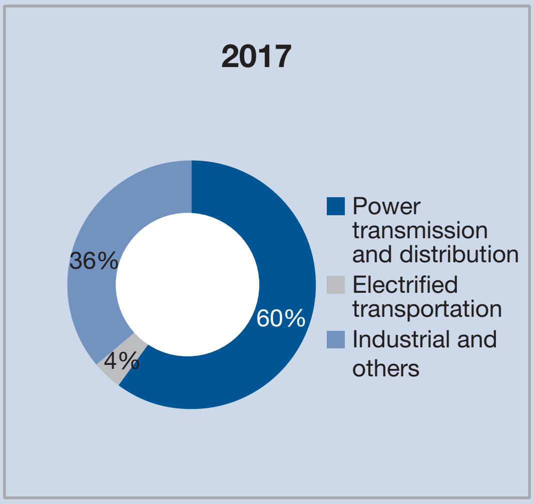
1. Performance by business sector

In 2018, the Group's business performance by sector is as follows:

	2018		2017	
	Revenue (RMB million)	**Gross profit margin%**	Revenue (RMB million)	Gross profit margin%
Power transmission and distribution	**735.5**	**34**	691.4	48
Electrified transportation	**91.3**	**34**	43.7	30
Industrial and others	**463.7**	**33**	420.3	28
Total	**1,290.5**	**Average of 34**	1,155.4	Average of 40

In 2018, the proportion of revenue of each business sector are as follows:





1.1 The power transmission and distribution sector

- ***Market review***

Year 2018 was one of gradation in the high-voltage direct current (“HVDC”) transmission sector. Two key direct current transmission and flexible direct current transmission projects – the Experimental Flexible Direct Current Grid Demonstration Project in Zhangbei (張北柔性直流電網實驗示範工程) and the Demonstration Project on Ultra-high Voltage Multi-terminal Direct Current Transmission from Wudongde Power Station to Guangdong and Guangxi (烏東德電站送廣東廣西特高壓多端直流示範工程) – commenced construction in 2018. On the other hand, after the large scale construction between 2015 and 2017, the development of ultra-high voltage direct current (“UHVDC”) transmission fell into a temporary stagnation in 2018. According to the Notice on Accelerating the Planning and Construction of a Batch of Key Projects for Power Transmission and Transformation (《關於加快推進一批輸變電重點工程規劃建設工作的通知》) issued in September 2018 by the National Energy Administration of China, seven HVDC transmission projects will be approved by the end of 2019. Driven by UHVDC transmission and flexible direct current transmission, HVDC transmission technology is entering a new phase of rapid development.

Similarly, with the continuously increasing demand for direct current transmission due to the rapid development of clean energy and initiative of the State Grid (國家電網) to open up social capital investment in ultra-high voltage transmission projects, construction of HVDC transmission projects is expected to develop in a rapid pace in the long term.

- ***Operating results***

The power transmission and distribution sector consists of UHVDC transmission, flexible direct current transmission, and other types of power transmission and distribution. The Group’s performance in terms of revenue of these subsectors are as follows:

	Revenue (RMB million)		Percentage change
	2018	2017	
Power transmission and distribution sector	**735.5**	691.4	6
UHVDC transmission	**142.3**	473.2	-70
Flexible direct current transmission	**471.9**	124.3	280
Others	**121.3**	93.9	29

UHVDC transmission

In 2018, as existing UHVDC transmission projects virtually came to a standstill and two new UHVDC transmission projects – “Qinghai-Henan” (青海－河南) and “Shaanbei-Wuhan” (陝北－武漢) – were only initiated in the fourth quarter of the year, the Group had not received any customer orders with respect to the two projects abovementioned, and therefore the sales revenue of this subsector decreased significantly in 2018.

Flexible direct current transmission

In 2018, the Experimental Flexible Direct Current Grid Demonstration Project in Zhangbei (張北柔性直流電網實驗示範工程) had entered the stage of large-scale delivery. As a result, the Group’s sales revenue increased significantly in this subsector.

Others

In 2018, other products and businesses within the Group’s power transmission and distribution sector – including high-voltage power capacitors and intelligent grid online monitoring products – generally performed well and sales revenue increased significantly compared to the same period of the previous year.

1.2 The electrified transportation sector

- ***Market review***

As the application of electricity continues to develop in the field of energy consumption, the transportation field – including rail transportation, land vehicles, sea vessels and aircraft – is entering into the stage of full electrification.

The Action Plan on Freight Growth from 2018 to 2020 (《2018-2020年貨運增量行動方案》) issued by the China Railway Corporation in July 2018 announced that railway cargo transport capacity will significantly increase along with the cargo volume between 2018 and 2020. Accordingly, the purchase volume of high-power electric locomotives is expected to grow significantly. Additionally, passenger motor units for the PRC, including alpine electric motor units, domestically-made standard motor units and central power motor units, have achieved varying degrees of progress.

While electrified railways and vehicles continue to develop rapidly, new energy vehicles are becoming the new focus in the electrification of transportation sector. According to the China Association of Automobile Manufacturers, the production output of new energy vehicles in the PRC reached 1.256 million in 2018, representing an increase of approximately 61.7% compared to 2017. According to the goal set by the "13th Five-Year National Plan for the Development of Strategic Emerging Industries" (《「十三五」國家戰略性新興產業發展規劃》), production and sales volume of new energy vehicles will reach two million in year 2020.

- ***Operating results***

The electrified transportation sector consists of rail transportation vehicles, rail transportation power supply systems and new energy vehicles. The Group's performance in terms of revenue of these subsectors are as follows:

	Revenue (RMB million)		Percentage
	2018	2017	change
Electrified transportation sector	**91.3**	43.7	109
Rail transportation vehicles	**75.8**	29.4	158
Rail transportation power supply systems	**1.6**	1.5	7
New energy vehicles	**13.9**	12.8	9

Rail transportation vehicles

In 2018, the Group's sales revenue in this subsector increased significantly, benefiting from the increased sales of rail freight electric locomotives and the sound performance of the Group's rail transportation-related business.

Rail transportation power supply systems

As this subsector is still at its experimental and demonstration phase, orders are unstable. In 2018, the Group's sales revenue in this subsector increased slightly.

New energy vehicles

The Group's sales revenue in this subsector increased slightly, benefiting from orders from new customers and increased orders from existing customers.

1.3 The industrial and others sector

- ***Operating results***

The industrial and others sector comprises metal smelting, electrical equipment, new energy power generation, scientific research institutes, and others. The Group's performance in terms of revenue of these subsectors are as follows:

	Revenue (RMB million) 2018	2017	Percentage change
Industrial and others sector	**463.7**	420.3	10
Metal smelting	**138.1**	280.8	-51
Electrical equipment	**172.7**	127.9	35
New energy power generation	**29.0**	8.2	254
Scientific research institutes and others	**123.9**	3.4	3,544

Metal smelting

Due to policy factors, the metallurgical industry, and especially the electrolytic aluminium industry, advanced a number of projects in 2017, resulting in a decrease in number of projects reserved and commenced in 2018. The Group's sales revenue in this subsector therefore decreased significantly.

Electrical equipment

The Group is mainly engaged in the manufacture and power system integration of electrical equipment such as converters, electric motors, welding machines, rectifiers and inverters, providing self-owned products such as power capacitors, laminated busbars, digital IGBT drivers, as well as semiconductors from ABB Switzerland. In 2018, the Group performed well in this subsector and its sales revenue increased significantly.

New energy power generation

The Group supplies self-developed products such as laminated busbars and digital IGBT drivers as well as semiconductors from ABB Switzerland to the new energy power generation sector. The above products are core devices for wind power converters and photovoltaic inverters. In 2018, the Group's sales revenue in this subsector increased significantly.

Scientific research institutes and others

The Group supplies a wide range of power electronic devices and equipment which are widely used in new electrical equipment research and development, experimentation, and in special applications to domestic universities, research institutes and other application fields. In 2018, the Group benefited from the bulk sales of special power products and achieved outstanding results in scientific research institutes and other fields and sales revenue increased significantly.

2. Research and development

The Group adheres to a business philosophy of "Spurring development with scientific and technological innovation" and a corporate mission of "promoting improvement in China's electric energy efficiency", and therefore places great emphasis on the R&D of new technologies and products. At present, the Group's technological strategy calls for the innovation of power electronics technology through self-research and self-development, exploration of high-end advanced technologies, the undertaking of industrial development, and the use of cutting-edge technologies to gain a competitive advantage in domestic and foreign markets.

On the premise of continuing R&D and improvement for existing products, the Group established a power electronic technology R&D centre in Europe and an intelligent power grid research institute in Wuhan. We cooperate with highly esteemed scientific research institutes such as the Tsinghua-Smart China Energy Network Research Institute (清華智中能源互聯網研究院) to enhance standards for power system design and project execution capability.

In 2018, notable R&D achievements of the Group were as follows:

1. Digital IGBT driver: The Group has successfully developed a digital IGBT driver for electrified vehicles.

2. Solid direct current circuit breaker: The Group and the CSIC 704 Institute (中船重工七〇四研究所) jointly developed a 1KV/100A marine solid direct current circuit breaker.

3. Solid alternating current switch: The ground auto neutral-section passing device with AC switches for electrified railways is a new rail transportation power supply system product introduced by the Group, and is an emerging technological solution to the power supply problem of the neutral-section of electrified railways. After in-depth communication and technical exchange with customers, it is expected that its first domestic demonstration application will be in 2019.

4. Power electronic capacitor: The Group has successfully developed a power electronic capacitor for flexible direct current transmission equipment. It is one of the key components of flexible direct current transmission. Our internal tests indicate that all parameters are at world-leading levels and it is now at the stage of customer site testing and inspection.

5. Pulse Power technology: Leveraging its world-leading R&D capability in the pulse power sector, the Group participated in a number of emerging technology R&D projects, including high-energy physics research and high-speed magnetic levitation trains in 2018. In the special applications sector, small-scale prototypes developed by the Group showed outstanding performance in customer tests.

6. Special power supply: The Group successfully completed R&D of a special power supply customized for a specific customer. Mass production was commenced and delivery was made in 2018.

7. Rail Transit Traction Rectifier: "New Type of Rail Transit Traction Rectifier" independently developed by the Group has been successfully applied in the "China (Henan) Free Trade Zone Air Railway Demonstration Project" (中國(河南)自貿區空鐵示範線工程). All performance indicators performed well.

3. Business development strategies

To cope with the rapidly developing market environment, the Group implemented the following key business development strategies:

1. Consolidate and expand the scale of peripheral businesses to seize market opportunities in the fast growing direct current transmission sector

In regard to emerging transmission technologies, the technical level and investment scale of direct current transmission are in a period of rapid growth, providing good opportunities for the Group's business development in this sector. The Group will vigorously carry out improvements and upgrade its R&D for existing products while placing strong emphasis on quality management. It will also accelerate the R&D and promotion of new technologies and products to maintain its position in the industry. The Group will continue to diversify its product categories and seize opportunities for rapid market demand growth to achieve a rapid scaling up of its business.

2. Expand the electrified railway transportation business: freight and passenger transport, vehicles and power supply systems, and common development in multiple fields

After years of development, China's electrified railway transportation technology has become one of the highlights of "Made in China" brands. Whilst it maintains a healthy pace of development in the high-power electric locomotive business for freight transportation, the Group is considering expansion into the passenger motor unit market as one of its future development priorities. The Group has already cultivated good relationships with downstream customers in this sector through many years of cooperation in R&D and application of standard motor units independently designed and manufactured in the PRC, as well as the rapid development of domestically-made passenger motor units such as alpine electric motor unit and central power motor unit. The Group accordingly regards this sector as a key market for continued expansion in the future.

As rail transportation power supply system is a significant factor for the safety and stability of vehicle operation, technological advancement of such systems is gradually becoming a new focus of R&D and construction. Accordingly, the Group attaches great importance to technological development and promotion in this sector. The Group's power quality management products have successfully been applied in several demonstration and experimental projects in the rail transportation sector. In 2018, the Group introduced a new ground auto neutral-section passing device with AC switches for electrified railways. This product is an innovative technical solution to the worldwide problem of supplying continuous power to neutral-section of railways. The Group will vigorously explore innovative technologies and products that enhance the technical level of rail transportation power supply systems, and strive to achieve rapid development in the related business of rail transportation vehicles and power supply systems.

3. Commence technological R&D of high-end power electronic devices

Due to the rapid growth in the applications of emerging energy technologies such as new energy vehicles and intelligent grids, demand for various types of power electronics technologies and products continues to grow, especially for high-end electrical and electronic devices. As an industry leading supplier of power electronic devices, the Group regards R&D and promotion of high-end power electronic devices as a key focal point and a new driver of long-term high-speed growth. As of the date of this report, the Group had launched a number of independent R&D projects for high-end power electronic device technologies.

4. Internationalization

The Group regards internationalization as one of its key development strategies. This is based on several factors such as the acceleration of energy technology reform, which has substantially increased worldwide market demand for power electronics technology. Several products and technologies supplied by the Group hold great potential for development in the international market. The Group will therefore continue to improve its sales channels and strengthen its publicity and promotion in the international market in order to rapidly expand the scale of its international business. The Group will also seek potential merger and acquisition opportunities with foreign companies with cutting-edge technologies, and will strengthen its technological advantages and industrial capacity in the high-end technological sector by way of mergers and acquisitions, strategic cooperation and industrial alliances.

FINANCIAL REVIEW

Revenue

The revenue increased by approximately 11.7% from approximately RMB1,155.4 million for the year ended 31 December 2017 to approximately RMB1,290.5 million for the year ended 31 December 2018 primarily due to increase in sales in the power transmission and distribution sector and industrial and others sector.

Cost of sales

The cost of sales increased by approximately 23.5% from approximately RMB692.2 million for the year ended 31 December 2017 to approximately RMB855.1 million for the year ended 31 December 2018 primarily due to the increase in revenue for the year ended 31 December 2018.

Gross profit and gross profit margin

The gross profit decreased by approximately 6.0% from approximately RMB463.2 million for the year ended 31 December 2017 to approximately RMB435.4 million for the year ended 31 December 2018 primarily due to decrease in gross profit margin.

The gross profit margin decreased from approximately 40.1% for the year ended 31 December 2017 to approximately 33.7% for the year ended 31 December 2018 due to decrease in sales in power transmission and distribution sector, which has higher gross profit margin.

Selling and distribution expenses

The selling and distribution expenses decreased by approximately 11.8% from approximately RMB82.3 million for the year ended 31 December 2017 to approximately RMB72.6 million for the year ended 31 December 2018 primarily due to effective control on selling and distribution expenses.

Administrative expenses

The administrative expenses decreased by approximately 4.5% from approximately RMB87.5 million for the year ended 31 December 2017 to approximately RMB83.6 million for the year ended 31 December 2018.

R&D costs

The R&D costs increased by approximately 20.9% from approximately RMB44.4 million for the year ended 31 December 2017 to approximately RMB53.7 million for the year ended 31 December 2018 primarily due to increase in R&D activities for flexible direct current power capacitors and other products.

Other expenses

The other expenses decreased by approximately 68.3% from approximately RMB20.5 million for the year ended 31 December 2017 to approximately RMB6.5 million for the year ended 31 December 2018 primarily due to the reversal of bad debts during the year.

Interest on bank loans wholly repayable within five years

The interest on bank loans wholly repayable within five years decreased by approximately 7.3% from approximately RMB17.8 million for the year ended 31 December 2017 to approximately RMB16.5 million for the year ended 31 December 2018.

Profit before tax

The profit before tax decreased from approximately RMB250.0 million for the year ended 31 December 2017 to approximately RMB245.3 million for the year ended 31 December 2018 primarily due to the decrease in gross profit.

Income tax expenses

The income tax expenses decreased by approximately 24.0% from approximately RMB46.2 million for the year ended 31 December 2017 to approximately RMB35.1 million for the year ended 31 December 2018 primarily due to decrease in profit before tax.

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

Total comprehensive income for the year attributable to owners of the parent decreased from approximately RMB194.7 million for the year ended 31 December 2017 to approximately RMB183.7 million for the year ended 31 December 2018.

The Group's net gain margin, which is calculated as gain attributable to owners of the parent for the year divided by revenue, decreased from approximately 16.9% for the year ended 31 December 2017 to a net gain margin of approximately 14.2% for the year ended 31 December 2018.

Inventories

The inventories decreased by approximately 17.2% from approximately RMB186.3 million as at 31 December 2017 to approximately RMB154.3 million as at 31 December 2018 primarily due to strengthened management of inventories.

The average inventory turnover days decreased from approximately 123 days for the year ended 31 December 2017 to approximately 80 days for the year ended 31 December 2018 primarily due to decrease in stock level.

Trade receivables

Trade receivables decreased by approximately 19.8% from approximately RMB910.0 million as at 31 December 2017 to approximately RMB729.7 million as at 31 December 2018 primarily due to improved settlement of receivables.

The average trade receivables turnover days increased from approximately 245 days for the year ended 31 December 2017 to approximately 246 days for the year ended 31 December 2018.

Trade and bills payables

The trade and other payables increased by approximately 19.6% from approximately RMB238.8 million as at 31 December 2017 to approximately RMB285.6 million as at 31 December 2018.

The average trade and other payables turnover days decreased from approximately 124 days for the year ended 31 December 2017 to approximately 111 days for the year ended 31 December 2018, primarily due to the enhancement in the Group's procurement management during the year.

Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from the sales of its products, bank borrowings and proceeds of issuing new shares. The current ratio (current assets divided by current liabilities) slightly increased from approximately 2.3 as at 31 December 2017 to approximately 2.4 as at 31 December 2018. The cash and cash equivalents increased from approximately RMB513.0 million as at 31 December 2017 to approximately RMB766.9 million as at 31 December 2018. The interest-bearing bank borrowings increased slightly from approximately RMB327.2 million as at 31 December 2017 to RMB360.4 million as at 31 December 2018. The gearing ratio measured on the basis of total interest-bearing bank borrowings to total equity increased slightly from approximately 21.5% as at 31 December 2017 to approximately 21.6% as at 31 December 2018.

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

Foreign currency exposure

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

Contingent liabilities

As at 31 December 2018, the Group had no significant contingent liabilities.

Charges on group assets

As at 31 December 2018, certain of the Group's bank loans were secured by mortgages over the Group's property, plant and equipment and prepaid land lease payments with aggregate carrying amounts at the end of the reporting period of approximately RMB32.0 million (as at 31 December 2017: approximately RMB34.3 million) and approximately RMB12.8 million (as at December 2017: approximately RMB13.1 million), respectively. At 31 December 2018, certain of the Group's bills receivables of approximately RMB10.5 million (as at 31 December 2017: approximately RMB17.6 million) were pledged to secure certain of the Group's bills payables.

Use of proceeds from subscription of new shares

As disclosed in the announcements of the Company dated 21 July 2017 and 6 December 2017 and the 2017 annual report of the Company, (a) the Company entered into the subscription agreement with China Venture Capital Fund Corporation Ltd. (中國國有資本風險投資基金股份有限公司) on 21 July 2017, pursuant to which China Venture Capital Fund Corporation Ltd. conditionally agreed to, or procure its nominee to, subscribe for 200,000,000 new shares at the subscription price of HK$1.72 per share; (b) the Company allotted and issued 200,000,000 new shares to Guojing Capital Limited (國晶資本有限公司), being the nominee of China Venture Capital Fund Corporation Ltd., on 6 December 2017 under the general mandate granted by the Shareholders on 10 May 2017; and (c) the aggregate subscription price of HK$344 million shall be used for research and development, capital expenditure and general working capital of the Group.

The table below sets out the breakdown of the use of proceeds of the abovementioned subscription:

Use	Allocation (HK$)	Utilization as at 31 December 2018 (HK$)	Remaining balance as at 31 December 2018 (HK$)	Expected time of full utilization of remaining balance
Research and development	103,200,000	50,636,273	52,563,727	31 December 2020
Capital expenditure	103,200,000	17,385,822	85,814,178	31 December 2020
General working capital	137,600,000	137,600,000	–	N/A
Total	344,000,000	205,622,095	138,377,905	

EXECUTIVE DIRECTORS

Mr. Xiang Jie, aged 45, is the founder, the chairman of the Board and an executive Director. Mr. Xiang is primarily responsible for the overall corporate strategy, planning and business development of the Group. After graduating from Shanghai Maritime University (上海海事大學) in the PRC in international shipping management in 1995, Mr. Xiang obtained a master's degree in business administration from Maastricht School of Management in the Netherlands in 1999. Mr. Xiang has over 10 years of experience in the trading and power electronics sectors.

Mr. Gong Renyuan, aged 48, is an executive Director, the president and the chief executive officer of the Company. Mr. Gong joined the Group in 2002, primarily responsible for overseeing the overall business of the Group, including devising and implementing business and development strategies and targets. Before joining the Group, Mr. Gong has accumulated over eight years of experience in business operations. In 1993, Mr. Gong completed the programme in business English (外貿英語專科) organised by the Beijing University of Technology (北京工業大學) in the PRC. Mr. Gong is the spouse of Ms. Ren Jie, a member of the senior management of the Company.

Mr. Yue Zhoumin, aged 48, is an executive Director and a vice president of the Group. Mr. Yue joined the Group in 2009. Mr. Yue is primarily responsible for the strategic planning and development of the Group. Mr. Yue graduated from the Shanghai Maritime University (上海海事大學) in the PRC with a bachelor's degree in economics in 1994. Mr. Yue has extensive experience in corporate project management and fund raising in the capital market. Mr. Yue is highly experienced in strategic management and had worked in the strategy division of China COSCO Holdings Company Limited, a company listed on the Stock Exchange (stock code: 1919).

NON-EXECUTIVE DIRECTORS

Mr. Yan Fuquan, aged 56, joined the Group in October 2017 as a non-executive Director and the deputy chairman of the Board. Mr. Yan graduated from Jilin University (吉林大學) as a PhD research student (博士研究生) in theoretical economics in June 2010. From July 1984 to February 2001, Mr. Yan worked for 衡陽紡機廠 in which he assumed the positions of deputy director of the chief accountant (總會計師辦公室副主任), head of the finance department (財務處處長), chief accountant (總會計師) and factory manager (廠長) successively. From February 2001 to March 2005, Mr. Yan worked for 中國紡織機械(集團)有限公司 as the head of the finance department (財務部部長). Mr. Yan was an executive director of Jingwei Textile Machinery Company Limited (經緯紡織機械股份有限公司), a company delisted from the Stock Exchange on 28 December 2015. From July 2003, Mr. Yan has worked for China Hi-Tech Group Corporation (中國恒天集團有限公司) in which he assumed the positions of head of the finance department (財務部部長), deputy chief accountant (副總會計師) and chief accountant (總會計師) successively. Mr. Yan is currently the chief accountant (總會計師) of China Hi-Tech Group Corporation (中國恒天集團有限公司), the chairman of the board (董事長) and the general manager (總經理) of China Hi-Tech Holding Company Limited (中國恒天控股有限公司), the chairman of the board (董事長) of 恒天投資管理有限公司 and a director of 北京市文化科技融資租賃股份有限公司.

Mr. Zhu Ming, aged 41, joined the Group as a non-executive Director in October 2017. Mr. Zhu received a master's degree in accounting from the Dongbei University of Finance & Economic (東北財經大學) in December 2008. Mr. Zhu is currently the chief financial officer (財務總監) of China Hi-Tech Holding Company Limited (中國恒天控股有限公司). From February 2009 to October 2015, Mr. Zhu worked for China Hi-Tech Group Corporation (中國恒天集團有限公司) in which he assumed the positions of finance department supervisor (財務部主管) and finance department manager (財務部經理) successively.

Ms. Zhang Ling, aged 50, joined the Group as a non-executive Director in December 2017. Ms. Zhang is the managing director (董事總經理) of China Reform Venture Capital Investment Management (Shenzhen) Ltd. (國新風險投資管理(深圳)有限公司). Ms. Zhang obtained her Bachelor's degree in precision instrument (精密儀器系) from Tianjin University (天津大學) in 1991 and her master's degree from Guanghua School of Management of Peking University (北京大學光華管理學院) in 2000. Ms. Zhang previously worked for Beijing Capital Group Co., Ltd. (北京首都創業集團有限公司) and China Cinda Asset Management Co., Ltd. (中國信達資產管理股份有限公司) and was responsible for merger restructuring (併購重組) and corporate realignment (企業改制). Ms. Zhang also previously worked for Essence Securities Co., Ltd. (安信證券股份有限公司) and Huarong Securities Co., Ltd. (華融證券股份有限公司) and was responsible for the merger financing (併購融資) business, and presided over the completion of large-scale enterprise asset restructuring and integration of the industrial chain, merger of listed companies, reverse takeover and other projects. Ms. Zhang was a director of Tongling Nonferrous Metals Group Holdings Co., Ltd. (銅陵有色金屬集團控股有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Shimin, aged 60, joined the Group as an independent non-executive Director in August 2010. Mr. Chen is a certified management accountant registered in the United States, a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. Mr. Chen graduated from the Shanghai University of Finance and Economics (上海財經大學) in the PRC with a bachelor's degree and a master's degree in economics in 1983 and 1985, respectively. Mr. Chen then obtained a doctoral degree in philosophy from the University of Georgia in the United States in 1992. Mr. Chen is a professor of accounting, a director of the master's degree programme of business administration and a deputy registrar (副教務長) at China Europe International Business School (中歐國際工商學院) in the PRC. Mr. Chen has extensive research experience in domestic and overseas financial and management accounting, and teaching experience in numerous well-known universities. Mr. Chen was an independent non-executive director of Hailan Holdings Limited (海藍控股有限公司), being a company listed on the Stock Exchange (stock code: 2278) from June 2016 to December 2018 and China High Speed Transmission Equipment Group Co., Ltd (中國高速傳動設備集團有限公司), being a company listed on the Stock Exchange (stock code: 658) from June 2007 to December 2016. He is an independent non-executive director of Shanghai Oriental Pearl (Group) Co., Ltd. (上海東方明珠(集團)股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600832), Huafa Industrial Co., Ltd. Zhuhai (珠海華發實業股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600325), Zhejiang Wolwo Bio-Pharmaceutical Co., Ltd. (浙江我武生物科技股份有限公司), being a company listed on the Shenzhen Stock Exchange (stock code: 300357), Yincheng International Holding Co., Ltd. (銀城國際控股有限公司) , being a company listed on the Stock Exchange (stock code: 01902), Hangzhou Shunwang Technology Co., Ltd. (杭州順網科技股份有限公司), being a company listed on the Shenzhen Stock Exchange (stock code: 300113), and an external supervisor of Shanghai Pudong Development Bank Co., Ltd. (上海浦東發展銀行股份有限公司), being a company listed on the Shanghai Stock Exchange (stock code: 600000).

Mr. Zhang Xuejun, aged 53, joined the Group as an independent non-executive Director in December 2016. Mr. Zhang graduated from Capital Normal University (首都師範大學) (formerly known as Beijing Normal College (北京師範學院)) and obtained a bachelor's degree in philosophy. Mr. Zhang also completed an on-job postgraduate course at Chinese Academy of Social Sciences (中國社科院). Subsequently, Mr. Zhang obtained a master's degree in EMBA from Cheung Kong Graduate School of Business (長江商學院) in 2006. Mr. Zhang taught at School of English and School of Ploitical Science and Law in Beijing Normal College. Subsequently, Mr. Zhang successively assumed the position of deputy office head of the Municipal Party Committee of the Youth League in Beijing (北京市團委), secretary of the Committee of the Party Work Committee (黨工委書記) of Heping subdistrict Office in Chaoyang District in Beijing (北京市朝陽區和平街街道辦事處). Since 2000, Mr. Zhang has served in the Central Committee of the Chinese Communist Youth League (共青團中央). Mr. Zhang successively assumed the position of deputy director of Chinese Young Pioneers Business Development Centre (團中央中國少先隊事業發展中心副主任), deputy director of the Central Juvenile Department (團中央少年部) and Centre Propaganda Department (團中央宣傳部), director of the Central Juvenile Department (團中央少年部) of the Chinese Communist Youth League, deputy director of the National Committee of Chinese Young Pioneers (全國少工委副主任) and member of the 16th Central Standing Committee of the Chinese Communist Youth League (十六屆團中央常委).

Mr. Zhang served as a deputy secretary (department level) at Municipal Party Committee of Jiujiang in Jiangxi Province (江西省九江市委副書記(正廳級)) from 2008 to 2011 and a Party secretary and director at the Foreign Affairs Office in Jiangxi Province (江西省外事僑務辦公室) from 2011 to 2014. Mr. Zhang has served as a Party member and the Secretary-General of the Chinese Western Returned Scholars Association (歐美同學會) since February 2014. Mr. Zhang was a co-chief executive officer of Hsin Chong Group Holdings Limited (新昌集團控股有限公司), being a company listed on the Stock Exchange (stock code: 404) from September 2016 to June 2017 where he was primarily responsible for the management of business in Mainland China.

Mr. Leung Ming Shu, aged 43, was appointed as an independent non-executive Director on March 2017. Mr. Leung founded internet private equity fund Harmony Capital as Founding Partner on January 2018. Mr. Leung has been the company secretary of China ITS (Holdings) Co., Ltd. (中國智能交通系統(控股)有限公司), a company listed on the Stock Exchange (stock code: 1900), since January 2008 and the chief financial officer of this company from January 2008 to January 2018. He has also been an independent non-executive director of Comtec Solar Systems Group Limited (卡姆丹克太陽能系統集團有限公司) (stock code: 712) since June 2008 and Cabbeen Fashion Limited (stock code: 2030) since February 2013, both companies are listed on the Stock Exchange.

Mr. Leung has over 15 years of experience in the areas of corporate finance and accounting. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong as an auditor in 1998. He then worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until December 2000. From July 2001 to February 2003, Mr. Leung also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he advised companies on issues of strategy, organization and operations. Mr. Leung then spent approximately three years from February 2003 to January 2006 at CDC Corporation, a NASDAQ-listed company, as a senior manager in the mergers and acquisitions department, and as the chief financial officer of China.com Inc., a subsidiary of CDC Corporation and a company listed on the Stock Exchange. From February 2006 to October 2006, Mr. Leung served as the chief financial officer of Beijing Xinwei Telecom Technology Co., Ltd., a related party of 大唐電信科技股份有限公司(Datang Telecom Technology Co., Ltd., a company listed on The Shanghai Stock Exchange) which is engaged in the development of telecommunication standard and manufacture of telecommunication equipment. From November 2006 to January 2008, he served as the chief financial officer of Beijing Lingtu Spacecom Technology Co., Ltd (北京靈圖星訊科技有限公司), a subsidiary of Beijing Lingtu Software Co., Ltd (北京靈圖軟件技術有限公司), a PRC digital mapping and navigation software company.

Mr. Leung obtained his bachelor's degree in arts with first class honor in accountancy from The City University of Hong Kong in June 1998 and a master's degree in accountancy from The Chinese University of Hong Kong in November 2001. He is a fellow member of the Association of Chartered Certified Accountants (FCCA) and a fellow member of The Hong Kong Institute of Certified Public Accountants (FCPA).

Mr. Zhao Hang, aged 64, joined the Group as an independent non-executive Director in December 2017. Mr. Zhao is a research-grade senior engineer and obtained his bachelor degree in engineering from Jilin University of Technology, the PRC (中國吉林工業大學) in July 1982. In October 2003, Mr. Zhao obtained a degree in executive master of business administration from China Europe International Business School (中歐國際工商學院). After his graduation from Jilin University of Technology, the PRC in 1982, Mr. Zhao joined the Transportation Engineering Institute of the Chinese People's Liberation Army (中國人民解放軍運輸工程學院) as an instructor until October 1987. After that, he was employed by the China Automotive Technology & Research Centre (中國汽車技術研究中心), and had since then until November 2015 held various positions therewith including centre deputy chairman, centre deputy secretary of the party committee and centre secretary of the party committee and centre chairman. Among the awards and recognitions he has received in the past, Mr. Zhao was conferred with the title of Young Technology Specialist in the Machinery Industry in the PRC (中國機械工業青年科技專家) in 1995 and received the 2004 China Automobile Manufacturing Outstanding Technology Talent Award (2004年中國汽車工業優秀科技人才獎). Mr. Zhao has been an independent non-executive director of Sinotruk (Hong Kong) Limited (中國重汽(香港)有限公司) (a company listed on the Stock Exchange, stock code: 3808) since 11 April 2016 and a director of Zhejiang Wanfeng Auto Wheel Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002085.SZ) since 29 November 2013. Mr. Zhao is also a doctoral tutor at Wuhan University of Technology, the PRC (中國武漢理工大學), and an instructor and adjunct professor at Tongji University, the PRC (中國同濟大學), Jilin University, the PRC (中國吉林大學), Jiangsu University, the PRC (中國江蘇大學) and Chongqing Jiaotong University, the PRC (中國重慶交通大學) (which is previously known as Chongqing Vocational College of Transportation (重慶交通學院)). In addition, Mr. Zhao was the deputy chairman and chief secretary of the China Automobile Human Resources Association (中國汽車人力資源協會), the deputy chairman of the executive committee of the Society of Automatic Engineers of China (中國汽車工業協會), the vice-president of the China Association of Automobile Manufacturers (中國汽車工業協會), the deputy chairman of the China Intelligent Transportation Systems Association (中國智能交通協會), the council member of the China Machinery Industry Federation (中國機械工業聯合會), a member of the steering committee of the National 863 Electric Vehicle Key Project (國家863電動汽車重大專項領導小組), a member of the steering committee of the National Clean Energy Automotive Action (國家清潔汽車行動領導小組) and a member of the steering committee of the Tianjin Clean Energy Automotive Action (天津市清潔汽車行動領導小組).

JOINT COMPANY SECRETARIES

Ms. Ng Ka Man, was appointed as a joint company secretary and the authorised representative on 18 October 2018. Ms. Ng is a manager of the Listing Services Department of TMF Hong Kong Limited (a global corporate service provider). She has more than 10 years of experience in the company secretarial field. She is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

Ms. He Lina, aged 40, joined the Group as the legal manager in July 2008 and was appointed as a joint company secretary in April 2016. Ms. He graduated from China University of Political Science and Law (中國政法大學) with a bachelor's degree in economic law in June 2001, and obtained a Master of Corporate Governance degree from The Open University of Hong Kong in 2018. She is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. He has over nine years of experience in overseeing regulatory compliance issues of a listed company.

SENIOR MANAGEMENT

Mr. Li Jinyan, aged 40, Mr. Li is a vice president of the Group and is responsible for the sales and marketing of the Group's products. Mr. Li joined the Group after graduating from University of Science and Technology Beijing (北京科技大學) in the PRC with a bachelor's degree in automation in 2004.

Ms. Ren Jie, aged 41, is a vice president of the human resources and administration department of the Group, primarily responsible for the overall management of the department. Ms. Ren joined the Group in 2001 after graduating from Xi'an International Studies University (西安外國語學院) in the PRC with a major in English in 1998. Ms. Ren obtained a master's degree in business administration from Beijing Jiaotong University (北京交通大學) in the PRC in 2014. Ms. Ren is the spouse of Mr. Gong Renyuan, the executive Director, the president and chief executive officer of the Company.

Ms. Bai Xing, aged 38, is a vice president of the Group and is responsible for the Group's overall procurement process and daily operations of the procurement department. Ms. Bai joined the Group in 2002. Ms. Bai graduated from University of International Business and Economics (對外經濟貿易大學) in the PRC with a bachelor's degree in international business and trade in 2007 and has over nine years of experience in procurement. Ms. Bai is a national registered certified purchasing professional recognised by the China Federation of Logistics and Purchasing (中國物流與採購聯合會).

Mr. Bo Xiangpeng, aged 34, is the chief financial officer of Group. Mr. Bo is a non-practising member of the Chinese Institute of Certified Public Accountants. Mr. Bo joined the Group in 2010 and was promoted as the financial controller in 2013. Mr. Bo was appointed as the chief financial officer in April 2016. Mr. Bo graduated from Shandong University of Finance and Economics (山東財經大學) with a bachelor's degree in business management in September 2006 and graduated from Nankai University (南開大學) with a master's degree in business administration in July 2008. Mr. Bo has ten years of experience working in the accounting and financing fields.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as its own code to govern its corporate governance practices. The Board also reviews and monitors the practices of the Company from time to time with the aim of maintaining and improving the standard of corporate governance practices. The Company complied with all applicable code provisions of the Corporate Governance Code during the year ended 31 December 2018.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company confirms that, having made specific enquiries with all Directors, the Directors have complied with the required standards as set out in the Model Code during the year ended 31 December 2018.

BOARD OF DIRECTORS

Responsibilities of the Board and Management

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

Composition

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

During the year ended 31 December 2018, the Board at all times complied with the requirements relating to the respective retirement and re-election of one-third of the members of the board of listed companies. The Company appointed four independent non-executive Directors representing 40% of the Board members, including two independent non-executive Directors who possesses appropriate professional qualifications, or accounting or related financial management expertise. Therefore, the requirements under the Listing Rules were fully complied with.

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

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Chairman of the Board is mainly responsible for the overall corporate strategy, planning and business performance of the Group, and for the implementation of each resolution put forward at general meetings and Board meetings, while the chief executive officer of the Company is mainly responsible for overseeing the overall business of the Group, including devising and implementing business development strategies and targets. Currently, Mr. Xiang Jie is the chairman of the Board, and Mr. Gong Renyuan is the chief executive officer of the Company. During the year of 2018, one meeting without the presence of Directors was held between the chairman of the Board and the independent non-executive Directors.

NON-EXECUTIVE DIRECTORS

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

MEETINGS

The Board holds meetings regularly to discuss the overall strategies, and operational and financial performance of the Group. The Directors can attend meetings in person or via electronic means. During the year of 2018, a total of five meetings of Directors were held to review and approve the financial and operational results of the Group. The attendance record of the Directors at the Board meetings and Shareholders' meetings during the year ended 31 December 2018 is set out below:

	Attended/Eligible to attend	
	Board Meeting	Shareholders' Meeting
Executive Directors		
Mr. Xiang Jie	5/5	1/1
Mr. Gong Renyuan	5/5	1/1
Mr. Yue Zhoumin	5/5	1/1
Non-executive Directors		
Mr. Yan Fuquan	4/5	1/1
Mr. Zhu Ming	5/5	1/1
Ms. Zhang Ling	2/5	0/1
Independent non-executive Directors		
Mr. Leung Ming Shu	5/5	1/1
Mr. Chen Shimin	4/5	0/1
Mr. Zhang Xuejun	5/5	1/1
Mr. Zhao Hang	5/5	1/1

In addition, two written resolutions were passed and five meetings of executive Directors were held during the year ended 31 December 2018.

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

BOARD COMMITTEES

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

(a) Audit committee

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

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

The audit committee held three meetings during the year of 2018. During the meetings, the audit committee confirmed the appointment of Ernst & Young as the Group's external auditors and fixed its remuneration, and reviewed the procedures of internal control of the Group. The audit committee also reviewed the interim and annual results of the Group for the year of 2018 and the auditor's report prepared by the external auditors in relation to accounting matters and any material findings during the audit. The audit committee was of the opinion that such financial statements and report complied with the applicable accounting policy standards and requirements and that adequate disclosures have been made. The attendance record of the meetings of the audit committee during the year of 2018 is set out below:

Directors	**Attended/Eligible to attend**
Mr. Chen Shimin *(Chairman of the audit committee)*	3/3
Mr. Leung Ming Shu	3/3
Mr. Zhu Ming	3/3
Mr. Zhang Xuejun	3/3

(b) Remuneration committee

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

The remuneration committee comprises four independent non-executive Directors, being Mr. Leung Ming Shu, Mr. Chen Shimin, Mr. Zhang Xuejun and Mr. Zhao Hang. The remuneration committee is chaired by Mr. Leung Ming Shu.

The remuneration committee held two meetings during the year of 2018. During the meetings, the remuneration committee determined the option incentive scheme, and made recommendation on the Directors' allowances, the remuneration of the senior management and assessment system, as well as the remuneration of the employees and employee reward scheme. The attendance record of the meetings of the remuneration committee during the year of 2018 is set out below:

Directors	**Attended/Eligible to attend**
Mr. Leung Ming Shu (*Chairman of the remuneration committee)*	2/2
Mr. Chen Shimin	1/2
Mr. Zhang Xuejun	2/2
Mr. Zhao Hang	2/2

Remuneration payable to senior management of the Company (excluding Directors) for the year of 2018 is within the following bands:

	Number of individuals	
	2018	2017
RMB200,000 – RMB300,000	**0**	0
RMB300,001 – RMB400,000	**1**	1
RMB400,001 – RMB500,000	**2**	3
Above RMB500,000	**2**	1

(c) Nomination committee

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

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

Nomination Policy

The Board of the Company should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. To ensure changes to the Board composition can be managed without undue disruption, there should be a formal, considered and transparent procedure for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidates by the Nomination Committee of the Board.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities which, in particular, are set out as follows:

(a) participating in Board meetings to bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;

(b) taking the lead where potential conflicts of interests arise;

(c) serving on the Audit Committee of the Board, and the Remuneration Committee of the Board and the Nomination Committee (in the case of candidate for non-executive Director) and other relevant Board Committees, if invited;

(d) bringing a range of business and financial experience to the Board, giving the Board and any Committees of the Board on which he or she serves the benefit of his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the Board/Committee meetings;

(e) scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;

(f) ensuring the Committees of the Board on which he or she serves to perform their powers and functions conferred on them by the Board; and

(g) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules on the Stock Exchange, where appropriate.

If the candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with, among other things, the factors as set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated to consider whether he or she has the appropriate professional qualifications or accounting or related financial management expertise for filling the office of an independent non-executive Director with such qualifications or expertise as required under Rule 3.10(2) of the Listing Rules.

The nomination committee held one meeting during the year of 2018. During the meeting, the nomination committee reviewed the independence of the independent non-executive Directors, composition of the Board and the Board diversity policy. The attendance record of the meetings of the nomination committee during the year of 2018 is set out below:

Directors	Attended/Eligible to attend
Mr. Zhang Xuejun *(Chairman of the nomination committee)*	1/1
Mr. Chen Shimin	1/1
Mr. Gong Renyuan	1/1

Board Diversity Policy

The Board has formulated a Board diversity policy to improve the standard of management through achieving diversity on the Board in terms of management skills, experience and perspectives, and thereby enhance the quality of the management and the performance of the Company. The Board diversity policy requires that the appointment of Board members should be based on the talents of the candidates. Factors including diversity in age, gender, education and cultural background, professional expertise, industry experience and independence should also be considered and assessed during the selection process to ensure diversity. The nomination committee of the Board monitors the implementation of the Board Diversity Policy and reports in the corporate governance report of the Company on an annual basis. The nomination committee will also review the Board diversity policy and make recommendations for revision to the Board for consideration and approval when necessary. The Board considers that it has made progress on achieving diversity of the Board by including members of different gender and education background and professional qualifications. The Board will continue to strive for diversity of the Board in accordance with the Board Diversity Policy.

(d) Investment committee

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

The investment committee comprises three independent non-executive Directors, being Mr. Zhang Xuejun, Mr. Chen Shimin and Mr. Leung Ming Shu, one executive Director, being Mr. Xiang Jie, and two non-executive Directors, being Mr. Yan Fuquan and Ms. Zhang Ling.

The investment committee held two meetings during the year of 2018. During the meetings, the investment committee discussed the progress of investing projects. The attendance record of the meetings of the investment committee during the year of 2018 is set out below:

Directors	Attended/Eligible to attend
Mr. Yan Fuquan	1/2
Mr. Xiang Jie	2/2
Ms. Zhang Ling	1/2
Mr. Chen Shimin	1/2
Mr. Zhang Xuejun	2/2
Mr. Leung Ming Shu	2/2

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Mr. Chen Shimin (陳世敏先生) has resigned as an independent non-executive Director of Hailan Holdings Limited, a company listed on the Stock Exchange (stock code: 2278) with effect from 31 December 2018.

As disclosed herein, for the year ended 31 December 2018 and up to the date of this annual report, there were no changes to information required to be disclosed regarding the Directors pursuant to Rule 13.51B(1) of the Listing Rules.

Risk Management and Internal Control

The audit department of the Company conducted comprehensive annual audit on the internal control systems of the Group covering the year of 2018 and submitted the "2018 Annual Report on Internal Control" for the Board's review. The Board is responsible for reviewing the effectiveness of the internal control systems, which covers all material controls including financial, operational and compliance controls and risk management functions, for the purpose of preventing unauthorised use or sale of assets and ensuring the proper filing of accounting records and provision of reliable financial information for internal use or for release, and ensuring that the applicable laws, rules and regulations are complied with. The internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only reasonably ensure significant error, loss and found would not occur. The Board acknowledged that the risk management and internal control systems of the Company during the review period were effective and adequate. In the year of 2018, in addition to adhering to the existing stringent internal control, the Company made additional improvement as follows:

- ***Strictly implementing the control of expenses for continuous cost reduction and profit increasing***

  The Group continued to implement the financial management and control, adhered to comprehensive budget management, through more reasonable budget planning, clear authorization system and reasonable resource allocation methods to ensure the strategic planning and annual business objectives can be realized. Besides, the "Management System for Business Trips" (出差管理制度) in 2015 was revised to refine the definitions of cost standards, strengthen the requirements for business trips expenses reimbursement details, and supplement the regulation for engineering servicing-related business trips.

- ***Enhancing efficiency of fixed assets utilization by strengthening fixed assets management***

  Fixed assets of the high value and long service life are important production materials indispensable to the Group's operations. In 2018, the Group improved its fixed asset management system, strictly controlled the purchase and replacement process of office fixed assets, revised the maintenance process and disposal management of office fixed assets, and added management regulations for internal transfer of office fixed assets. In addition, the "Management Measures for Official Vehicles" (公務用車管理辦法) was also issued, which strengthened the management of vehicles of the Company and clarified the standards for the purchase, replacement and disposal of vehicles.

- ***Improving human resources management system to stabilize the core staff***

  In order to create a fair, open and fair competitive atmosphere and fully mobilize the enthusiasm and initiative of employees, the Group issued the "Employee Promotion Management System" (員工晉升管理制度) in 2018, which standardized the promotion channels, promotion methods, promotion processes and assessment methods for employees.

  Besides, the remuneration management policy has been supplemented with provisions, which further regulates the duty allowance for junior management, as well as salary adjustment due to changes in position and job rotation, and when to issue duty allowances.

  In addition, in order to encourage employees to care about the Company's development and align personal interests with the Company's interests, the Group formulated the "2018 Performance Bonus Management Measures" (2018年績效獎金管理辦法), which provides that, subject to the Company's operating conditions, RMB100,000 will be reserved as bonus for all employees if the Group achieves its projected net profits.

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

In order to comply with the requirements of the code provision A.6.5 of the Corporate Governance Code, all the Directors have participated in training in relation to continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remains informed and relevant. To summarise, the Directors received trainings on the following areas to update and develop their skills and knowledge during the year of 2018:

	Training area	
	Companies Ordinance	**Listing Rules**
Executive Directors		
Mr. Xiang Jie	√	√
Mr. Gong Renyuan	√	√
Mr. Yue Zhoumin	√	√
Non-executive Directors		
Mr. Yan Fuquan	√	√
Mr. Zhu Ming	√	√
Ms. Zhang Ling	√	√
Independent non-executive Directors		
Mr. Chen Shimin	√	√
Mr. Zhang Xuejun	√	√
Mr. Leung Ming Shu	√	√
Mr. Zhao Hang	√	√

DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the financial statements which give a true and fair view of the state of affairs of the Company as at 31 December 2018 and of the Group's profit and cash flows for the year then ended and ensuring that such statements are prepared in accordance with the statutory requirements and applicable accounting standards.

AUDITORS' REMUNERATION

Ernst & Young has been appointed as the external auditors of the Company since 2012. In 2018, the Company accepted the annual audit fee of RMB1.80 million proposed by Ernst & Young. The relevant selection, appointment and resignation procedures of accounting firms have been reviewed and approved by the audit committee and the Board.

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 48 to 49 in this annual report. During the year ended 31 December 2018, other than the audit fee, RMB0.60 million was paid to Ernst & Young for its performance of interim review.

JOINT COMPANY SECRETARIES

Ms. He Lina and Ms. Ng Ka Man were appointed as joint company secretaries of the Company in April 2016 and October 2018 respectively. Ms. He is an employee of the Company and reports to the chairman of the Board and is responsible for advising the Board on corporate governance matters. Ms. Ng works closely with Ms. He (the primary contact person) in discharging their duties and responsibilities as joint company secretaries of the Company. Ms. He and Ms. Ng have confirmed that they had taken not less than 15 hours of relevant professional training during the year of 2018.

Ms. Mok Ming Wai resigned as a joint company secretary of the Company on 18 October 2018.

CONSTITUTIONAL DOCUMENTS

On 3 May 2018, the Company adopted the revised Articles of Association.

SHAREHOLDER'S RIGHTS

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

MAKING ENQUIRIES TO THE BOARD

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

INVESTOR RELATIONSHIP

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

OVERALL PERFORMANCE IN 2018

As a listed private enterprise, the Group has actively pursued a humanistic concept of green development, energy efficiency, environmental protection and social improvement under its policy of corporate social responsibility. In 2018, the Company strengthened its R&D of new products and its management of product quality, supply chains, administration and personnel, public health and utilisation of resources. Simultaneously, the Group emphasised on environmental protection and social responsibility obligations, as well as its commitments to all stakeholders including Shareholders, staff, customers and the society.

In accordance with the requirements outlined in Appendix 27 of the Listing Rules in the "Environmental, Social and Governance Reporting Guide" (the "**Guide**"), the Company issued an Environmental, Social and Governance Report (the "**Report**"). The Report covered the two major subject areas mandated by the Guide, namely, Environmental as 'Main Subject Area A' and Social as 'Main Subject Area B' whereas the third area – 'Corporate Governance' is covered in the Corporate Governance Report in this annual report. The period covered in the Report is the same as that in the 2018 annual report.

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

A. ENVIRONMENTAL RESPONSIBILITY

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

A1. Emissions

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

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

The Group's production activities mainly involve electrical and electronic products which do not produce direct emissions from fossil fuels such as coal, oil and natural gas. The Group's main sources of emissions include the direct emissions of vehicles, and indirect emissions from power consumption and plane travel for employees' business trips. Since usage of vehicles is the Group's primary direct emissions of pollutants, we accordingly introduced the "Management System for Vehicles" (《用車管理制度》), the Management Measures for Official Vehicles (《公務用車管理辦法》) and the "Management System for Business Trips" (《出差管理制度》) to improve the management of vehicle usages.

Flue gas emissions: Unit: Kg

Emission	2018	2017
SOx	**316**	140
NOx	**1**	1
Particles	**30**	13

Greenhouse gas emissions: Unit: Tons

CO_2	2018	2017
Direct	**221**	196
Indirect	**6,560**	4,609

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

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

The Group's non-hazardous waste emissions mainly comprise of waste materials such as scrap steel, iron dust and scrap which arise from production processes. These materials are either sold or given to environmental departments for disposal in accordance with the Group's "Management System for Warehousing Waste Products". In 2018, the treatment of these non-hazardous waste was as follows:

Non-hazardous waste type	Discharge (Tons)	Treatment
Scrap steel	200	Sold
Iron dust	2	Sold
Household garbage	8	Disposal by environmental departments
Used paper	4	Sold

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

Hazardous waste type	Discharge (Tons)	Treatment
Paint residue	2	Disposal by qualified units
Waste organic solutions	8	Disposal by qualified units
Oil and water mixtures	15	Disposal by water treatment companies
Used activated carbon	0.2	Disposal by qualified units

A2. Use of resources

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

Resources	2018	2017
Water (Tons)	**139,116**	105,535
Power (KWh)	**6,060,529**	4,199,079

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

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

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

To reduce consumption of raw materials, the Group has adopted "Just-In-Time" production methods which avoid keeping excessive inventory. The Group has also increased technical staff training by, for example, using the joint training systems of Jiashan Sunking and vocational schools. We also enhance staff members' technical skills to reduce waste generated by production. Due to the differing specifications, different products require different packaging, and therefore statistics for packaging weight cannot be compiled. For 2018, the types and usage of packaging by the Group are as follows:

Packaging type	Amount (units)
Wooden box	6,902
Cardboard box	10,071

A3. The environment and natural resources

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

B. SOCIETY

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

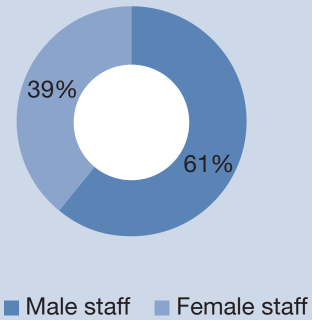
Employment and labour regulations

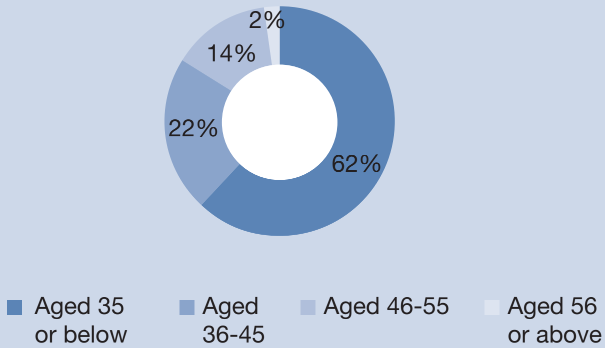
B1. Employment

The Group maintains strict compliance with various relevant national personnel laws and regulations, emphasizing on its own talent development strategy, so as to make continue improvements along with its corporate development. For the employment of employees, the Group has adopted a hybrid system of external recruitment, internal nomination and job rotation to recruit personnel with calibre. Our "Staff Handbook", "Management System for Recruitment" and "Management Processes for Staff Relations" define its principles and mechanisms of recruitment, employment, resignation and dismissal.

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

As at 31 December 2018, the Group had 636 staff members in total. The sex and age composition of the staff is as follows:





B2. Health and safety

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

To ensure the health of employees, the Group provides free annual medical checks. Apart from statutory "Five Social Insurances and One Housing Fund" requirement, we also provide supplemental medical insurance for employees, to provide a multi-layer protection mechanism.

All employees of the Group are required to receive induction training and are required to learn professional skills before commencing work. Employees of certain positions are required to possess relevant certificates to avoid any damage or injury due to incompetence of requisite skill(s). Each subsidiary of the Group establishes a series of management requirements for production safety in reference to its own operational purposes and conditions. These requirements enable specific safety procedures and plans to be defined. Examples of this include Wuxi Sunking's "Safety Management Requirements", "Contingency Plans for Safe Production Incidents" and "Management System for Dangerous Operations"; Jiujiang Sunking's "Management System for Safe Production", "Contingency Plans for Environmental Incidents" and "Management System for Safe Production Standardisation"; and Jiashan Sunking's "Safety Management Requirements". Each subsidiary has implemented stringent requirements and rules and there had not been material safety-related accidents. Our Group has no record of casualties relating to occupational diseases or work-related injuries.

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

B3. Development and training

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

In 2018, the Group successfully held three production training seminars to improve the working capacity of production personnel; training with the theme "Trust-Winning Communication Skills" was conducted for management personnel, with an aim to improve the communication skills of management personnel in order to build a reserve pool of management elites for the continuous development of the Group. The Group holds an internal training monthly, and the internal trainers explain various vocational skills. In 2018, the Group invested more than RMB700,000 to employee training.

B4. Labour standards

The Group adheres to the humanity-centered philosophy and the principle of equality and protects the employees from any form of discrimination due to race, age, gender and other factors. We adhere to the principle of "openness, fairness, justice" and adopt discretionary choice during recruitment process, consider candidates on merit and against objective criteria. As explained in the "Staff Handbook", the Group protects the legitimate and reasonable interests of employees by including, as part of recruitment criteria, a stipulation that there be "no employment of children under the age of 18" and other employment conditions, regulations for working hours and leave system. The Group prohibits forced labour such as debt bondage and indentured servitude in all workplaces.

Operating practices

B5. Supply chain management

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

B6. Product responsibility

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

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

B7. Anti-corruption

The Group established an "Internal Whistle-blowing Policy" and "Internal Audit System" under which the audit committee is authorised by the Board to create an environment of anti-fraud. The committee conducts regular reviews of the internal control system to regulate the conduct of employees, maintain an atmosphere of integrity and dedication, and prevent the occurrence of intentional fabrication, disclosure of trade secrets, graft, misappropriation, embezzlement and dinners or presents in exchange for favour. The audit department set up a complaint channel for reporting emails, telephone calls, etc., mainly responsible for dealing with whistle-blowing and initiating follow-up actions, directly reports to the audit committee, effectively safeguard the employees' own interests. We believe that strict systems for anti-corruption and anti-fraud, along with a rigorously implemented internal control system, are valuable in helping us to earn the confidence of employees, customers, suppliers and other business partners, and contribute to the Group's development.

B8. Community investment

Each subsidiary of the Group participates in local community projects and public welfare activities. In 2018, Jiujiang Sun.king participated in the "Hundreds of Enterprises Helping Hundreds of Villages Poverty Alleviation Activity" (百企幫百村精准扶貧行動) established by Jiujiang City Federation of Industry and Commerce, and donated RMB20,000. Jiashan Sunking donated RMB50,000 to the Charity Federation of Jiashan County to subsidise the education of children from disadvantaged families.

The Directors are pleased to present the annual report of the Company and the audited consolidated financial statement of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

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

FAIR REVIEW OF BUSINESS

A fair review of the business of the Group as well as a discussion and analysis of the Group's performance during the year ended 31 December 2018 and the material factors underlying its financial performance are set out in the Chairman Statement on pages 3 to 4 of this annual report and the section headed "Management Discussion and Analysis" on pages 5 to 13 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term interest-bearing bank borrowings with floating interest rates. For the year ended 31 December 2018, the effective interest rates for unsecured bank loans is 2.5% to 5.0%.

Foreign currency risk

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

Credit risk

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

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

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

Liquidity risk

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

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

For further details of the principal risks and uncertainties, please refer to note 39 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2018 and its financial position as at that date are set out in the consolidated financial statements from pages 50 to 121 in this annual report.

The Board proposed to recommend the payment of a final dividend of HK3 cents per Share for the year ended 31 December 2018 (corresponding period in 2017: HK3 cents).

Dividend Policy:

1. Purpose

This Dividend Policy (this "Dividend Policy") aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profit, as dividends to the shareholders of the Company.

2. Principles and Guidelines

2.1 The Board adopts the policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value.

2.2 The Company does not have any pre-determined payout ratio.

2.3 The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the provisions of the Articles of Association of the Company and all applicable laws and regulations and the factors set out below.

2.4 The Board shall also take into account the following factors of the Company and its subsidiaries when considering the declaration and payment of dividends:

- financial results;
- cash flow position;
- business conditions and strategies;
- future operations and income;
- capital requirements and budgets;
- interests of its shareholders;
- any restrictions on payment of dividends; and
- any other factor that the Board deems relevant.

2.5 Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period;

- interim dividend;
- final dividend;
- special dividend; and;
- any distribution of profits that the Board may deem appropriate.

2.6 Any final dividend for a financial year will be subject to shareholders' approval.

2.7 The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

2.8 Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Articles of Association of the Company.

3. Review of the Policy

The Board will review this Dividend Policy as appropriate from time to time.

USE OF PROCEEDS FROM LISTING

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

As at 31 December 2018, the total net proceeds from the Listing had been fully utilised for repayment of bank borrowings, land acquisition and construction of buildings for expansion of production capacity, building construction for research and development and working capital and general corporate expenses.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 122 in this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year of 2018 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the Company's issued share capital during the year of 2018 are set out in note 29 to the consolidated financial statements.

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

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

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

Details of movements in the share options under the Share Option Scheme for the year ended 31 December 2018 and share options outstanding as at the beginning and the end of the year are set out below:

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

Name of grantees	Date of grant	As at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled/ Forfeited during the year	As at 31 December 2018	Exercise price per share *(HK$)*	Share price immediately before the grant date *(HK$ per share)*	Fair value of share options *(HK$ per share)*	Exercisable period
				Number of share options							
Ms. Ren Jie *(senior management and the spouse of Mr. Gong Renyuan)*	26 April 2012	250,000	–	(250,000)	–	–	–	0.55	0.47	0.23	26 April 2013 to 25 April 2018
	28 May 2013	450,000	–	–	–	–	450,000	0.68	0.64	0.27	28 May 2014 to 27 May 2019
	28 August 2014	1,200,000	–	–	–	–	1,200,000	0.69	0.61	0.33	28 August 2015 to 27 August 2020
		51,100,000	–	(17,200,000)	–	–	33,900,000				
Employees in aggregates	26 April 2012	150,000	–	(150,000)	–	–	–	0.55	0.47	0.20	26 April 2013 to 25 April 2018
	28 May 2013	802,500	–	(706,000)	–	–	96,500	0.68	0.64	0.26	28 May 2014 to 27 May 2019
	28 August 2014	6,136,500	–	(3,128,500)	(91,000)	–	2,917,000	0.69	0.61	0.31	28 August 2015 to 27 August 2020
	24 August 2016	4,850,000	–	(115,000)	–	–	4,735,000	1.17	1.19	0.53	24 August 2017 to 23 August 2022
Total		63,039,000	–	(21,299,500)	(91,000)	–	41,648,500				

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

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands (the "**Companies Law**"), amounted to approximately RMB614.6 million (2017: RMB679.9 million), of which final dividend has not been proposed for the year ended 31 December 2018. In addition, under the Companies Law, the share premium account of the Company of approximately RMB614.6 million as at 31 December 2018 (2017: RMB679.9 million) was distributable to the Shareholders (subject to the provisions of the memorandum and Articles of Association), provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend, if any, is proposed to be paid. The Company's share premium account may be distributed in the form of fully paid bonus shares.

DIRECTORS

The Directors during the year of 2018 and up to the date of this annual report were as follows:

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

Non-Executive Directors
Mr. Yan Fuquan
Mr. Zhu Ming
Ms. Zhang Ling

Independent Non-executive Directors
Mr. Chen Shimin
Mr. Zhang Xuejun
Mr. Leung Ming Shu
Mr. Zhao Hang

In accordance with Articles 83(3) and 84(1) of the Articles of Association, Mr. Yue Zhoumin, Mr. Chen Shimin, Mr. Zhang Xuejun and Mr. Leung Ming Shu will retire by rotation and be eligible to offer themselves for re-election at the forthcoming annual general meeting.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has first been appointed for a term of three years commencing on the date of the Listing. Subsequently, Mr. Xiang Jie entered into supplemental service agreements dated 1 June 2012, 1 June 2015 and 1 June 2018 under which his term of office would be three years from the date of the respective supplemental agreement. On 1 June 2016, Mr. Gong Renyuan entered into a supplemental service agreement for a term of three years from the date of the said supplemental agreement. On 28 May 2014 and 28 May 2017, Mr. Yue Zhoumin entered into a supplemental service agreement for a term of three years from the date of the said supplemental agreement.

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

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

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACTS

During the year of 2018 and at the end of the year of 2018, no Director nor entity connected with any Directors was materially interested, either directly or indirectly, in any transaction, arrangement and contract of significance to the business of the Group to which any member of the Group was a party.

PERMITTED INDEMNITY

Under the Articles of Association, the Directors are indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expense whatsoever, which they or any of them incur as a result of any act or failure to act in carrying out their functions other than such liability (if any), that they may incur by reason of their own fraud or dishonesty. Such permitted indemnity provision has been in force for the year ended 31 December 2018. The Company has arranged appropriate liability insurance coverage for the Directors.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "**SFO**"), as recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

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

Name of Director	Nature of interest	Number of ordinary shares	Number of underlying shares held under equity derivatives *(Note 4)*	Total	Approximate percentage of interest in the Company *(Note 5)*
Mr. Xiang Jie	Beneficial owner and interest in controlled corporation	361,958,347 *(Note 1)*	20,000,000	381,958,347	23.61%
Mr. Gong Renyuan	Beneficial owner and the interest of spouse	6,960,000 *(Note 2)*	12,400,000 *(Note 3)*	19,360,000	1.20%
Mr. Yue Zhoumin	Beneficial owner	4,100,000	1,500,000	5,600,000	0.35%

Notes:

1. As at 31 December 2018, among the 361,958,347 shares, 23,630,000 shares were directly held by Mr. Xiang Jie and the remaining 338,328,347 shares were directly held by Max Vision Holdings Limited. As at 31 December 2018, Max Vision Holdings Limited was wholly owned by Jiekun Limited, which was wholly owned by BNP Paribas Corporate Services Pte Ltd.. As at 31 December 2018, BNP Paribas Corporate Services Pte Ltd. was wholly owned by BNP Paribas Singapore Trust Corporation Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries. Ms. Meng Fankun, being the spouse of Mr. Xiang Jie, is deemed under the SFO to be interested in the 381,958,347 shares in which Mr. Xiang Jie was interested.

2. As at 31 December 2018, among the 6,960,000 shares, 4,310,000 shares were held by Mr. Gong Renyuan and the remaining 2,650,000 shares were held by Ms. Ren Jie, the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan was deemed under the SFO to be interested in the 2,650,000 shares held by Ms. Ren Jie.

3. Among the 12,400,000 shares which may be issued upon the exercise of the share options, 10,750,000 shares represented the shares which may be issued upon the exercise of the share options granted to Mr. Gong Renyuan and the remaining 1,650,000 shares represented the shares which may be issued upon the exercise of the share options granted to Ms. Ren Jie, being the spouse of Mr. Gong Renyuan. Mr. Gong Renyuan was deemed under the SFO to be interested in the 1,650,000 shares which may be issued upon the exercise of the share options granted to Ms. Ren Jie.

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

5. There were 1,617,934,500 shares in issue as at 31 December 2018.

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

None of the Directors or the chief executives of the Company had short positions in the shares, underlying shares and debentures of the Company or its associated corporations as at 31 December 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year of 2018 and up to the date of this annual report were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was any member of the Group a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2018, to the best knowledge of the Directors, the records of interests (being 5% or more of the issued share capital of the Company, other than the Directors or the chief executive of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

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

Name of substantial Shareholder	Nature of interest	Total number of shares held	Approximate percentage of interests in the Company *(Note 8)*
Max Vision Holdings Limited	Beneficial owner	338,328,347 *(Note 1)*	20.91%
Jiekun Limited	Interest in controlled corporation	338,328,347 *(Note 1)*	20.91%
BNP Paribas Corporate Service Pte Ltd.	Interest in controlled corporation	338,328,347 *(Note 1)*	20.91%
BNP Paribas Singapore Trust Corporation Limited	Interest in controlled corporation	338,328,347 *(Note 1)*	20.91%
Meng Fankun	Interest of spouse	381,958,347 *(Notes 1 and 2)*	23.61%
China High-Tech Holding Company Ltd.	Beneficial owner	300,000,000 *(Note 3)*	18.54%
China High-Tech Group Corporation	Interest in controlled corporation	300,000,000 *(Note 4)*	18.54%
Guojing Capital Limited（國晶資本有限公司）	Beneficial owner	200,000,000 *(Note 5)*	12.36%
China Venture Capital Fund Corporation Ltd.（中國國有資本風險投資基金股份有限公司）	Interest in controlled corporation	200,000,000 *(Note 5)*	12.36%
China Reform Venture Capital Investment Management (Shenzhen) Ltd.（國新（深圳）投資有限公司）	Interest in controlled corporation	200,000,000 *(Note 6)*	12.36%
China Reform Holdings Corporation Ltd.（中國國新控股有限責任公司）	Interest in controlled corporation	200,000,000 *(Note7)*	12.36%

Notes:

1. As at 31 December 2018, Max Vision Holdings Limited was wholly owned by Jiekun Limited, which was wholly owned by BNP Paribas Corporate Services Pte Ltd.. As at 31 December 2018, BNP Paribas Corporate Services Pte Ltd. was wholly owned by BNP Paribas Singapore Trust Corporation Limited, which was the trustee of a private trust of which Mr. Xiang Jie was the settlor and his family members were the beneficiaries. As such, Jiekun Limited, BNP Paribas Corporate Service Pte Ltd. and BNP Paribas Singapore Trust Corporation Limited were deemed under the SFO to be interested in the 338,328,347 shares held by Max Vision Holdings Limited.

2. Ms. Meng Fankun, being the spouse of Mr. Xiang Jie, was deemed under the SFO to be interested in the 381,938,347 shares in which Mr. Xiang Jie was interested.

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

4. As at 31 December 2018, China Hi-Tech Holding Company Limited was wholly owned by China Hi-Tech Group Corporation. As such, China Hi-Tech Group Corporation was deemed under the SFO to be interested in the 300,000,000 shares in which China Hi-Tech Holding Company Limited was interested.

5. On 21 July 2017, the Company entered into the subscription agreement with China Venture Capital Fund Corporation Ltd., a total of 200,000,000 subscription shares have been allotted and issued by the Company under the subscription. On 6 December 2017, China Venture Capital Fund Corporation Ltd. procured its nominee, being Guojing Capital Limited, to subscribe for the 200,000,000 subscription shares. For details, please refer to the announcements of the Company dated 21 July 2017 and 6 December 2017, respectively. As at 31 December 2018, Guojing Capital Limited was wholly owned by China Venture Capital Fund Corporation Ltd.. As such, China Venture Capital Fund Corporation Ltd. is deemed to be interested in the 200,000,000 shares held by Guojing Capital Limited.

6. As at 31 December 2018, China Reform Venture Capital Investment Management (Shenzhen) Ltd. held approximately 35.29% equity interests in China Venture Capital Fund Corporation Ltd.. As such, China Reform Venture Capital Investment Management (Shenzhen) Ltd. was deemed under the SFO to be interested in the 200,000,000 shares held indirectly by China Venture Capital Fund Corporation Ltd.

7. As at 31 December 2018, China Reform Holdings Corporation Ltd. held 100% equity interest in China Reform Venture Capital Investment Management (Shenzhen) Ltd. As such, China Reform Holdings Corporation Ltd. was deemed under the SFO to be interested in the 200,000,000 shares held indirectly by China Reform Venture Capital Investment Management (Shenzhen) Ltd.

8. There were 1,617,934,500 shares in issue as at 31 December 2018.

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

Save as disclosed above, as at 31 December 2018, the Company had not been notified of any interest or short position in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company under section 336 of the SFO.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the single largest Shareholders, being Mr. Xiang Jie and Max Vision Holdings Limited, in respect of their compliance with the non-competition undertaking. The independent non-executive Directors have reviewed the aforesaid undertaking and are of the view that Mr. Xiang Jie and Max Vision Holdings Limited had complied with the non-competition undertaking during the year of 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were 1,617,934,500 shares of the Company in issue as at 31 December 2018.

During the year ended 31 December 2018, the Company purchased 5,382,000 shares of the Company at an aggregate purchase price before expenses of HK$6,920,320 on the Stock Exchange. Details of the purchase of such shares were as follows:

Month of purchase	Number of shares purchased	Price per share Highest (HK$)	Price per share Lowest (HK$)	Aggregate purchase price (HK$)
February	1,418,000	1.59	1.52	2,211,920.00
December	3,964,000	1.27	1.07	4,708,400.00

The 1,418,000 shares purchased in February 2018 were cancelled during the year under review, while the 3,964,000 shares purchased in December 2018 were cancelled in January 2019.

The aforementioned purchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the market price per share and to improving the confidence of investors in the Company. Save as disclosed, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

PRE-EMPTIVE RIGHTS

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Company are set out in note 36 to the consolidated financial statements.

HUMAN RESOURCES

As at 31 December 2018, the Group employed 636 employees. Key components of the Group's remuneration packages included basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The Group conducts periodic reviews on the performance of our employees and their salaries and bonuses are performance-based. The Group did not experience any significant problem with our employees or disruptions to our operations due to labour disputes, nor did the Group experience any difficulty in the recruitment and retention of experienced employees. The Group continues to maintain a good relationship with our employees.

FOREIGN CURRENCY EXPOSURE

Details of the foreign currency exposure for the year ended 31 December 2018 are set out on page 117 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

SHARE CAPITAL

Details of the movements in the share capital of the Company for the year of 2018 are set out in note 28 to the consolidated financial statements.

DONATIONS

For the year ended 31 December 2018, the Group had made charitable donation amounted to RMB70,000 (31 December 2017: RMB275,940).

MAJOR SUPPLIERS AND CUSTOMERS

In the year of 2018, the Group's five largest suppliers accounted for approximately 67.9% (2017: 39.3%) of the Group's total purchases. The Group's largest supplier accounted for approximately 61.0% (2017: 16.8%) of the Group's total purchases.

In the year of 2018, the Group's sales to its five largest customers accounted for approximately 57.56% (2017: 41.4%) of the Group's total sales. The Group's largest customer accounted for approximately 29.11% (2017: 13.2%) of the Group's total sales.

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

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as disclosed in the section headed "Share Capital and Share Option Scheme" of this Report of the Directors, the Company has not entered into any equity-linked agreement for the year ended 31 December 2018.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

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

The audit committee has reviewed with the management of the Group the accounting principles and practices adopted by the Group and discussed the auditing, internal control and financial reporting matters, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2018. The consolidated financial statements for the year ended 31 December 2018 have been audited by the Company's external auditors, Ernst & Young.

CORPORATE GOVERNANCE

The Company has published its corporate governance report, which is set out from pages 18 to 26 in this annual report.

ENVIRONMENT POLICIES AND PERFORMANCE

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

COMPLIANCE WITH LAWS AND REGULATIONS

Established in the Cayman Islands, the Company operates its principle business in China, whereas its shares are listed on the Stock Exchange. Accordingly, our establishment and operations shall be subject to the relevant laws of the Cayman Islands, China and Hong Kong. During the year ended 31 December 2018 and as of the date of this annual report, we were in compliance with the relevant laws and regulations of the Cayman Islands, China and Hong Kong.

CLOSURE OF REGISTER

In order to establish the identity of the Shareholders who are entitled to attend and vote at the annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Wednesday, 15 May 2019. The register of members of the Company will be closed from Thursday, 16 May 2019 to Tuesday, 21 May 2019, both days inclusive, during which period no transfer of shares will be registered.

In order to establish the identity of the Shareholders who are entitled to the proposed final dividend, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Monday, 3 June 2019. The register of members of the Company will be closed from Tuesday, 4 June 2019 to Thursday, 6 June 2019, both days inclusive, during which period no transfer of shares will be registered. Subject to Shareholders' approval of the proposed final dividend at the annual general meeting to be held on Tuesday, 21 May 2019, the final dividend will be paid on or around Thursday, 20 June 2019 to Shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 6 June 2019.

AUDITOR

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

PROSPECTS

Looking forward, China's electric power industry will continue to work toward the "replacement of other energy with clean energy" (清潔替代) and "replacement of other energy with electricity" (電能替代). It will expedite the adjustment of its energy infrastructure and the reform of energy technology. As a focus of the development and application of emerging power technologies, power electronics technology is gaining more attention and application in all power system sectors. The rapid enhancement of the scale of new energy generation and electricity consumption, power transmission and distribution technology, power electronics technology and industry as represented by UHVDC transmission, flexible direct current transmission, and intelligent grids, will usher in a long-term phase of rapid development. Fast development of electric energy consumption scale and electric energy application technologies in the electrified rail transportation, new energy vehicle, electrified vessel and defence sectors will also create unprecedented development opportunities for power electronics technologies and the industry.

As an industry leading supplier of power electronic devices and system solutions, the Group will continue to adhere to its business strategy of regarding technological leadership as the core of its competitiveness. Through independent R&D, we are continually introducing high-end devices, innovative technologies and solutions that promote the advance of energy technology and spur the rapid growth of corporate benefits.

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

OPINION

We have audited the consolidated financial statements of Sun.King Power Electronics Group Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 50 to 121, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and trademark	
Management performs impairment testing annually for the cash-generating unit (the "CGU") to which the goodwill and trademark were allocated. Management has engaged independent professionally qualified valuer (the "external valuer") for the calculation of the CGU's recoverable value based on the forecasted cash flows prepared by management. The calculation of the CGU's recoverable value is complex and involves significant management's judgement and estimation, such as the forecasted cash flows, revenue growth rates and discount rates, which are sensitive to expected future market conditions and the CGU's actual performance.	Our audit procedures included the evaluation of key assumptions including those related to the growth rates of revenue, gross profit margin and discount rates applied. We also took into account of the key assumptions by benchmarking to the external industry information. We evaluated the objectivity, independence and competence of the external valuer. In performing our audit procedures, we involved our internal valuation specialists to assess the assumptions applied by benchmarking against independent data.

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

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and trademark (continued)	
Related disclosures are included in notes 15 and 16 to the financial statements.	We considered the historical financial performance of the business units and compared with the original forecasts to evaluate the accuracy of management's budgeting process. We also assessed the adequacy of the disclosure in relation to the Group's goodwill and trademark impairment test.
Recoverability of trade receivables	
Trade receivables constituted a significant portion of total assets as at 31 December 2018 and the Group was exposed to credit risks thereof. The Group recognises an allowance based on the expected credit loss ("ECL") approach under IFRS 9 Financial Instruments. The measurement of ECL requires the application of significant judgement and estimate, such as the expected future cash flows and forward-looking factors specific to the debtors and the economic environment. Relevant disclosures are included in note 20 to the financial statements.	Our audit procedures included the assessment of the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimate of expected credit losses. We assessed, on a sample basis, whether items in the trade receivables ageing report were classified within the appropriate ageing bracket. We assessed the management's expected credit loss allowance by examining the information used by management to form such judgement and estimate, including checking the accuracy of the historical default information, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information. We also evaluated the Group's provision for trade receivables by reference to the Group's subsequent collection of the trade receivables. We also assessed the adequacy of the disclosure in relation to the Group's recoverability of trade receivables.
Provision for inventories	
Inventories contributed a significant portion of total assets as at 31 December 2018 and the Group was exposed to inventory obsolete and excess risks as a result of the technology innovation. The determination of provision is accordingly complex because it depends on the future net recoverable amounts. The determination of the future recoverable amounts involves significant management judgements and estimates of the market condition, future sales and inventory liquidation plans and so on. Relevant disclosures are included in note 19 to the financial statements.	Our audit procedures included the understanding of the Group's accounting policy of provision for inventories. We performed stock count to observe the physical conditions of inventories. We performed the ageing analysis and considered the inventories' usage and sales as well as turnover days during the year. We also re-calculated the impairment amounts of the inventories based on management's methodology at year end.

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

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

- 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Kwok Yin.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
13 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	**2018 RMB'000**	2017 RMB'000
REVENUE	*5*	**1,290,490**	1,155,400
Cost of sales		**(855,128)**	(692,248)
Gross profit		**435,362**	463,152
Other income and gains	*5*	**41,396**	37,113
Selling and distribution expenses		**(72,630)**	(82,284)
Administrative expenses		**(83,624)**	(87,481)
Research and development costs		**(53,718)**	(44,358)
Other expenses		**(6,514)**	(20,527)
Finance costs	*7*	**(16,474)**	(17,837)
Share of profits and losses of:			
A joint venture		**(26)**	(28)
Associates		**1,490**	2,204
PROFIT BEFORE TAX	*6*	**245,262**	249,954
Income tax expense	*10*	**(35,107)**	(46,213)
PROFIT FOR THE YEAR		**210,155**	203,741
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**544**	(262)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**544**	(262)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**210,699**	203,479
Profit attributable to:			
Owners of the parent		**183,301**	194,887
Non-controlling interests		**26,854**	8,854
		210,155	203,741
Total comprehensive income attributable to:			
Owners of the parent		**183,655**	194,717
Non-controlling interests		**27,044**	8,762
		210,699	203,479
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*12*		
Basic		**RMB11.34 cents**	RMB13.77 cents
Diluted		**RMB11.21 cents**	RMB13.41 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018 RMB'000**	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**318,924**	323,581
Prepaid land lease payments	*14*	**35,409**	36,361
Deposits for purchase of items of property, plant and equipment		**8,795**	1,703
Goodwill	*15*	**41,037**	41,037
Other intangible assets	*16*	**40,844**	34,897
Club memberships		**1,554**	1,554
Investment in a joint venture	*17*	**15,566**	15,592
Investments in associates	*18*	**36,490**	27,000
Trade receivables	*20*	**745**	104,155
Contract assets	*20*	**37,535**	–
Deferred tax assets	*27*	**5,889**	11,430
Total non-current assets		**542,788**	597,310
CURRENT ASSETS			
Inventories	*19*	**154,343**	186,255
Trade and bills receivables	*20*	**859,768**	879,304
Contract assets	*20*	**86,067**	–
Prepayments, deposits and other receivables	*21*	**43,076**	67,671
Prepaid land lease payments	*14*	**952**	952
Derivative financial instruments	*25*	**218**	–
Pledged deposits	*22*	**35,040**	27,517
Cash and cash equivalents	*22*	**766,891**	513,015
Total current assets		**1,946,355**	1,674,714
CURRENT LIABILITIES			
Trade and bills payables	*23*	**285,646**	238,845
Other payables and accruals	*24*	**58,867**	117,445
Contract liabilities	*24*	**52,283**	–
Derivative financial instruments	*25*	**9,615**	130
Interest-bearing bank borrowings	*26*	**360,354**	327,184
Tax payable		**42,682**	45,353
Total current liabilities		**809,447**	728,957
NET CURRENT ASSETS		**1,136,908**	945,757
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,679,696**	1,543,067

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018 RMB'000**	2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,679,696**	1,543,067
NON-CURRENT LIABILITIES			
Deferred income		**4,422**	12,659
Deferred tax liabilities	*27*	**6,076**	9,255
Total non-current liabilities		**10,498**	21,914
Net assets		**1,669,198**	1,521,153
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*28*	**138,637**	137,476
Treasury shares	*28*	**(4,135)**	(8,773)
Reserves	*30*	**1,429,062**	1,313,372
		1,563,564	1,442,075
Non-controlling interests		**105,634**	79,078
Total equity		**1,669,198**	1,521,153

Xiang Jie
Director

Yue Zhoumin
Director

		Attributable to owners of the parent											
	Notes	Issued capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Employee share-based compensation reserve RMB'000 (note a)	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000 (note b)	Other reserve RMB'000 (note c)	Retained profits RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017		119,283	-	418,092	31,479	288	14,765	244,978	175,635	(16)	1,004,504	24,622	1,029,126
Profit for the year		-	-	-	-	-	-	-	194,887	-	194,887	8,854	203,741
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	(170)	(170)	(92)	(262)
Total comprehensive income for the year		-	-	-	-	-	-	-	194,887	(170)	194,717	8,762	203,479
Changes in the ownership interests in subsidiaries		-	-	-	-	-	-	(4,347)	-	-	(4,347)	4,347	-
Capital injection from non-controlling shareholders		-	-	-	-	-	-	(1,347)	-	-	(1,347)	41,347	40,000
Exercise of share options		1,671	-	14,354	(4,789)	-	-	-	-	-	11,236	-	11,236
Share-based payments	29	-	-	-	3,702	-	-	-	-	-	3,702	-	3,702
Transfer from retained profits	30	-	-	-	-	-	-	36,533	(36,533)	-	-	-	-
Final 2016 dividends		-	-	(18,214)	-	-	-	-	-	-	(18,214)	-	(18,214)
Interim 2017 dividends	11	-	-	-	-	-	-	-	(23,868)	-	(23,868)	-	(23,868)
Issue of shares	28	16,918	-	274,072	-	-	-	-	-	-	290,990	-	290,990
Shares repurchased and cancelled	28	(396)	(8,773)	(6,129)	-	396	-	-	(396)	-	(15,298)	-	(15,298)
At 31 December 2017 and at 1 January 2018		**137,476**	**(8,773)**	**682,175***	**30,392***	**684***	**14,765***	**275,817***	**309,725***	**(186)***	**1,442,075**	**79,078**	**1,521,153**
Profit for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**183,301**	**-**	**183,301**	**26,854**	**210,155**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**354**	**354**	**190**	**544**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**183,301**	**354**	**183,655**	**27,044**	**210,699**
Acquisition of additional interest in a subsidiary		**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**-**	**-**	**(12)**	**(488)**	**(500)**
Exercise of share options	28	**1,783**	**-**	**12,932**	**(4,125)**	**-**	**-**	**-**	**-**	**-**	**10,590**	**-**	**10,590**
Share-based payments	29	**-**	**-**	**-**	**1,448**	**-**	**-**	**-**	**-**	**-**	**1,448**	**-**	**1,448**
Transfer from retained profits	30	**-**	**-**	**-**	**-**	**-**	**-**	**13,693**	**(13,693)**	**-**	**-**	**-**	**-**
Final 2017 dividends		**-**	**-**	**(39,710)**	**-**	**-**	**-**	**-**	**-**	**-**	**(39,710)**	**-**	**(39,710)**
Interim 2018 dividends	11	**-**	**-**	**(28,557)**	**-**	**-**	**-**	**-**	**-**	**-**	**(28,557)**	**-**	**(28,557)**
Shares repurchased and cancelled	28	**(622)**	**4,638**	**(9,941)**	**-**	**622**	**-**	**-**	**(622)**	**-**	**(5,925)**	**-**	**(5,925)**
At 31 December 2018		**138,637**	**(4,135)**	**616,899***	**27,715***	**1,306***	**14,765***	**289,498***	**478,711***	**168***	**1,563,564**	**105,634**	**1,669,198**

Notes:

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

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

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

* *These reserve accounts comprise the consolidated reserves of RMB1,429,062,000 (2017: RMB1,313,372,000) in the consolidated statement of financial position.*

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**245,262**	249,954
Adjustments for:			
Finance costs	*7*	**16,474**	17,837
Share of profits of a joint venture and associates		**(1,464)**	(2,176)
Interest income	*5*	**(8,932)**	(1,804)
Gain on disposal of items of property, plant and equipment and prepaid land lease payments	*5*	**(13,428)**	(15,420)
Gain on disposal of available-for-sale investments	*5*	**–**	(802)
Depreciation	*6*	**21,273**	22,057
Amortisation of other intangible assets	*6*	**2,569**	2,558
Impairment of trade receivables and contract assets, net	*6*	**(1,066)**	8,762
Impairment of financial assets included in prepayments, deposits and other receivables, net	*6*	**(212)**	(893)
Fair value loss/(gain) on foreign currency forward contracts, net	*5,6*	**(1,099)**	2,285
Amortisation of prepaid land lease payments	*6*	**952**	1,328
Amortisation of deferred income		**(5,170)**	(4,767)
Write-down of inventories to net realisable value	*6*	**2,555**	1,599
Impairment of an available-for-sale investment	*6*	**–**	6,000
Share-based payment expense	*6*	**1,448**	3,702
		259,162	290,220
Decrease in inventories		**29,356**	64,448
Decrease/(increase) in trade and bills receivables and contract assets		**5,919**	(166,663)
Decrease in prepayments, deposits and other receivables		**24,808**	45,111
Decrease/(increase) in pledged deposits		**(7,523)**	5,239
Increase in trade and bills payables		**46,802**	2,258
Increase/(decrease) in other payables and accruals and contract liabilities		**6,199**	(32,100)
Increase/(decrease)in derivative financial instruments		**10,366**	(1,366)
Cash generated from operations		**375,089**	207,147
Interest paid		**(16,515)**	(18,216)
Income taxes paid		**(35,503)**	(33,081)
Effect of foreign exchange rate changes, net		**(81)**	(39)
Net cash flows from operating activities		**322,990**	155,811

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Net cash flows from operating activities		**322,990**	155,811
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**3,423**	1,804
Purchases of items of property, plant and equipment		**(17,502)**	(29,551)
Proceeds from disposal of items of property, plant and equipment		**995**	2,414
Increase in deposits for purchase of items of property, plant and equipment		**(7,092)**	(1,403)
Acquisition of a subsidiary		**–**	(9,155)
Receipt of government grants for property, plant and equipment		**–**	4,620
Additions to other intangible assets		**(7,920)**	(1,395)
Investment in associates		**(8,000)**	–
Net cash flows used in investing activities		**(36,096)**	(32,666)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options	*28*	**10,590**	11,236
New bank loans		**525,192**	634,319
Repayment of bank loans		**(492,022)**	(634,492)
Repurchase of own shares		**(8,113)**	(13,109)
Issue of shares		**–**	290,990
Acquisition of additional interest in a subsidiary		**(500)**	–
Capital injection from non-controlling shareholders		**–**	40,000
Dividends paid		**(68,267)**	(42,082)
Net cash flows from/(used in) financing activities		**(33,120)**	286,862
NET INCREASE IN CASH AND CASH EQUIVALENTS		**253,774**	410,007
Cash and cash equivalents at beginning of year		**513,015**	103,023
Effect of foreign exchange rate changes, net		**102**	(15)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**766,891**	513,015
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*22*	**766,891**	513,015

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued and paid-up capital	Percentage of equity attributable to the Company	Principal activities
Sunking Pacific Limited 賽晶亞太有限公司	Hong Kong	HK$1	100%	Investment holding
Jiashan Sunking Power Equipment Technology Co., Ltd.* 嘉善華瑞賽晶電氣設備科技有限公司	The PRC/ Mainland China	US$76,500,000	100%	Sale, research and development, after sales service and production of electrical/ electronic components and installation, including integrated gate bipolar transistors
Wuxi Sunking Power Capacitor Co., Ltd.* 無錫賽晶電力電容器有限公司	The PRC/ Mainland China	US$34,000,030	100%	Production of electrical capacitors and complete devices, amorphous alloy transformers, DC current anode saturable dry-type reactors, and FM voltage AC traction devices; trading agent of various products and technologies
Jiujiang Sun.king Technology Co., Ltd.** 九江賽晶科技股份有限公司	The PRC/ Mainland China	RMB100,000,000	62.25%	Manufacture and sale of rectifiers
Beijing Sunking Power Electronic Technology Co., Ltd.* 北京賽晶電力電子科技有限公司	The PRC/ Mainland China	RMB5,000,000	100%	Technology research for electronic power device railway equipment, sale and distribution of power electronic components, import and export of goods and technologies
Astrol Electronic AG	Switzerland	CHF100,000	65%	Manufacture and sale of pulsed power equipment, insulated gate bipolar transistor gate units, and other electronic parts

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

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

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

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

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Other than as explained below regarding the impact of IFRS 9 and IFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

IFRS 9 Financial Instruments replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has chosen to recognise any transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39. The Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The impacts related to the classification and measurement and the impairment requirements are summarised as follows:

(a) Classification and measurement

The adoption of IFRS 9 has no significant impact on the classification and measurement of the Group's financial assets and financial liabilities, except for bills receivable which are measured at fair value through other comprehensive income under IFRS 9. Bills receivable were classified as loans and receivables under IAS 39 and their carrying amounts approximate to their fair value as at 1 January 2018. The Group continues measuring at fair value all financial assets and liabilities then held at fair value as at 1 January 2018. The carrying amounts for all financial assets and financial liabilities as at 1 January 2018 have not been impacted by the initial application of IFRS 9.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group applied the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables and contract assets. Furthermore, the Group applied the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. The Group concluded IFRS 9 has no significant impact on the impairment assessment of its financial assets and no transition adjustment against the opening balance in equity at 1 January 2018 was made.

IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5, note 20 and note 24 to the financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018. The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations. The Group concluded other than more presentation and disclosure requirements such as the disclosure of disaggregated revenue information and the reclassification of contract liabilities from other payables, there is no change in the timing of revenue recognition, i.e. the Group continues to recognize revenue at a point in time when the goods are delivered. As such, no adjustment was required to the Group's retained earnings as at 1 January 2018. A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration from the customer. In this regards, cash or bank acceptance notes collected from certain customers before product delivery which was recognised as receipt in advance before 1 January 2018, is recognised as contract liabilities since 1 January 2018.

Generally, the Group's trading terms with its customers are mainly on credit. The credit period is generally one month, extending up to three months for major customers. For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis, subsequent to the fulfilment of certain conditions including normal operation of the product within warranty period as stipulated in the respective sales contracts. For those contracts with customer which have payment terms of retention money, the Group concluded that they contain a significant financing component because of the length of time between when the customer pays for the goods and when the Group transfers goods to the customer, as well as the prevailing interest rates in the market. The transaction price for such contracts was determined by discounting the amount of promised consideration using the appropriate discount rate since adoption of IFRS15 and the income arising from the financing component of those sales contracts was recorded as interest income. For the year ended 31 December 2018, RMB5,509,000 of such interest income was recognised and recorded as other income and gains. Before adoption of IFRS15 the transaction price for such contracts was also determined by discounting the amount of promised consideration and the income arising from the financing component of those sales contracts was recorded as revenue. For above-mentioned retention money, since 1 January 2018 contract assets are recognised for revenue earned from the sale of products as the receipt of consideration is conditional on the successful expiry of product warranty period.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

IFRS 16, replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB14,227,000 and lease liabilities of RMB14,227,000 will be recognised at 1 January 2019.

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

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in associates and joint ventures *(continued)*

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

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

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Business combinations and goodwill *(continued)*

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

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

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

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

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

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

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

Buildings	1.9% to 19.0%
Leasehold improvements	Over the shorter of the lease term and 20.0%
Plant and machinery	4.8% to 31.7%
Furniture and fixtures	9.0% to 64.7%
Motor vehicles	10.0% to 24.0%

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

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

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

Intangible assets (other than goodwill)

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

Trademarks

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

Research and development costs

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

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

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

Operating leases

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

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

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(continued)*

Initial recognition and measurement *(continued)*

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) *(continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) *(continued)*

Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses and losses in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

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

Loans and receivables

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

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018) *(continued)*

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are past due for a long period of time. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contains a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

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

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

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) *(continued)*

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018)

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

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

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

Loans and borrowings

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

Derivative financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

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

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

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

Treasury shares

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

Inventories

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

Cash and cash equivalents

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents *(continued)*

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

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

Government grants

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

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

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018) *(continued)*

Sale of power electronic components

Revenue from the sale of power electronic components is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products. For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis. For those contracts with customer which have payment terms of retention money, the Group concluded that they contain a significant financing component because of the length of time between when the customer pays for the goods and when the Group transfers goods to the customer, as well as the prevailing interest rates in the market. The transaction price for such contracts was determined by discounting the amount of promised consideration using the appropriate discount rate.

Other income

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

Revenue recognition (applicable before 1 January 2018)

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

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

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

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

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 29 to the financial statements.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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

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

Pension schemes

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

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

Borrowing costs

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

Dividends

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

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

Foreign currencies

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

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

Revenue from contracts with customers

The Group applies the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

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

Judgement *(continued)*

Retention money receivable from customers

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

Withholding tax arising from the distribution of dividends

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB41,037,000 (2017: RMB41,037,000). Further details are given in note 15.

Provision for expected credit losses on trade receivables and contract assets (applicable from 1 January 2018)

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customers with similar loss patterns (i.e., by customer type and rating, and coverage by letters of credit or other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 20 to the financial statements.

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

Estimation uncertainty *(continued)*

Impairment of receivables (applicable before 1 January 2018)

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

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount involves management's judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will impact the carrying value of the inventories and the write-down charge/reversal in the period in which the estimate has been changed. At 31 December 2018, the carrying amount of inventories was RMB154,343,000 (2017: RMB186,255,000).

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets (2017: Nil) relating to tax losses were recognised at 31 December 2018. The amount of unrecognised tax losses at 31 December 2018 was RMB39,770,000 (2017: RMB59,106,000). Further details are contained in note 27 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has one reportable operating segment which is principally engaged in the manufacturing and trading of power electronic components. All of Group's operating results from the operations are generated from this single segment. Management monitors the results of Group's operation as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographical information

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

Information about major customers

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

In 2018, revenue of approximately RMB351,416,000 was derived from sales by the only reportable segment to customer A; revenue of approximately RMB169,739,000 was derived from sales by the only reportable segment to customer B.

In 2017, revenue of approximately RMB149,600,000 was derived from sales by the only reportable segment to customer C.

5. REVENUE, OTHER INCOME AND GAINS

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

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Power transmission and distribution	**735,503**	691,399
Industrial and others	**463,669**	420,298
Electrified transportation	**91,318**	43,703
Total revenue from contracts with customers	**1,290,490**	1,155,400

Almost all of the Group's revenue from contracts with customers is related to sales of goods in Mainland China, and all the revenue is recognised at a point in time when goods are delivered.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sale of goods	**44,755**

The Group has selected to choose a practical expedient and omit disclosure of the remaining performance obligations as all related contracts have a duration of one year or less.

	2018 RMB'000	2017 RMB'000
Other income		
Government grants*	**15,973**	12,250
Bank interest income	**3,423**	1,804
Interest income arising from revenue contracts	**5,509**	–
Sale of scrap materials	**–**	4,036
Reversal of impairment of trade receivables and contract assets	**1,066**	–
Reversal of impairment of financial assets included in prepayments, and other receivables	**212**	–
Others	**686**	2,801
	26,869	20,891
Gains		
Gain on disposal of items of property, plant and equipment, net	**13,428**	15,420
Fair value gains on foreign currency forward contracts, net	**1,099**	–
Gain on disposal of available-for-sale investments	**–**	802
	14,527	16,222
	41,396	37,113

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

6. PROFIT BEFORE TAX

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

	Notes	**2018 RMB'000**	2017 RMB'000
Cost of inventories sold		**852,573**	690,649
Write-down of inventories to net realisable value		**2,555**	1,599
Cost of sales		**855,128**	692,248
Auditor's remuneration		**1,800**	1,750
Depreciation	*13*	**21,273**	22,057
Amortisation of other intangible assets	*16*	**2,569**	2,558
Amortisation of land lease payments	*14*	**952**	1,328
Minimum lease payments under operating leases		**2,718**	3,170
Impairment of trade receivables and contract assets, net	*20*	**(1,066)**	8,762
Impairment of financial assets included in prepayments, deposits and other receivables, net	*21*	**(212)**	(893)
Foreign exchange differences, net*		**2,081**	4,374
Impairment of an available-for-sale investment		**–**	6,000
Fair value loss/(gain) loss on foreign currency forward contracts, net		**(1,099)**	2,285
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**44,143**	36,869
Share-based payment expense		**1,448**	3,702
Pension scheme contributions**		**7,696**	8,029
		53,287	48,600

* *Foreign exchange differences for the year are included in "Other expenses" in the consolidated statement of profit or loss.*

** *At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank loans	**16,474**	17,837

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2018 **RMB'000**	2017 RMB'000
Fees	**874**	855
Other emoluments:		
Salaries, allowances and benefits in kind	**1,799**	1,770
Share-based payment expense	**566**	1,581
Pension scheme contributions	**119**	104
	2,484	3,455
	3,358	4,310

In prior years, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 29 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

	2018 **RMB'000**	2017 RMB'000
Mr. Wang Yi*	**–**	38
Mr. Chen Shimin	**154**	151
Mr. Zhang Xuejun	**154**	151
Mr. Leung Ming Shu*	**154**	112
Mr. Zhao Hang**	**154**	151
	616	603

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

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

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Fees RMB'000	**Salaries, allowances and benefits in kind RMB'000**	**Share-based payment expense RMB'000**	**Pension scheme contributions RMB'000**	**Total remuneration RMB'000**
2018					
Executive directors:					
Mr. Xiang Jie	**86**	**779**	**354**	**15**	**1,234**
Mr. Gong Renyuan*	**86**	**600**	**177**	**53**	**916**
Mr. Yue Zhoumin	**86**	**420**	**35**	**51**	**592**
	258	**1,799**	**566**	**119**	**2,742**
Non-executive directors:					
Mr. Yan Fuquan**	**–**	**–**	**–**	**–**	**–**
Mr. Zhu Ming**	**–**	**–**	**–**	**–**	**–**
Ms. Zhang Ling**	**–**	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**	**–**
	258	**1,799**	**566**	**119**	**2,742**

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

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

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors which included the chief executive (2017: three directors which included the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2017: two) highest paid employees who are neither directors nor chief executive of the Company are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries, allowances and benefits in kind	**2,537**	2,109
Share-based payment expense	**180**	165
Pension scheme contributions	**954**	892
	3,671	3,166

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

	Number of employees	
	2018	2017
RMB500,000 to RMB1,000,000	**1**	–
RMB1,000,001 to RMB1,500,000	**2**	2
	3	2

In prior years, share options were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 29 to the financial statements. The fair value of these options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

Certain subsidiaries of the Group are qualified as high technology enterprises and hence are granted a preferential CIT rate of 15%. Tax holidays were also granted by the relevant authorities to a subsidiary of the Group, where CIT is exempted for the first two profitable years of the subsidiary and is chargeable at half of the applicable rate for the subsequent three years.

10. INCOME TAX *(continued)*

	2018 RMB'000	2017 RMB'000
Current – Hong Kong		
Charge for the year	**316**	81
Current – Elsewhere		
Charge for the year	**34,054**	54,452
Overprovision in prior years	**(1,538)**	(1,833)
Deferred (note 27)	**2,275**	(6,487)
Total tax charge for the year	**35,107**	46,213

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

2018

	Hong Kong		Switzerland		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	12,374		(1,215)		234,103		245,262	
Tax at the statutory tax rate	2,042	16.5	(218)	18.0	58,526	25.0	60,350	24.6
Lower tax rates for specific provinces or enacted by local authority	(165)	(1.3)	–	–	(25,044)	(10.7)	(25,209)	(10.3)
Losses attributable to a joint venture	–	–	–	–	7	–	7	–
Profits attributable to associates	–	–	–	–	(373)	(0.2)	(373)	(0.2)
Income not subject to tax	(3,183)	(25.7)	–	–	(1,094)	(0.5)	(4,277)	(1.7)
Expenses not deductible for tax	1,620	13.1	7	(0.6)	2,741	1.2	4,368	1.8
Tax losses utilised from previous periods	–	–	–	–	(4,062)	(1.7)	(4,062)	(1.7)
Tax losses not recognised	2	–	–	–	5,839	2.5	5,841	2.4
Adjustments in respect of current tax of previous periods	–	–	–	–	(1,538)	(0.7)	(1,538)	(0.6)
Tax charge at the Group's effective rate	316	2.6	(211)	17.4	35,002	15.0	35,107	14.3

10. INCOME TAX *(continued)*

2017

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

The share of tax attributable to an associate amounting to RMB3,878,000 (2017: RMB3,003,000) is included in "share of profits and losses of associates" in the consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Interim – HK2 cents (2017: HK2 cents) per ordinary share	**28,557**	23,868
Proposed final – HK3 cents (2017: HK3 cents) per ordinary share	**42,425**	40,075
Total	**70,982**	63,943

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB183,301,000 (2017: RMB194,887,000), and the weighted average number of ordinary shares of 1,615,736,321 (2017: 1,415,265,653) in issue during the year.

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

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

	2018	2017
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**183,301**	194,887

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,615,736,321**	1,415,265,653
Effect of dilution – weighted average number of ordinary shares:		
Share options	**20,056,763**	38,226,509
	1,635,793,084	1,453,492,162

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improve-ments RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018:							
Cost	277,828	1,567	93,234	25,283	14,013	19,754	431,679
Accumulated depreciation and impairment	(32,636)	(934)	(45,076)	(18,975)	(10,477)	–	(108,098)
Net carrying amount	245,192	633	48,158	6,308	3,536	19,754	323,581
At 1 January 2018, net of accumulated depreciation and impairment	245,192	633	48,158	6,308	3,536	19,754	323,581
Additions	153	–	3,462	1,871	727	11,289	17,502
Disposals	–	–	–	(95)	(63)	(744)	(902)
Depreciation provided during the year	(8,333)	(240)	(9,739)	(1,606)	(1,355)	–	(21,273)
Transfers	2,998	–	14,338	1,919	–	(19,255)	–
Exchange realignment	–	11	–	2	3	–	16
At 31 December 2018, net of accumulated depreciation and impairment	240,010	404	56,219	8,399	2,848	11,044	318,924
At 31 December 2018:							
Cost	280,979	1,588	111,034	28,759	13,988	11,044	447,392
Accumulated depreciation and impairment	(40,969)	(1,184)	(54,815)	(20,360)	(11,140)	–	(128,468)
Net carrying amount	240,010	404	56,219	8,399	2,848	11,044	318,924

13. PROPERTY, PLANT AND EQUIPMENT

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

At 31 December 2018, the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB32,026,000 (2017: RMB34,314,000) were pledged to banks to secure certain bank loans granted to the Group (note 26).

14. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**37,313**	56,477
Recognised during the year	**(952)**	(1,328)
Disposal	**–**	(17,836)
Carrying amount at 31 December	**36,361**	37,313
Current portion	**(952)**	(952)
Non-current portion	**35,409**	36,361

At 31 December 2018, the Group's prepaid land lease payments with an aggregate carrying amount of RMB12,758,000 (2017: RMB13,078,000) were pledged to banks to secure certain bank loans granted to the Group (note 26).

15. GOODWILL

	2018 RMB'000	2017 RMB'000
At 1 January:		
Cost	**47,235**	47,235
Accumulated impairment	**(6,198)**	(6,198)
Net carrying amount	**41,037**	41,037
Cost at 1 January, net of accumulated impairment	**41,037**	41,037
Cost at 31 December, net of accumulated impairment	**41,037**	41,037
At 31 December:		
Cost	**47,235**	47,235
Accumulated impairment	**(6,198)**	(6,198)
Net carrying amount	**41,037**	41,037

15. GOODWILL *(continued)*

Impairment testing of goodwill

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

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

Jiujiang Sunking cash-generating unit

The recoverable amount of Jiujiang Sunking cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15% (2017: 15%). The growth rate used to extrapolate the cash flows of Jiujiang Sunking cash-generating unit beyond the five-year period is 3% (2017: 3%).

Astrol cash-generating unit

The recoverable amount of Astrol cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15% (2017: 16%). The growth rate used to extrapolate the cash flows of Astrol cash-generating unit beyond the five-year period is 3% (2017: 3%).

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

	Jiujiang Sunking		**Astrol**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Carrying amount of goodwill	**34,159**	34,159	**6,878**	6,878	**41,037**	41,037

Assumptions were used in the value in use calculation of Jiujiang Sunking and Astrol cash-generating units for 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

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

16. OTHER INTANGIBLE ASSETS

	Technology know-how RMB'000	Customer relationship RMB'000	Patents RMB'000	R&D capitalised RMB'000	Trademark RMB'000	Computer software RMB'000	Total RMB'000
31 December 2018							
At 31 December 2017 and at 1 January 2018:							
Cost	7,626	7,218	7,748	–	19,185	3,505	45,282
Accumulated amortisation	(1,144)	(1,083)	(5,576)	–	–	(2,582)	(10,385)
Net carrying amount	6,482	6,135	2,172	–	19,185	923	34,897
Cost at 1 January 2018, net of accumulated amortisation	6,482	6,135	2,172	–	19,185	923	34,897
Additions	–	–	2,725	3,101	–	2,151	7,977
Amortisation provided during the year	(778)	(736)	(776)	–	–	(279)	(2,569)
Exchange realignment	248	234	54	–	–	3	539
Cost at 31 December 2018, net of accumulated amortisation	5,952	5,633	4,175	3,101	19,185	2,798	40,844
At 31 December 2018:							
Cost	7,936	7,511	10,528	3,101	19,185	5,658	53,919
Accumulated amortisation	(1,984)	(1,878)	(6,353)	–	–	(2,860)	(13,075)
Net carrying amount	5,952	5,633	4,175	3,101	19,185	2,798	40,844

16. OTHER INTANGIBLE ASSETS *(continued)*

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

17. INVESTMENT IN A JOINT VENTURE

	2018 RMB'000	2017 RMB'000
Share of net assets	**14,866**	14,892
Loans to joint venture	**700**	700
	15,566	15,592

The loans to the joint venture are unsecured, interest-free and repayable on demand. In the opinion of the directors, these loans are unlikely to be repaid in the foreseeable future and are considered as part of the Group's investment in the joint venture.

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

	2018 RMB'000	2017 RMB'000
Share of the joint venture's loss and other comprehensive loss for the year	**26**	28
Aggregate carrying amount of the Group's investment in a joint venture	**15,566**	15,592

18. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	**36,490**	27,000

Particulars of the material associate are as follows:

Name	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activity
Jiashan Henghua Real Estate Co., Ltd. # * ("JS Henghua") 嘉善恒華房地產開發有限公司	The PRC/ Mainland China	49	Property development

Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network

The Group's shareholdings in JS Henghua are held through a wholly-owned subsidiary of the Company.

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

* *For identification purposes only*

18. INVESTMENTS IN ASSOCIATES *(continued)*

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

	2018 RMB'000	2017 RMB'000
Current assets	**55,740**	68,098
Non-current assets	**–**	441
Current liabilities	**(555)**	(14,534)
Net assets	**55,185**	54,005
Reconciliation to the Group's investment in the associate:		
Proportion of the Group's ownership	**49%***	49%*
Group's share of net assets of the associate and carrying amount of the investment	**27,001**	25,672
Revenue	**6,006**	4,886
Profit and total comprehensive income for the year	**3,309**	6,090

* *According to the contract between the Group and JS Henghua, the Group shares 39% of accumulated net profits of JS Henghua after initial investment.*

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

	2018 RMB'000	2017 RMB'000
Share of the associates' profit/(loss) for the year	**199**	(172)
Share of the associates' total comprehensive gain/(loss)	**199**	(172)
Aggregate carrying amount of the Group's investment in the associates	**9,489**	1,328

19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**78,950**	110,539
Work in progress	**46,199**	43,556
Finished goods	**29,194**	32,160
	154,343	186,255

20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS

	2018 RMB'000	2017 RMB'000
Trade receivables	**774,601**	957,562
Impairment	**(44,940)**	(47,546)
	729,661	910,016
Bills receivable	**130,852**	73,443
Less: Amount shown as non-current	**(745)**	(104,155)
	859,768	879,304

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract assets arising from sale of goods	**125,142**	157,418	–
Impairment	**(1,540)**	–	–
	123,602	157,418	–

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

For certain customers, the Group allows a percentage, ranging from 5% to 10%, of the contracted amount (the retention money) to be settled within six months to sixty months, as agreed between the Group and the respective customers on a case by case basis, subsequent to the fulfilment of certain conditions including normal operation of the product within warranty period as stipulated in the respective sales contracts. Contract assets are recognised for revenue earned from the sale of products as the receipt of consideration is conditional on the successful expiry of warranty period. Upon the expiry of the warranty period, the amounts recognised as contracts assets are reclassified to trade receivables. The decrease in contract assets in 2018 was the result of the change in the time frame for a right to consideration to become unconditional (i.e., for contract assets to be reclassified to trade receivables).

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	RMB'000
Within one year	**86,067**
More than one year	**37,535**
Total contract assets	**123,602**

20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS *(continued)*

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

	2018 RMB'000	2017 RMB'000
Within 3 months	**293,650**	381,040
3 to 6 months	**100,754**	192,893
6 to 12 months	**178,315**	280,518
Over 1 year	**156,942**	55,565
	729,661	910,016

At 31 December 2018, the Group's bills receivable would mature within twelve (2017: twelve) months.

The movements in the loss allowance for impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	**47,546**	40,584
Impairment losses, net (note 6)	**(2,606)**	8,762
Amount written off as uncollectible	**–**	(1,800)
At 31 December	**44,940**	47,546

The movements in the loss allowance for impairment of contract assets are as follows:

	2018 RMB'000
At 1 January	**-**
Impairment losses, net (note 6)	**1,540**
At 31 December	**1,540**

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customers with similar loss patterns (i.e., by customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. For trade receivables and contract assets due from some major customers (Tier 1 customers), the Group is of opinion that there will be no expected credit loss on these accounts even though these trade receivables and contract assets are overdue, based on their credit rating, no history of default and other forms of credit insurance on these accounts.

20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS *(continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables and contract assets using a provision matrix:

As at 31 December 2018

		Past due				
	Within credit period	**Less than 1 year**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Gross carrying amount (RMB'000)	**400,013**	**368,363**	**84,989**	**27,149**	**19,229**	**899,743**
Amount from Tier 1 customers (RMB'000)	**23,889**	**62,368**	**28,840**	**5,696**	**–**	**120,793**
Carrying amount without Tier 1 customers (RMB'000)	**376,124**	**305,995**	**56,149**	**21,453**	**19,229**	**778,950**
Expected credit loss rate	**1.20%**	**1.20%**	**13.42%**	**53.69%**	**100.00%**	**5.97%**
Expected credit losses (RMB'000)	**4,534**	**3,665**	**7,534**	**11,518**	**19,229**	**46,480**

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB47,546,000 with a carrying amount before provision of RMB114,466,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in default in principal payments and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	493,593
Less than 6 months past due	268,757
6 to 12 months past due	120,456
1 to 2 years past due	33,733
	916,539

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

20. TRADE AND BILLS RECEIVABLES/CONTRACT ASSETS *(continued)*

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

At 31 December 2018, certain bills receivable of the Group with an aggregate carrying amount of RMB10,548,000 (2017: RMB17,619,000) were pledged to secure certain of the Group's bills payable (note 23).

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Endorsed Bills**") with a carrying amount of RMB28,915,000 (2017: RMB38,917,000) to certain of its suppliers in order to settle the trade payables due to such suppliers (the "**Endorsement**"). In the opinion of the directors of the Company, the Group has retained the substantial risks and rewards, which include default risks relating to the Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the Endorsed Bills, including the sale, transfer or pledge of the Endorsed Bills to any other third parties.

At 31 December 2018, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "**Derecognised Bills**") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB56,193,000 (2017: RMB94,101,000). The Derecognised Bills had a maturity of one to eleven months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepayments	**9,806**	6,109
Deposits and other receivables	**36,687**	65,191
	46,493	71,300
Impairment allowance	**(3,417)**	(3,629)
	43,076	67,671

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

	2018 RMB'000	2017 RMB'000
At 1 January	**3,629**	4,522
Impairment losses, net (note 6)	**(212)**	(893)
At 31 December	**3,417**	3,629

Generally, the Group measure the loss allowance equal to 12-month ECL of deposits and other receivables. For those balances expected to have significant increase in credit risk since initial recognition, the Group apply lifetime ECL based on aging for classes with different credit risk characteristics and exposures. Except for prepayments and other receivables amounting to RMB3,417,000 (2017: RMB3,629,000) included in the above balances, the above assets are neither past due nor impaired. Other than the aforementioned impaired receivables, the financial assets included in the above balances related to receivables for which there was no recent history of default.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**801,931**	540,532
Less: Pledged deposits for letters of credit	**(9,748)**	–
Pledged deposits for purchases of inventories	**(9,259)**	(17,380)
Pledged deposits for bills payable	**(9,899)**	(6,546)
Certificate of deposits	**(6,134)**	(3,591)
	(35,040)	(27,517)
Cash and cash equivalents	**766,891**	513,015

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB468,001,000 (2017: RMB274,413,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE AND BILLS PAYABLES

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

	2018 RMB'000	2017 RMB'000
Within six months	**236,812**	182,649
Over six months	**48,834**	56,196
	285,646	238,845

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

At 31 December 2018, certain of the Group's bills payable amounting to RMB11,430,000 (2017: RMB17,826,000) were secured by the pledge of the Group's bills receivable and cash and cash equivalents amounting to RMB10,548,000 (2017: RMB17,619,000) (note 20) and RMB9,899,000 (2017: RMB6,546,000) (note 22), respectively.

24. OTHER PAYABLES AND ACCRUALS/CONTRACT LIABILITIES

	Notes	**2018 RMB'000**	2017 RMB'000
Contract liabilities	*(a)*	**52,283**	–
Receipt in advance		**–**	58,528
Other payables and accruals	*(b)*	**58,867**	58,917
		111,150	117,445

(a) Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Sale of goods	**52,283**	58,528

Contract liabilities include short-term advances received to deliver power electronic components.

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

	2018 RMB'000	2017 RMB'000
Foreign currency forward contracts		
– assets	**218**	–
– liabilities	**9,615**	130

The Group has entered into various forward foreign currency contracts to manage its exchange rate exposures. These forward foreign currency contracts are not designated for hedging purposes and are measured at fair value through profit or loss. Net fair value gain on these derivatives amounting to RMB1,099,000 (2017: loss of RMB2,285,000) was credited to other income and gains during the year.

26. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	**4.57**	**2019**	**30,000**	4.35	2018	3,000
Bank loans – unsecured	**2.50-5.00**	**2019**	**330,354**	2.15-5.05	2018	324,184
			360,354			327,184
Analysed into:						
Bank loans repayable within one year or on demand			**360,354**			327,184

Notes:

(a) Certain of the Group's bank loans are secured by mortgages over the Group's property, plant and equipment and prepaid land lease payments with aggregate carrying amounts at the end of the reporting period of approximately RMB32,026,000 (2017: RMB34,314,000) and RMB12,758,000 (2017: RMB13,078,000), respectively.

(b) Except for bank loans of RMB17,524,000 in Hong Kong dollars (2017: RMB11,697,000 in Swiss franc and RMB25,830,000 in Hong Kong dollars), all borrowings are denominated in RMB.

27. DEFERRED TAX

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

	Government grants RMB'000	Withholding taxes RMB'000	Provisions RMB'000	Fair value adjustments arising from acquisitions of subsidiaries RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	1,920	(6,000)	6,465	(8,435)	1,694	(4,356)
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(22)	2,000	469	3,136	904	6,487
Exchange differences	–	–	–	44	–	44
Deferred tax assets/(liabilities) at 31 December 2017 and 1 January 2018	**1,898**	**(4,000)**	**6,934**	**(5,255)**	**2,598**	**2,175**
Deferred tax credited/(charged) to profit or loss during the year (note 10)	**(847)**	**–**	**(616)**	**389**	**(1,201)**	**(2,275)**
Exchange differences	**–**	**–**	**–**	**(87)**	**–**	**(87)**
Deferred tax assets/(liabilities) at 31 December 2018	**1,051**	**(4,000)**	**6,318**	**(4,953)**	**1,397**	**(187)**

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

	2018 RMB'000	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**5,889**	11,430
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(6,076)**	(9,255)
	(187)	2,175

27. DEFERRED TAX *(continued)*

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

	2018 **RMB'000**	2017 RMB'000
Tax losses	**39,770**	59,106
Deductible temporary differences	**16,967**	22,624
	56,737	81,730

The Group has tax losses arising in Mainland China of RMB39,770,000 (2017: RMB59,106,000) that are available for offsetting against future taxable profits to a maximum period of five years of the companies in which the losses arose. The Group has no tax losses arising in Hong Kong (2017: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

As at 31 December 2018, an amount of RMB4,000,000 (2017: RMB4,000,000) has been recognised for withholding taxes for the earnings of the PRC subsidiaries to be remitted in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB44,500,000 (2017: RMB17,640,000). In the opinion of the directors, it is not probable that such earnings will be distributed in the foreseeable future.

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

28. SHARE CAPITAL

Shares

	2018 HK$'000	2017 HK$'000
Authorised:		
200,000,000 (2018: 200,000,000) ordinary shares of HK$0.10 each	**200,000**	200,000

	2018		2017	
	HK$'000	**RMB'000 equivalent**	HK$'000	RMB'000 equivalent
Issued and fully paid:				
1,617,934,500 (2017: 1,603,875,000) ordinary shares of HK$0.10 each	**161,793**	**138,637**	160,388	137,476

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

	Number of shares in issue	**Issued capital** RMB'000	**Treasury shares** RMB'000	**Total** RMB'000
At 1 January 2017	1,389,362,500	119,283	–	119,283
Issue of shares (Note (a))	200,000,000	16,918	–	16,918
Shares repurchased and cancelled	(10,426,000)	(396)	(8,773)	(9,169)
Share options exercised	19,116,500	1,671	–	1,671
At 31 December 2017 and 1 January 2018	**1,598,053,000***	**137,476**	**(8,773)**	**128,703**
Shares repurchased and cancelled (Note (b))	**(5,382,000)**	**(622)**	**4,638**	**4,016**
Share options exercised (Note (c))	**21,299,500**	**1,783**	**–**	**1,783**
At 31 December 2018	**1,613,970,500***	**138,637**	**(4,135)**	**134,502**

Notes:

* *Excluding 3,964,000 (2017: 5,822,000) shares repurchased but not cancelled as at 31 December 2018.*

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

(b) During the year, the Company repurchased a total of 5,382,000 (2017: 10,426,000) of the Company's shares and 7,240,000 (2017: 4,604,000) shares have been cancelled. The total consideration paid to repurchase these shares was RMB5,925,000, which has been deducted from equity attributable to the owners of the Company.

(c) The subscription rights attaching to 14,900,000, 2,656,000, 3,628,500 and 115,000 share options were exercised at the subscription prices of HK$0.55, HK$0.68, HK$0.69 and HK$1.17 per share (note 29), respectively, resulting in the issue of 21,299,500 shares of HK$0.10 each for a total cash consideration, before expenses of HK$12,639,000 (equivalent to approximately RMB10,590,000). An amount of RMB4,125,000 was transferred from the employee share-based compensation reserve to the share premium account upon the exercise of the share options.

29. SHARE OPTION SCHEME

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

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

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

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

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

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

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

	2018		2017	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**0.69**	**63,039**	0.84	94,501
Forfeited during the year	**0.69**	**(65)**	0.69	(175)
Exercised during the year	**0.59**	**(21,299)**	0.67	(19,117)
Expired during the year	**0.69**	**(26)**	1.83	(12,170)
At 31 December	**0.74**	**41,649**	0.69	63,039

The weighted average share price at the date of exercise for share options exercised during the year was RMB1.44 per share (2017: RMB1.45).

29. SHARE OPTION SCHEME *(continued)*

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

2018

Number of options '000	Exercise price* HK$ per share	Exercise period (dd-mm-yyyy)
4,735	**1.17**	**24-08-2017 to 23-08-2022**
35,617	**0.69**	**28-08-2015 to 27-08-2020**
1,297	**0.68**	**28-05-2014 to 27-05-2019**
41,649		

2017

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

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

The fair values of each of the share options granted during the year ended 31 December 2016 were HK$0.54 for executives and HK$0.51 for non-executives, of which the Group recognised a share option expense of RMB460,000 for the year ended 31 December 2018 (2017: RMB832,000).

The fair values of each of the share options granted during the year ended 31 December 2014 were HK$0.88 for Mr. Xiang Jie, HK$0.33 for executives and HK$0.31 for non-executives, of which the Group recognised a share option expense of RMB988,000 for the year ended 31 December 2018 (2017: RMB2,726,000).

The fair values of each of the share options granted during the year ended 31 December 2013 were HK$0.27 for executives and HK$0.26 for non-executives, of which the Group recognised no share option expense for the year ended 31 December 2018 (2017: RMB144,000).

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

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

29. SHARE OPTION SCHEME *(continued)*

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

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

The 21,299,500 share options exercised during the year resulted in the issue of 21,299,500 ordinary shares of the Company and new share capital approximately of HK$2,130,000 (equivalent to RMB1,783,000) and share premium approximately of RMB12,932,000 (before issue expenses), as further detailed in note 28 to the financial statements.

At the end of the reporting period, the Company had 41,648,500 share options outstanding under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 41,648,500 additional ordinary shares of the Company.

At the date of approval of these financial statements, the Company had 41,648,500 shares options outstanding under the Scheme, which represented approximately 2.6% of the Company's shares in issue as at that date.

30. RESERVES

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

In accordance with the regulations in the PRC and the respective articles of association, the PRC subsidiaries of the Group are required to make an appropriation of retained profits equal to at least 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations. Such appropriations are classified in the consolidated statement of financial position as other reserves. Appropriations to these reserves are not required after these reserves have reached 50% of the registered capital of the respective companies.

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

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

	2018	2017
Percentage of equity interest held by non-controlling interests	**37.75%**	37.75%

	2018 **RMB'000**	2017 RMB'000
Profit for the year allocated to non-controlling interests	**23,091**	10,189
Accumulated balances of non-controlling interests at the reporting date	**92,492**	70,052

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

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

	2018 RMB'000	2017 RMB'000
Revenue	**189,494**	252,231
Total expenses	**(128,326)**	(215,539)
Profit and total comprehensive income for the year	**61,168**	36,692
Current assets	**273,260**	342,144
Non-current assets	**76,151**	71,682
Current liabilities	**(101,522)**	(223,262)
Non-current liabilities	**(2,878)**	(4,995)
Net cash flows from/(used in) operating activities	**(32,197)**	24,953
Net cash flows from/(used in) investing activities	**(3,196)**	900
Net cash flows from financing activities	**–**	40,000
Net increase/(decrease) in cash and cash equivalents	**(35,393)**	65,853

32. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

2018

	Bank loans RMB'000
At 1 January 2018	**327,184**
Changes from financing cash flows	**33,170**
At 31 December 2018	**360,354**

2017

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

33. CONTINGENT LIABILITIES

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

34. OPERATING LEASE ARRANGEMENTS AS LESSEE

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

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

	2018 **RMB'000**	2017 RMB'000
Within one year	**2,975**	2,995
In the second to fifth years, inclusive	**5,295**	6,269
After five years	**7,876**	1,674
	16,146	10,938

35. CAPITAL COMMITMENTS

Capital commitments

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the end of the reporting period:

	2018 **RMB'000**	2017 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**2,046**	3,076

Other commitments

Commitments under foreign currency forward contracts:

	2018 **RMB'000**	2017 RMB'000
Purchase of Swiss franc	**667,405**	11,982

36. RELATED PARTY TRANSACTIONS

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

Compensation on key management personnel of the Group:

	2018 **RMB'000**	2017 RMB'000
Short term employee benefits	**9,982**	9,906
Post-employment benefits	**1,528**	1,455
Equity-settled share option expense	**898**	2,347
Total compensation paid to key management personnel	**12,408**	13,708

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

37. FINANCIAL INSTRUMENTS BY CATEGORY

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

2018

Financial assets

	Financial assets at fair value through profit or loss **RMB'000**	**Financial assets at fair value through other comprehensive income – debt investments** **RMB'000**	**Financial assets at amortised cost** **RMB'000**	**Total** **RMB'000**
Trade receivables	**–**	**–**	**729,661**	**729,661**
Bills receivable	**–**	**130,852**	**–**	**130,852**
Financial assets included in prepayments, deposits and other receivables	**–**	**–**	**29,643**	**29,643**
Derivative financial instruments*	**218**	**–**	**–**	**218**
Pledged deposits	**–**	**–**	**35,040**	**35,040**
Cash and cash equivalents	**–**	**–**	**766,891**	**766,891**
	218	**130,852**	**1,561,235**	**1,692,305**

Bills receivables of the Group are financial assets at fair value through other comprehensive income (debt instruments).

37. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	**–**	**285,646**	**285,646**
Financial liabilities included in other payables and accruals	**–**	**30,991**	**30,991**
Derivative financial instruments*	**9,615**	**–**	**9,615**
Interest-bearing bank borrowings	**–**	**360,354**	**360,354**
	9,615	**676,991**	**686,606**

* *Derivative financial instruments are held for trading.*

2017

Financial assets

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

Financial liabilities

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

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

The fair value of bills receivables has been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group enters into derivative financial instruments with various counterparties. Derivative financial instruments, mainly including foreign currency forward contracts, are measured using quoted prices in active markets.

The carrying amounts of bills receivable and derivative financial instruments are the same as their fair values.

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

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2)** RMB'000	**Significant unobservable inputs (Level 3)** RMB'000	**Total** RMB'000
As at 31 December 2018				
Derivative financial instruments	**218**	**–**	**–**	**218**
Bills receivable	**–**	**130,852**	**–**	**130,852**
	218	**130,852**	**–**	**131,070**

No financial assets as at 31 December 2017 were measured at fair value.

Liabilities measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2)** RMB'000	**Significant unobservable inputs (Level 3)** RMB'000	**Total** RMB'000
As at 31 December 2018				
Derivative financial instruments	**9,615**	**–**	**–**	**9,615**
As at 31 December 2017				
Derivative financial instruments	130	–	–	130

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term interest-bearing bank borrowings with floating interest rates. The effective interest rates and terms of repayment of the short term interest-bearing bank borrowings of the Group are disclosed in note 26 to the financial statements.

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

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax RMB'000**
2018		
RMB	**100**	**(1,312)**
RMB	**(100)**	**1,312**

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

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

Foreign currency risk

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

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

	Increase/ (decrease) in foreign exchange rate %	**Increase/ (decrease) in profit before tax RMB'000**
2018		
If RMB weakens against CHF	**5**	**10,456**
If RMB strengthens against CHF	**(5)**	**(10,456)**

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

Credit risk

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

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

Credit risk *(continued)*

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018.

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	729,661	729,661
Contract assets*	–	–	–	123,602	123,602
Financial assets included in prepayments, deposits and other receivables					
– Normal**	29,643	–	–	–	29,643
Pledged deposits					
– Not yet past due	35,040	–	–	–	35,040
Cash and cash equivalents					
– Not yet past due	766,891	–	–	–	766,891
	831,574	–	–	853,263	1,684,837

* *For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 20 to the financial statements, respectively.*

** *The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.*

Maximum exposure as at 31 December 2017

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

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

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

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

Liquidity risk *(continued)*

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

	2018		
	On demand or less than 3 months RMB'000	**3 to less than 12 months RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**140,993**	**230,461**	**371,454**
Trade and bills payables	**281,124**	**4,522**	**285,646**
Other payables	**30,991**	**–**	**30,991**
Derivative financial instruments	**9,615**	**–**	**9,615**
	462,723	**234,983**	**697,706**

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

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

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

Capital management (continued)

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

	2018 **RMB'000**	2017 RMB'000
Interest-bearing bank borrowings	**360,354**	327,184
Total equity	**1,669,198**	1,521,153
Gearing ratio	**21.6%**	21.5%

40. EVENTS AFTER THE REPORTING PERIOD

On 4 March 2019, the Group entered into an agreement in relation to the acquisition of approximately 29.25% of equity shares in morEnergy GmbH, a company incorporated in Germany dedicating to the research and development of emerging energy technologies (the "Target") and the subscription of approximately 42.96% of equity shares in the Target, for an aggregate cash consideration of EUR1,464,685, or approximately of RMB11,168,000. The Target will become a subsidiary of the Group upon completion of the acquisition and the subscription.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 **RMB'000**	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**537,741**	537,905
Total non-current assets	**537,741**	537,905
CURRENT ASSETS		
Deposits and other receivables	**2,311**	4,482
Due from a subsidiary	**332,331**	152,809
Cash and cash equivalents	**4,159**	228,864
Total current assets	**338,801**	386,155
CURRENT LIABILITIES		
Other payables and accruals	**322**	5,029
Interest-bearing bank borrowings	**17,524**	17,471
Total current liabilities	**17,846**	22,500
NET CURRENT ASSETS	**320,955**	363,655
Net assets	**858,696**	901,560
EQUITY		
Issued capital	**138,637**	137,476
Treasury shares	**(4,135)**	(8,773)
Reserves (note)	**724,194**	772,857
Total equity	**858,696**	901,560

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

Note:

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

	Share premium account RMB'000	Employee share-based compensation reserve RMB'000	Capital redemption reserve RMB'000	Deemed contribution reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2017	415,795	31,479	288	6,294	42,519	153	496,528
Profit and total comprehensive income for the year	–	–	–	–	–	37,201	37,201
Share-based payments	–	3,702	–	–	–	–	3,702
Exercise of share options	14,354	(4,789)	–	–	–	–	9,565
Final 2016 dividends	(18,214)	–	–	–	–	–	(18,214)
Interim 2017 dividends	–	–	–	–	–	(23,868)	(23,868)
Issue of shares	274,072	–	–	–	–	–	274,072
Shares cancelled	(6,129)	–	396	–	–	(396)	(6,129)
At 31 December 2017 and 1 January 2018	**679,878**	**30,392**	**684**	**6,294**	**42,519**	**13,090**	**772,857**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**19,290**	**19,290**
Share-based payments	**–**	**1,448**	**–**	**–**	**–**	**–**	**1,448**
Exercise of share options	**12,932**	**(4,125)**	**–**	**–**	**–**	**–**	**8,807**
Final 2017 dividends	**(39,710)**	**–**	**–**	**–**	**–**	**–**	**(39,710)**
Interim 2018 dividends	**(28,557)**	**–**	**–**	**–**	**–**	**–**	**(28,557)**
Shares cancelled	**(9,941)**	**–**	**622**	**–**	**–**	**(622)**	**(9,941)**
At 31 December 2018	**614,602**	**27,715**	**1,306**	**6,294**	**42,519**	**31,758**	**724,194**

42. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 March 2019.

FIVE YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	**1,290,490**	1,155,400	856,952	781,993	517,301
PROFIT/(LOSS) BEFORE TAX	**245,262**	249,954	171,104	79,147	(32,243)
Income tax expense	**(35,107)**	(46,213)	(24,230)	(17,928)	(6,357)
PROFIT/(LOSS) FOR THE YEAR	**210,155**	203,741	146,874	61,219	(38,600)
Attributable to:					
Owners of the parent	**183,301**	194,887	143,856	62,272	(32,138)
Non-controlling interests	**26,854**	8,854	3,018	(1,053)	(6,462)
	210,155	203,741	146,874	61,219	(38,600)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	**2,489,143**	2,272,024	1,800,600	1,588,235	1,362,174
TOTAL LIABILITIES	**(819,945)**	(750,871)	(771,474)	(697,264)	(530,170)
NON-CONTROLLING INTERESTS	**(105,634)**	(79,078)	(24,622)	(16,239)	(37,460)
	1,563,564	1,442,075	1,004,504	874,732	794,544