China Ruifeng Renewable Energy Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00527)

ANNUAL REPORT 2018

Contents

Company Information

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 00527

EXECUTIVE DIRECTORS

Mr. Zhang Zhixiang *(Chief Executive Officer)*
Mr. Ning Zhongzhi
Mr. Li Tian Hai
Mr. Peng Ziwei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Qu Weidong
Ms. Hu Xiaolin
Mr. Jiang Senlin *(appointed on 31 January 2019)*
Ms. Wong Wai Ling *(resigned on 31 January 2019)*

AUDIT COMMITTEE

Mr. Jiang Senlin *(chairman of the Audit Committee)*
(appointed on 31 January 2019)
Mr. Qu Weidong
Ms. Hu Xiaolin
Ms. Wong Wai Ling *(resigned on 31 January 2019)*

REMUNERATION COMMITTEE

Ms. Hu Xiaolin
(chairman of the Remuneration Committee)
Mr. Zhang Zhixiang
Mr. Qu Weidong
Mr. Jiang Senlin *(appointed on 31 January 2019)*
Ms. Wong Wai Ling *(resigned on 31 January 2019)*

NOMINATION COMMITTEE

Mr. Qu Weidong
(chairman of the Nomination Committee)
Mr. Zhang Zhixiang
Ms. Hu Xiaolin
Mr. Jiang Senlin *(appointed on 31 January 2019)*
Ms. Wong Wai Ling *(resigned on 31 January 2019)*

COMPANY SECRETARY

Mr. Yeung Tze Long
(resigned on 10 December 2018)
Mr. Lo, Gordon *(appointed on 10 December 2018)*

AUTHORISED REPRESENTATIVES

Mr. Zhang Zhixiang
Mr. Yeung Tze Long
(resigned on 10 December 2018)
Mr. Lo, Gordon *(appointed on 10 December 2018)*

PRINCIPAL BANKERS

In Hong Kong:

Bank of China (Hong Kong) Limited
China Minsheng Banking Corporation Limited
Hong Kong Branch
China Construction Bank (Asia) Corporation Limited
Hang Seng Bank
The Bank of East Asia Limited

In the People's Republic of China (the "PRC"):

Bank of China Limited
Agricultural Development Bank of China
Industrial and Commercial Bank of China
Bank of Chengde
China Construction Bank

Company Information

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1801, 18/F
Great Eagle Centre
No. 23 Harbour Road, Wanchai
Hong Kong

COMPANY WEBSITE

www.c-ruifeng.com

LEGAL ADVISERS AS TO HONG KONG LAWS

Loong & Yeung
Room 1603, 16th Floor China Building
29 Queen's Road Central, Central
Hong Kong

AUDITORS

ZHONGHUI ANDA CPA Limited
Unit 701, 7/F., Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR & TRANSFER OFFICE

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

Corporate Profile

Corporate Profile

As a renewable energy enterprise specialised in wind power operation, China Ruifeng Renewable Energy Holdings Limited ("**Ruifeng Renew**" or the "**Company**") together with its subsidiaries (collectively, the "**Group**") is principally engaged in the businesses of wind power generation and is continuing to search for investment opportunities in the energy sectors. In addition, in order to diversify the business risk and to expand various income streams, the company has also been seeking development opportunities in the financial sectors, with the aim to facilitate the development of, and complement with each other, the continuous enhancement of the Company's industrial structure and the establishment of a solid foundation, in order to reinforce the comprehensive development of its wind power operation.

Since 2013, through steady acquisition of additional ownership interest in Hebei Hongsong Renewable Energy Investment Co., Ltd. ("**Hongsong Renewable Energy**") (the second largest shareholder of Hebei Hongsong Wind Power Co., Ltd. ("**Hongsong**")), the Group's current indirect control in Hongsong is 86.55%.

Hongsong has an installed capacity of 398.4 megawatt ("**MW**"), and its maximum installable capacity is 596.4 MW.

Apart from Hongsong's wind farm, Baotou City Yinfeng Huili New Energy Investment Limited ("**Baotou Yinfeng**"), a subsidiary of the Group is principally engaged in the development of a wind farm that generates renewable energy in the Inner Mongolia Autonomous Region. The wind farms of Baotou Yinfeng have been developing since mid 2016 and the expected installable capacity of phase 1 of the wind farms (the "**Phase 1 Project**") operation is 49.8 MW. Phase 1 Project is still under construction which is expected to be completed in the coming years and would contribute to the Group's revenue from the operation of wind farms in the future.

Apart from the wind farm operation and development, since the second half of 2015, the Group had acquired a total of 49% voting rights in Shenzhen Qianhai Jiefeng Financing and Leasing Limited ("**Qianhai Jiefeng**"). Qianhai Jiefeng is principally engaged in finance leasing, purchase of leased assets, lease advisory and guarantees. The equity participation in the finance leasing company helps expand the Group's financing channels, further lower the Group's finance cost and enhance the Group's competitiveness in the renewable energy industry.

The Company is also in touch with prospective partners in the financial sectors and is keeping its eyes open for investment opportunities in other renewable energy businesses.

Chief Executive Officer's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China Ruifeng Renewable Energy Holdings Limited ("**Ruifeng Renew**" or the "**Company**", together with its subsidiaries referred to as the "**Group**"), I hereby present to the shareholders of the Company (the "**Shareholders**") the results of the Group for the year ended 31 December 2018 (the "**Reporting Period**").

As a renewable energy enterprise specialised in wind power development and operation, during the year of 2018, Ruifeng Renew is principally engaged in the businesses of wind farms development and operation as well as wind power generation, and commenced to step into the business in finance sector, such as finance leasing and security trading. Since the mid of year 2016, the Group has also been conducting due diligence on a wind turbine manufacturer which the Group has entered into a memorandum of understanding in respect of a proposed acquisition for further expansion of its down-stream manufacturing business in wind power. The combination of different businesses does not only expand the Group's various income streams, but each of the businesses also complements each other to facilitate the development and continuous enhancement of the Company's industrial structure, which will solidify the foundation to reinforce the comprehensive development of its wind power operation.

The year of 2018 was the third year of implementing the 13th Five-year Plan. Although the situation at home and abroad was grim and complicated, the new norms of China's economic development were more distinct, signifying the hard-won results of the stabilisation and bottoming out of the economic trend amid a slowdown. China's Gross Domestic Profit (the "**China's GDP**") retained a growth of 6.6% in 2018, whereas the paradigm of economic growth has been shifting its emphasis to higher efficacy and better quality. As the requirements on environmental and ecological protection become more stringent, China's clean energy consumption gains importance, the wind power and other new energy industries as the nation's seven strategic new industries will be getting more policy support after the 13th Five-year Plan takes the stage, China has been recognised as having the largest hydropower, wind power and solar power in terms of installed capacity in the world. In the face of the new circumstances and in the effort to capture the opportunities of the government's policy reforms, the Company will improve its development quality and efficiency to become a world-class renewable energy enterprise characterised by a large scale, high market share, great contribution to the society, strong profitability, solid competitiveness, and sound sustainability, with the objective of bringing continuous, stable and substantial returns to the Shareholders.

As the People's Republic of China (the "**PRC**") government pointed out that it was vital for the energy structure to be optimised and adjusted as the transformation of energy development has reached the crucial strategic stage, the wind power industry, which spearheads the renewable energy industry is bound to receive increasing attention. The National Development and Reform Commission ("**NDRC**") also published the "Administrative Measures on Protective Buyouts of Renewable Energy Power Generation" (《可再生能源發電全額保障性收購管理辦法》) which stipulated the buyouts of on-grid electricity of renewable energy power generation projects within the planned scope by power grid enterprises according to the on-grid tariff and protective buyouts utilisation hours set by the PRC government with market competition mechanism, providing strong external support and policy protection to the business development of the Group. Furthermore, the formulation of the "Administrative Regulations on Trading National Carbon Emission Rights" (《全國碳排放權交易管理條例》) is speeding up, and the NDRC has sent copies of the relevant drafts to ministries such as the China Banking Regulatory Commission and the China Securities Regulatory Commission to solicit opinions. The national carbon emission trading market will kick off if relevant regulations are duly passed, such that the wind power operation business of the Group may receive additional revenues from the sales of carbon emission rights.

Chief Executive Officer's Statement

For the year ended 31 December 2018, the Group recorded a net loss of approximately RMB37,258,000 (2017: net profit of approximately RMB24,125,000) and the revenue from wind power business of approximately RMB361,184,000 (2017: approximately RMB389,996,000). The decline in the operating result is mainly attributable to the decrease of electricity sales and increase in administrative expenses. Further analysis of the operating result was included in the Management Discussion and Analysis session of this report.

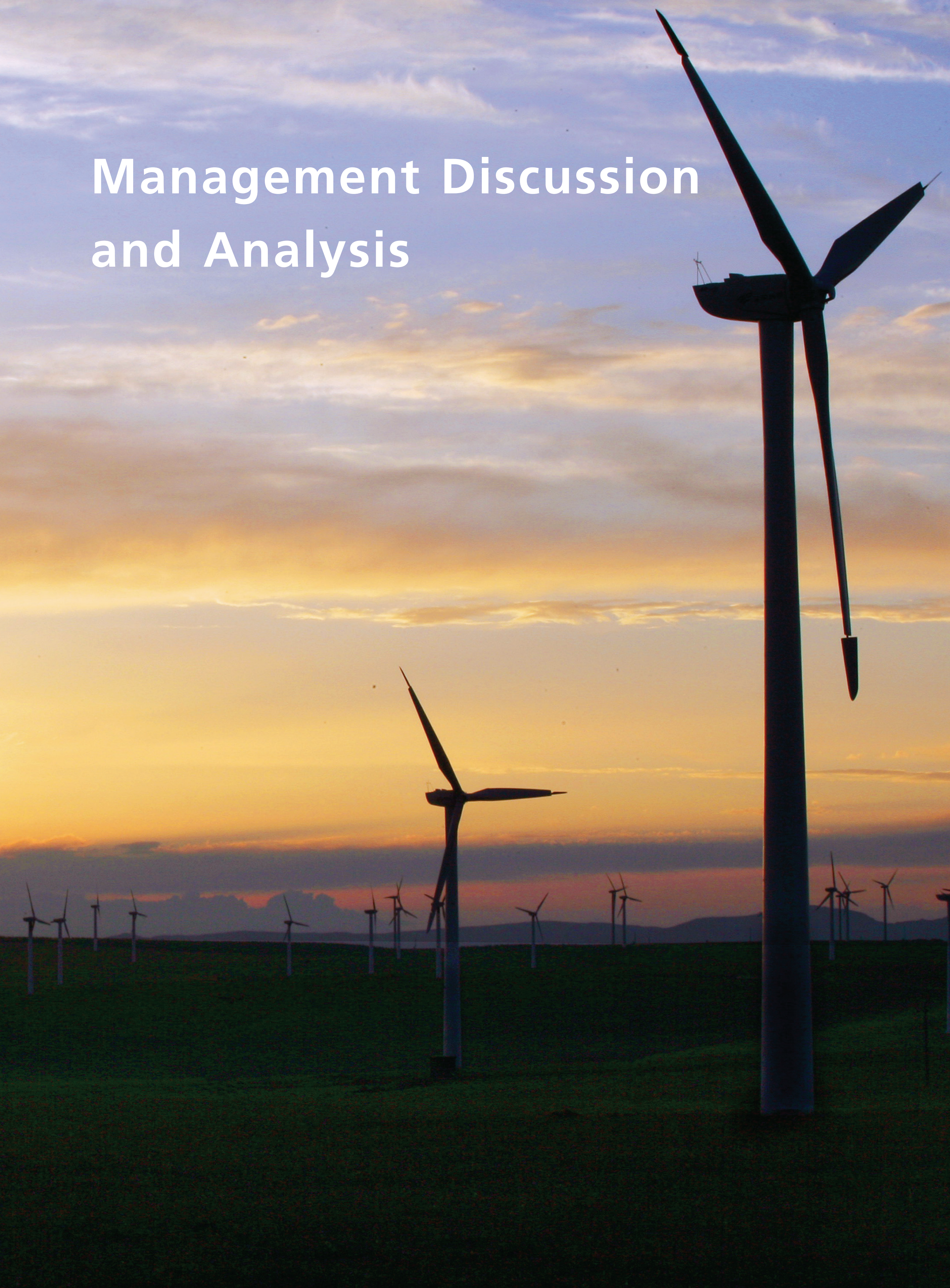
In the future, Ruifeng Renew will consolidate its resources and continue to accelerate the development in wind power business. By fully leveraging the Group's wind farms, Ruifeng Renew will actively seek for development opportunities and strive for a solid foothold in the renewable energy industry in the near future.

On behalf of the Board, I would like to express my gratitude to the Shareholders, investors and business partners for their continuing care of and support to the Group. I would also like to thank the management team and all the staff for their contributions and dedications to the development of the Group. The Group is committed to bringing better returns to the Shareholders and investors through sound and pragmatic development strategies.

Zhang Zhixiang
Chief Executive Officer

Hong Kong, 28 March 2019

Management Discussion and Analysis



Management Discussion and Analysis

BUSINESS OVERVIEW

Wind farm operations

For the year ended 31 December 2018, the revenue from the wind farm operations amounted to approximately RMB361,184,000 (2017: approximately RMB389,996,000), representing a decrease of approximately 7% from that of 2017. The segment profit from the wind farm operations was approximately RMB107,576,000 (2017: approximately RMB136,087,000), representing a decrease of approximately 21% from that of 2017.

Hongsong's wind farm projects

The construction of the Phase 9 Project – The Yuanhui Project of Hongsong had been completed in December 2013. Hongsong currently has an installable capacity of 398.4 MW, and its wind farm operation made a steady and stable progress in 2018 which made a significant contribution to the Group's revenue from wind farm operations for the year ended 31 December 2018.

Baotou Yinfeng's wind farm projects

Baotou Yinfeng is a subsidiary of the Company, which possesses a wind farm in Baotou City of Inner Mongolia with the 49.8 MW of the Phase 1 Project. In October 2015, Baotou Yinfeng received the relevant project approval from Baotou City's NDRC for its Phase 1 Project. Baotou Yinfeng Phase 1 Project is currently under construction and is expected to contribute to the Group's future revenue from the operation of wind farms.

OPERATING ENVIRONMENT

With the kick off of the 13th Five-year Plan in the year of 2016, China's GDP has recorded an increase by 6.6% year on year for the year ended 31 December 2018, evidencing China's entering into the "new normal" mode of economic development. Compared to 2017, China's economy maintained a stable trend with increasing positive changes and stabilising growth. China's GDP growth for the fourth quarter of 2018 increased by 6.4% year on year, while various indicators such as industrial electricity consumption, power generation and freight volume in the second half of the year witnessed significantly accelerated growth, and the industry showed a clearly stabilising trend.

Management Discussion and Analysis

While the growth of China's wind power industry is growth steady in recent years, China's economy still maintains a steady growth trend and the wind power industry still managed to record a fairly good development in 2018. The newly installed on-grid wind power capacity in 2018 was 20.59 gigawatt ("**GW**"). Despite the fact that the year-on-year figure increased 36.99% as compared with 2017, the accumulative on-grid wind power capacity reached 184 GW, accounting for 9.7% of all power generation installed capacity, representing an increase of 0.5% year-on-year. Wind power generation capacity for the year reached 366,000 GW, accounting for 5.2% of all power generation output, and representing an increase of 0.4% year-on-year as compared with 2017. The national average wind power utilization hours was 2,095 hours, representing a year-on-year increase of 147 hours. The national wind power curtailment was 27,700 GWh (2017: 41,900 GWh), with a year-on-year decrease of 14,200 GWh.

The focus of the PRC government in the development of renewable energy is to promote the use of wind power and clean energies by implementing various measures and policies, providing the Company tremendous opportunities in the development of its wind farm business, the core operating business of the Company. It appears that the PRC government will continue to support the development of wind power industry with full commitment. This for sure will lay a solid foundation for the development of the Company by way of the unique policy advantages and favorable development environment, and it is expected that the wind power industry will head towards a new stage of development, whilst the Company will undoubtedly benefit from this development.

MAJOR RISKS AND UNCERTAINTIES

(1) Risks of wind turbine equipment utilisation hours fluctuation

The average number of utilisation hours of power generation equipment are influenced by the electric supply and demand, and therefore fluctuate accordingly. The average utilisation hours in Hebei Province for the years 2017 and 2018 were 2,250 and 2,095 hours, respectively. The average utilisation hours of the Company's Hongsong Wind Farm in Hebei Province for the years 2017 and 2018 were 2,134 and 1,965 hours, respectively. As economic growth rate slackened, there are risks in fluctuations of the average utilisation hours of the Company's wind turbine equipment in the future, and these will definitely have an impact on the Company's profitability.

(2) Risks of wind power pricing fluctuation

In December 2016, the National Development and Reform Commission issued the "Notice on Adjustments to Benchmark on-grid tariffs for Photovoltaic Power and Onshore Wind Power" (《關於調整光伏發電陸上風電標杆上網電價的通知》) to promote healthy and orderly development of the photovoltaic power and wind power industry and decided to adjust the new energy benchmark on-grid tariff policy pursuant to the "Renewable Energy Law (《可再生能源法》)". According to the electricity tariff adjustment proposal in the discussion paper, benchmark on-grid tariff of onshore wind power will be adjusted as follows: to reduce the benchmark on-grid tariff of newly approved construction of onshore wind power stations after 1 January 2018, of which Category I resources regions tariff will be reduced to RMB0.4 per kWh; Category II resources regions to RMB0.45 per kWh; Category III resources regions to RMB0.49 per kWh; and Category IV resources regions to RMB0.57 per kWh. It was a clear trend that wind power and such other new energies were connecting to the grid with cheaper tariffs. The planned direction for renewable energy in the 13th Five-year Plan is crystal clear, that wind power will realise connection to the grid at RMB0.4 per kWh by 2020. There will be four major areas of development for wind power in the 13th Five-year Plan; namely, no limit in regions with no curtailment; cost decrease arising from technological advancements; simplification of market access to wind power projects; and improvement of wind power operating environment resulting from practical electric system reforms. Through technological advancement and market competition, efforts will be made to further significantly reduce the cost of wind power development during the period of the 13th Five-year Plan, and gradually reduce its dependence on subsidies. It is anticipated that in 2019 wind power prices will continue to fall, and this will have a definite impact on the Company's profitability.

(3) Risks arising from interest rate fluctuations

The Company's new energy electricity business is capital intensive, and electricity project constructions are characterised by large scale investments and lengthy return on investment periods. The Company has launched many new projects in recent years, and some of the investment capital other than those for special projects were mainly secured through loans and other methods. The Company's financial costs will be influenced by possible interest rate fluctuations arising from changes in macro-political and economic environment, both domestically and internationally, as well as from changes in China's economic policies.

FUTURE PROSPECTS

To promote the development of wind power, the PRC government has introduced a number of policies. At the beginning of 2016, the National Energy Administration sought ideas for the "13th Five-year Development Plan of Renewable Energy (Consultation Paper)（《可再生能源「十三五」發展規劃（徵求意見稿）》）" and made the following guidance: non-fossil energy will account for 15% of total energy consumption by 2020 and will reach 20% by 2030, and new investments will amount to RMB2.3 trillion during the 13th Five-year Plan. Among them, it aims for hydropower development and utilisation of 380 GW, solar power generation of 160 GW, and wind power of 250 GW by the end of 2020. According to the planning objectives, it will achieve wind power development and utilisation of 250 GW by the end of 2020. Therefore, the compound annual growth rate of wind power installed capacity will reach 10% to 20% per annum in the next five years, with the average newly installed capacity of more than 20 GW each year. In accordance with the "Strategic Action Plan for Energy Development (2014-2020)（《能源發展戰略行動計劃(2014-2020年)》）", the weight of the non-fossil energy will reach 15% of non-renewable energy consumption by 2020. In order to achieve this goal, the National Energy Administration issued the "Guidance on the Establishment of Renewable Energy Development and Utilisation Objective Guidance System（《關於建立可再生能源開發利用目標引導制度的指導意見》）" on 3 March 2016, which clearly indicates that, except specialised non-fossil energy production enterprises, the proportion of power generation with non-hydropower renewable energy should reach more than 9% of the total electricity generation of the power generation enterprises by 2020, and formulated the weight target of renewable energy in the total energy consumption and the weight indicators of non-hydro renewable energy in the total electricity consumption for each of provinces and cities. There is still a gap between the weight of power generation with non-hydro renewable energy in total power generation and the minimum target for 2020 in vast majority of China's provinces and cities, especially in the central and eastern regions. The development of wind power plants has become an important option in the case of a saturated development of renewable energy in the western region leading to a growing development in the eastern and southern regions.

The adverse effects such as air pollution and global warming resulted from traditional coal-fired power generation have led to high degree of support and attention from the public for the development of renewable energy. As a renewable energy which has the highest level of commercialisation, there is no doubt that the wind power industry will gain further acclamation.

The PRC Government has provided support to the development of wind power industry in various aspects, and with initial success as exemplified in the increasing shares of wind power in total energy consumption in different regions. The development of wind power is of great significance in adjusting the country's energy structure. Given the serious problem of smog in the PRC, the development of clean energy has become an inevitable trend, in which wind power will serve as one of the most critical segments in the development of clean energy.

Looking ahead, the Group's wind farm operation business will experience a rapid growth. With the advantage of a secured development environment in general and the increased level of attention to wind power by the public, the Company is expected to have a bright development prospect.

Management Discussion and Analysis

In respect of the business growth of the Group in 2018, the Group will continue to focus its resources on the development and operation of wind farms and is determined to become one of the pillars of the renewable energy industry in northern China. The Group will speed up the development of renewable energy business by way of cooperative development and acquisitions. The Group will continue to identify and acquire mature power plants with promising development prospects, in order to strengthen the existing wind farm operation and maintenance business in northern China and gradually extend the business to the surrounding areas as well as enhance the interaction between other businesses, such as the possible acquisition of wind turbine manufacturing. The Group will consider other possible opportunities of mergers and acquisitions.

In the meantime, the Group will continue to develop the business of security trading in small scale, by setting up joint venture investment with other investors specialised in the industry, with an aim to leverage on the advantages of the shareholding companies' capabilities and expand the Group's income stream.

In the long-run, the Group will focus its effort on the development and optimisation of existing renewable energy resources. Paralleled to the expansion of wind farm's operational scale and the enhancement of efficiency, the Group will integrate the advantages of all cooperating parties and its own in order to explore more development opportunities and further consolidate the Group's position in the industry of renewable energy. During the course of business integration and resources integration, possible synergistic opportunities among different business segments will be explored for their expansions and growth in revenues and profits. The Group is committed to becoming a renewable energy supplier and integrated service provider with relatively strong competitiveness, establishing a stable and comprehensive foundation for the long term growth of the Group, creating more value for the society, and seeking higher returns for the Company's Shareholders and investors.

FINANCIAL REVIEW

The Group is currently and principally engaged in wind farm operations during the year ended 31 December 2018.

Operating results for the years ended 31 December 2018 and 31 December 2017 were as follows:

	Year ended 31 December		Increase/	Approximate change in
	2018	2017	**(decrease)**	**percentage**
	RMB'000	*RMB'000*	*RMB'000*	%
Revenue	**361,184**	389,996	(28,812)	7
Gross profit	**143,811**	176,863	(33,052)	19
Profit from operations	**102,933**	176,071	(73,138)	42
(Loss)/profit before taxation	**(11,929)**	55,844	(67,773)	N/A
(Loss)/profit for the year	**(37,258)**	24,125	(61,383)	N/A
Attributable to:				
Equity shareholders of the Company	**(64,212)**	(7,090)	(57,122)	806
Non-controlling interests	**26,954**	31,215	(4,261)	14
(Loss)/profit for the year	**(37,258)**	24,125	(61,383)	N/A

		Year ended 31 December	
	Note	**2018**	2017 (Restated)
Net cash *(RMB'000)*	*1*	**(1,411,106)**	(1,252,236)
Net assets *(RMB'000)*	*2*	**878,519**	933,765
Liquidity ratio	*3*	**70%**	87%
Trade receivables turnover (number of days)	*4*	**208**	145
Trade payables turnover (number of days)	*5*	**34**	49
Earning interest multiple	*6*	**0.90**	1.46
Net debt to capital ratio	*7*	**161%**	134%

Notes:

1. Cash at bank and on hand – Borrowings
2. Total assets – Total liabilities
3. Current assets/Current liabilities x 100%
4. Average trade receivables/Revenue x 365 days
5. Average trade payables/Cost of sales x 365 days
6. Profit before interest and taxation/Finance cost
7. Net debt/Equity x 100%

Revenue

During the year ended 31 December 2018, the Group's revenue was mainly derived from the business of wind power generation. The Group's operating bases for the business of wind power generation are mainly located in Chengde City of Hebei Province and Inner Mongolia, the People's Republic of China (the "**PRC**").

Revenue for the year ended 31 December 2018 was approximately RMB361,184,000, representing a decrease of approximately 7% in comparing with that of 2017 of approximately RMB389,996,000. The decrease was mainly due to the decrease in electricity sales of Hongsong.

Analysis of the Group's revenue for the two years ended 31 December 2018 and 31 December 2017 are set out below:

	2018	**2017**	**Increase/ (decrease)**	**Approximate change in percentage**
	RMB'000	*RMB'000*	*RMB'000*	*%*
Wind power generation revenue	269,508	286,617	(17,109)	6
Wind power generation subsidies	97,886	110,291	(12,405)	11
Business tax and surcharges	(6,210)	(6,912)	702	10
Total	**361,184**	**389,996**	**(28,812)**	**7**

As illustrated in the table above, part of our loss for the Reporting Period was due to 11% decrease in the wind power generation subsidies for the Reporting Period as compared with that of last year, which also contributed about 33% of our loss for the Reporting Period.

Cost of Sales

Cost of sales mainly included the cost of raw materials, staff costs, depreciation, repair and maintenance cost, water, electricity, gas and other ancillary materials. Cost of sales for the year ended 31 December 2018 accounted for approximately RMB217,373,000 (2017: approximately RMB213,133,000), which represented approximately 60% of the Group's revenue (2017: approximately 55%). The increase in the ratio was mainly due to the increase in repair and maintance expenses for the Reporting Period.

Gross Profit

Gross profit was approximately RMB143,811,000 for the year ended 31 December 2018 (2017: approximately RMB176,863,000) which was primarily derived from the operation of the Group's business of wind power generation. The gross profit margin for the Reporting Period was approximately 40%, as compared to approximately 45% for the year of 2017. The decrease was mainly due to the decrease in electricity sales for the reason mentioned in the paragraph head "Revenue" above while Hongsong has maintained a relatively constant cost to sales ratio for the current year.

Other Revenue and Net Income

Other revenue and net income for the year ended 31 December 2018 was mainly comprised of (i) tax refund from the PRC government (2018: approximately RMB29,545,000; 2017: approximately RMB24,064,000); and (ii) rental income from operating leases (2018: approximately RMB2,227,000; 2017: approximately RMB2,474,000).

Administrative Expenses

Administrative expenses mainly included wages, salaries and welfare expenses, professional fees, rental expenses, entertainment expenses, travelling expenses, office expenses, other taxation expenses, share-based payment arising from the issue of Convertible Notes 2 (as defined below), exchange losses and allowance of doubtful debts for trade and other receivables. It increased by approximately 47% to approximately RMB82,760,000 for the year ended 31 December 2018 when compared with that of approximately RMB56,163,000 for the year ended 31 December 2017. The increase was due to net foreign exchange losses of approximately RMB7,515,000 being recorded for the Reporting Period while net foreign exchange gains of approximately RMB12,461,000 were recorded as "Other Revenue and Net Income" for the year of 2017. Net foreign exchange losses/gains were mainly derived from depreciation/appreciation of Renminbi ("**RMB**") against Hong Kong Dollar ("**HKD**") for the years 2017 and 2018. The another reason of the increase was due to the share-based payment arising from issue of Convertible Notes 2 (as defined below) (2018: approximately RMB23,624,000; 2017: nil).

Finance Costs

Finance costs mainly referred to the interest expenses and the bank charges of the Group's borrowings including bank loans obtained, bonds and convertible notes issued by the Group. It amounted to approximately RMB120,434,000 for the Reporting Period, represented a slight decrease as compared to approximately RMB121,541,000 for the year of 2017. The decrease was mainly due to a decrease in interest expenses of bank loans as a result of the repayments of bank borrowings during the Reporting Period and a fall in convertible notes interest expenses because of a substantial modification of the terms of the convertible notes in December 2017 which leading to a fall in effective interests calculation.

Taxation

Taxation expenses decreased to approximately RMB25,329,000 for the year ended 31 December 2018 (2017: approximately RMB31,719,000). Such decrease was mainly derived from the decrease in taxable income of Hongsong.

Loss for the Reporting Period

Loss for the year ended 31 December 2018 was approximately RMB37,258,000 (2017: profit for the year of approximately RMB24,125,000). The significant drop was mainly due to (i) the decrease in electricity sales by Hongsong; (ii) an increase in cost of sales and administrative expenses; and (iii) share-based payment arising from issue of Convertible Notes 2.

Loss attributable to equity shareholders was approximately RMB64,212,000 (2017: approximately RMB7,090,000).

Net Current Liabilities

Net current liabilities of the Group as at 31 December 2018 increased to approximately RMB273,559,000 when compared with that of approximately RMB82,712,000 (restated) as at 31 December 2017. The increase was mainly due to the increase in current liabilities as a result of the maturity of Convertible Notes and Convertible Notes 2 (as defined below) in 2019 during the year ended 31 December 2018.

Liquidity and Financing

The cash and bank balances as at 31 December 2018 and 31 December 2017 amounted to approximately RMB62,491,000 (mainly denominated in RMB, United States dollar ("**USD**") and HKD, which is comprised of approximately RMB60,520,000, USD22,000 and HKD2,075,000), and approximately RMB104,495,000 respectively.

Total borrowings of the Group as at 31 December 2018 amounted to approximately RMB1,473,597,000, representing an increase by approximately RMB116,866,000 when compared with approximately RMB1,356,731,000 as at 31 December 2017. The increase in the total borrowings was mainly resulted from the addition of new borrowings during the Reporting Period.

The Group repaid its debts mainly through the steady recurrent cash-flows generated by its operations and by other financings. The Group's gearing ratio increased to approximately 66% as at 31 December 2018 from approximately 62% as at 31 December 2017. That ratio was calculated by dividing the Group's total liabilities by its total assets. During the year ended 31 December 2018, all of the Group's borrowings were settled in RMB, USD and HKD and all of the Group's income was denominated in RMB. Interest bearing borrowings were approximately RMB1,473,597,000 as at 31 December 2018. Among the interest bearing borrowings of the Group, approximately RMB499,249,000 were fixed rate loans, while approximately RMB974,348,000 were variable rate loans. The Group had not engaged in any currency hedging facility for the year ended 31 December 2018 and up to the date of this report, as the Board considered that the cost of any hedging facility would be higher than the potential risk of the costs incurred from currency fluctuations and interest rate fluctuations in individual transactions.

Issuing of Corporate Bonds

In July and October 2018, the Company issued additional non-listing corporate bonds (the "**Bonds**") to investors in an aggregate principal amount of HKD15,000,000 at par value with maturity in 1 year to 6 years, and bearing fixed interest rate at 6% to 7% per annum.

All the net proceeds from the Bonds issued in the year of 2018 had been utlilised during the Reporting Period. As at 31 December 2018 and 31 December 2017, principal amount of approximately HKD181,236,000 and approximately HKD173,736,000 of the Bonds had been issued and had not been repaid, respectively. For details, please refer to the announcements of the Company dated 10 July 2014 and 28 April 2015.

Extension of Convertible Notes

On 26 May 2016, the Company entered into a placing agreement (the "**Placing Agreement**") with Get Nice Securities Limited (the "**Placing Agent**") pursuant to which the Placing Agent has conditionally agreed to procure the placee(s) on a best effort basis during the placing period to subscribe for the convertible notes (the "**Convertible Notes**") to be issued by the Company of up to an aggregate principal amount of HKD171,600,000 due 2017, with the conversion rights to convert the outstanding principal amount of the Convertible Notes into ordinary shares of the Company (the "**Share**") at an initial conversion price of HKD0.65 per conversion share.

Assuming full conversion of the Convertible Notes, a total of 264,000,000 shares of the Company would be allotted and issued, representing (i) approximately 14.67% of the issued share capital of the Company as at the date of the Placing Agreement; and (ii) approximately 12.80% of the issued share capital of the Company as enlarged by the allotment and issue of the conversion shares upon full conversion of the Convertible Notes.

On 15 June 2016, the Convertible Notes in the aggregate principal amount of HKD171,600,000 were issued by the Company in accordance with the terms of the Placing Agreement. The net proceeds from the issue of Convertible Notes, after deducting the Placing Agent's commission and other related expenses payable by the Company, amounted to approximately HKD167,900,000.

The Company intended to apply the net proceeds from the issue of Convertible Notes as to (i) approximately 50% for the consideration of the possible acquisition, other possible acquisition(s) and investments of the Group, and to finance the Group's wind farm development and operation business; (ii) approximately 40% for the repayment of the outstanding loan borrowings of the Group; and (iii) approximately 10% as the Group's general working capital.

As at 31 December 2016, (i) approximately 50% of the net proceeds was used in settlement for investment of the Group and to finance the Group's wind farm development, including the prepayment and deposit for construction works; (ii) approximately 40% of the net proceeds was used in repaying the outstanding loan borrowings of the Group; and (iii) approximately 10% of the net proceeds was used in general working capital.

On 12 December 2017, the Company and all the holders of the Convertible Notes entered into a deed of amendment (the "**Amendment Deed**") to extend the maturity date of the Convertible Notes from 15 December 2017 to 15 June 2019. Save for the extension of the maturity date, all other terms and conditions of the Convertible Notes remained unchanged. The Amendment Deed has become unconditional on 15 December 2017 upon approval being received from The Stock Exchange of Hong Kong Limited.

Up to 31 December 2018, no conversion share has been allotted or issued from the conversion of the Convertible Notes.

Further details are set out in the announcements of the Company dated 26 May 2016, 15 June 2016, 12 December 2017 and 19 December 2017, respectively.

Equipment Purchase Agreements and Finance Lease Agreement

On 7 February 2018, Baotou City Yinfeng Huili New Energy Investment Limited ("**Baotou Yinfeng**"), an indirect wholly owned subsidiary of the Company, Hengqin Financial Investment Leasing Company Limited ("**Hengqin FI**"), Baotou Tianshun Wind Power Equipment Company Limited ("**Tianshun**") and Suzlon Energy (Tianjin) Limited ("**Suzlon Tianjin**") entered into the equipment purchase agreements (in supersede of the first equipment purchase agreements signed by Baotou Yinfeng with Tianshun and Suzlon Tianjin, respectively), pursuant to which Hengqin FI agreed to purchase (i) 23 sets of SUZLON s88 wind power towers and 1 set of SUZLON s97 wind power tower from Tianshun at consideration of RMB23,282,000; and (ii) 17 sets of SUZLON s88 wind power generators from Suzlon Tianjin at an consideration of RMB136,375,394 (collectively referred to as the "**Wind Farm Equipment**"). On the same date, Baotou Yinfeng and Hengqin FI also entered into a finance lease agreement, pursuant to which Hengqin FI agreed to lease the Wind Farm Equipment to Baotou Yinfeng for a period of 60 months at a total lease payment of RMB154,960,017 of which RMB141,929,817 shall be paid in twenty instalments as for the first phrase and the remaining RMB13,030,200 shall be paid in another twenty instalments as for the second phrase.

Up to 31 December 2018, the Company has drawn down an aggregate amount of RMB117,236,800.

Further details are set out the announcements of the Company dated 13 April 2018 and 3 May 2018 respectively.

Finance Lease Arrangement

On 11 September 2018, Jiyin Financial Leasing Company Limited ("**Jiyin Leasing**") and Hongsong entered into a finance lease agreement and a asset transfer agreement ("**Finance Lease Arrangements**"), pursuant to which Jiyin Leasing agreed to purchase the wind power generators and the ancillaries of the Hongsong phase 6 wind power energy project undertaken at the Hebei Pui Feng wind power farm*（河北沛楓風電場）by Hongsong, at an aggregate consideration of RMB120,000,000, which shall be leased back to Hongsong for a term of 3 years at a total lease payment of approximately RMB132,291,681.

Further details of the Finance Lease Arrangements are set out of the announcement of the Company dated 11 September 2018.

* *For identification purpose only.*

Issuing of Convertible Notes 2

On 24 April 2018, the Company entered into a placing agreement (the "**Placing Agreement 2**") with Golden Rich Securities Limited (the "**Placing Agent 2**"), an independent third party, pursuant to which the Placing Agent 2 has conditionally agreed to procure the placee(s) on a best effort basis during the placing period to subscribe for the convertible notes to be issued by the Company of up to an aggregate principal amount of HKD174,115,000, with the conversion rights to convert the outstanding principal amount of the convertible notes into the Shares at an initial conversion price of HKD0.485 per conversion share (the "**Convertible Notes 2**").

Assuming full conversion of the Convertible Notes 2, a total of 359,000,000 shares of the Company would be allotted and issued, representing (i) approximately 19.95% of the existing issued share capital of the Company as at the date of the Placing Agreement 2; and (ii) approximately 16.63% of the issued share capital of the Company as enlarged by the allotment and issue of the conversion shares upon full conversion of the Convertible Notes 2.

On 11 May 2018, the Convertible Notes 2 in the aggregate principal amount of HKD174,115,000 were issued by the Company in accordance with the terms of the Placing Agreement 2 and the relevant supplemental deed entered into on 30 April 2018. The net proceeds generated from the issue of Convertible Notes 2, after deducting the Placing Agent 2's commission and other related expenses payable by the Company, amounted to approximately HKD172,293,000.

The Company intended to apply the net proceeds from the issue of Convertible Notes 2 as to (i) approximately 80% for the repayment of the outstanding loan borrowings of the Group; and (ii) approximately 20% as the Group's general working capital.

As at 31 December 2018, all the net proceeds from the Convertible Notes 2 had been utlilised in repaying the outstanding loan borrowing of the Group.

As at 31 December 2018, no conversion share has been allotted or issued from the conversion of the Convertible Notes 2.

Further details of the issuance of Convertible Notes 2 are set out in the announcements of the Company dated 24 April 2018, 30 April 2018 and 11 May 2018 respectively.

Issue of Convertible Bonds

On 31 December 2018, the Company, Filled Converge Limited ("**Filled Converge**") and Well Foundation Company Limited ("**Well Foundation**") entered into a subscription agreement, pursuant to which the Company conditionally agreed to issue and (i) Filled Converge conditionally agreed to subscribe for the convertible bonds (the "**Convertible Bonds**") in the principal amount of HK$294,183,000 and (ii) Well Foundation conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK$19,612,000. The Convertible Bonds are in aggregation in the amount of HK$313,795,000 due at 2021 and extendable to 2022 at an interest rate of 8 per cent per annum, with the conversion rights to convert the outstanding principal amount of the Convertible Bonds into the Shares at an initial conversion price of HK$0.485 per conversion share.

Assuming full conversion of the Convertible Bonds, a total of 647,000,000 new shares of the Company, being the conversion shares, would be allotted and issued, representing (i) approximately 35.96% of the issued share capital of the Company as at the date of the subscription agreement; and (ii) approximately 26.45% of the issued share capital of the Company as enlarged by the allotment and issue of the conversion shares upon full conversion of the Convertible Bonds.

The Company intended to apply the net proceeds from the issue of Convertible Bonds as to (i) approximately 39% for the repayment of bank loan(s); (ii) approximately 57% for the redemption of the existing convertible bonds; and (iii) approximately 4% for general working capital of the Group.

Further details of the issuance of Convertible Bonds are set out in the announcements of the Company dated 31 December 2018 and 1 February 2019, and the circular of the Company dated 30 January 2019.

Capital Raising

During the year ended 31 December 2018, save as disclosed in this report, the Group did not have any capital raising activity.

Material Acquisition and Disposal

There were no material acquisition and disposal of subsidiaries and associated companies by the Group for the year ended 31 December 2018.

Business Cooperation

On 25 July 2014, the Company entered into a non-legally binding cooperation agreement with China Create Financial Holding Group Co., Ltd. ("**China Create**") which shall remain in effect for 5 years in respect of development financing, aiming at integrating China Create's advantage in financing and the Group's advantage to build a comprehensive and in depth strategic comparative relationship.

The scope of the cooperation includes the following:

(i) Development, construction and operation of new-energy projects in China, the United States, Europe and Asia-Pacific region;

(ii) Acquisition and reorganisation of technologies, businesses and assets in relation to the business of new-energy; and

(iii) Cooperation in respect of financing consultation and financial products.

According to the business development planning and investment needs of the Company, from 2014 to 2019, the investment amount of parties in various financial products shall be RMB10 billion, subject to contracts or approved documents to be entered into between parties.

The Company has agreed that, with the same conditions offered, it shall give priority in using financial products and services of China Create, and that each investment, fund, guarantee or loan obtained by the Company from China Create shall be used for the purpose as designated under relevant contract or approved documents.

Details of the cooperation agreement are set out in the announcement of the Company dated 25 July 2014.

Up to the year ended 31 December 2018, no legal binding contract or approved document has been entered between the parties.

Pledge of Assets

As at 31 December 2018, the Group has pledged certain property, plant and equipment and certain leasehold land including in lease prepayments with a carrying value of approximately RMB877,271,000 (31 December 2017: approximately RMB1,035,188,000), and trade and other receivables with a carrying value of approximately RMB242,996,000 (31 December 2017: approximately RMB200,986,000) as security for the borrowings obtained by the Group. As at 31 December 2018 and 31 December 2017, the issued share capital of certain subsidiaries of the Company were pledged for borrowings obtained by the Group.

Contingent Liabilities

As at 31 December 2018 and 31 December 2017, the Group had no material contingent liabilities.

Important Events Occurred Since the End of the Reporting Period

For details, please refer to Note 38 to the consolidated financial statements.

Employees

As at 31 December 2018, the Group had approximately 140 full-time employees (2017: approximately 140 employees) in Hong Kong and the PRC in respect of the Group's operations. For the year ended 31 December 2018, the relevant staff costs (including directors' remuneration) were approximately RMB40,360,000 (2017: approximately RMB39,408,000). The Group's remuneration and bonus packages were given based on performance of employees in accordance with the general standards of the Group's salary policies.

The Board adopted a share option scheme on 1 June 2015. During the year ended 31 December 2018, no share options were granted under the share option scheme.

DIRECTORS

As at the date of this report, the Board comprises seven Directors, among whom four are executive Directors and the remaining three are independent non-executive Directors.

EXECUTIVE DIRECTORS

Mr. Zhang Zhixiang（張志祥）("Mr. Zhang"), aged 51, is the chief executive officer of the Company and an executive Director. He is also an authorised representative of the Company, a member of each of the remuneration committee and nomination committee of the Company. He was appointed as an executive Director on 7 July 2010.

He graduated from the School of Taxation of the Central Institute of Finance（中央財政金融學院）(now known as the Central University of Finance and Economics（中央財經大學）) in 1991 and received a bachelor's degree in economics. He joined Langcheng as the vice general manager in December 2005. He was appointed as a director and the chairman of the board of Hongsong in May 2013.

Mr. Zhang is a director of, and the sole beneficial owner of the share capital in, Diamond Era Holdings Limited ("**Diamond Era**"), a substantial shareholder of the Company interested in 539,562,325 shares, representing approximately 29.99% of the issued share capital of the Company as at 31 December 2018. As at the date of this report, Mr. Zhang is also the sole beneficial owner of the share capital in, Filled Converge Limited ("**Filled Converge**"), which holds the convertible bonds issued by the Company in the principal amounts of HK$294,183,000. Assuming the conversion right of the convertible bonds were exercised in full, the total of 606,562,887 new Shares will be issued to Filled Converge, representing approximately 24.80% total issued Shares assuming full exercise of the conversion rights attached to all convertible bonds issued by the Company on 25 March 2019.

* *For identification purposes only*

Mr. Ning Zhongzhi（寧忠志）("Mr. Ning"), aged 55, was appointed as an executive Director on 28 January 2013.

Mr. Ning graduated from Huabei Electric Workers Intermediate Specialised College（華北電業職工中等專業學校）and Hebei Radio and TV University（河北廣播電視大學）in labour and remuneration in October 1984 and in human relation management in July 1988, respectively. Mr. Ning was qualified as a senior economist by the Senior Specialty and Technology Qualification Judging Committee of the State Power Corporation of China（國家電力公司高級專業技術資格評審委員會）in April 2001. Mr. Ning has long been working in the electricity power industry, being a key responsible staff of county-level power supply enterprise, and was the head of human resources department since March 2003. Mr. Ning was the director and chairman of Hongsong from May 2010 to May 2013.

Mr. Li Tian Hai（李天海）("Mr. Li"), aged 52, was appointed as an executive Director on 14 July 2015.

Mr. Li graduated from 東北財經大學 (Dongbei University of Finance and Economics*) with a master's degree in economics in 2004. Mr. Li also obtained the qualification of senior accountant conferred by 國家電力公司 (National Power Company*) (currently known as "State Grid Corporation of China") in 2003. From 1992 to 2004, Mr. Li was the supervisor of the investment department and vice chief accountant in 達拉特發電有限公司. From 2004 to 2007, Mr. Li was the chief accountant in 上都發電有限責任有限公司 (Shangdu Electricity Limited Company*). During his tenure with 北方龍源風力發電有限公司 (Northern Long Yuan Wind Power Limited Company*) from 2007 to 2014, he served as the deputy general manager as well as the chief accountant. Since 2014 to present, Mr. Li was the deputy general manager in 華能集團北方聯合電力公司錫林郭勒熱電公司 (China Huaneng Group North United Power Corporation Xilin Gol Thermo Electricity Corporation*). Mr. Li is experienced in the power systems and financial arrangements of the state-owned enterprises in PRC.

Mr. Peng Ziwei（彭子瑋）("Mr. Peng"), aged 32, was appointed as an executive Director on 20 June 2016.

Mr. Peng graduated from Beijing Information Science & Technology University with a bachelor's degree in financial management in July 2008, and further obtained a master's degree in economics from University at Buffalo, the State University of New York in June 2010.

From May 2011 to December 2015, Mr. Peng worked for various investment companies in the PRC, and was responsible for conducting analyst reports on pre-IPO companies, resolving issues regarding overseas assets allocation, formulating project feasibility analysis on project investment and development of marketing strategies and objectives for certain sales plans. Mr. Peng is currently a director of Diamond Era, a substantial shareholder of the Company.

* *For identification purposes only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Qu Weidong（屈衛東）("Mr. Qu"), aged 52, is an independent non-executive Director, the chairman to the nomination committee of the Company and a member of each of the audit committee and remuneration committee of the Company. Mr. Qu was appointed as an independent non-executive Director on 11 December 2010.

Mr. Qu graduated from the Tsing Hua University（清華大學）in the People's Republic of China in 1990 with a bachelor's degree in engineering. He obtained a master's degree in international business at the University of Auckland in 1999. Mr. Qu is now the chairman of Beijing Eastern Forest JS Investment Limited（北京東霖鉅盛投資有限公司）. Mr. Qu has over 22 years of in the field of investment, of which 8 years of experience in investment banking. He was a director and general manager of Beijing Zero2IPO Venture Investment Management Centre（北京清科創業投資管理中心）. He was the investment director of Bluerun Investment Consulting (Beijing) Co., Ltd. from June 2007 to September 2010, and Capinfo Company Limited（首都信息發展股份有限公司）from April 2005 to July 2007. He worked at the headquarters of the investment bank of China Galaxy Securities Co., Limited （中國銀河證券股份有限公司投資銀行總部）from March 2003 to July 2005.

Ms. Hu Xiaolin（胡曉琳）("Ms. Hu"), aged 50, is an independent non-executive Director, the chairman to the remuneration committee and a member of each of the audit committee and nomination committee of the Company. Ms. Hu was appointed as an independent non-executive Director on 9 May 2011.

She graduated from Northwest University（西北大學）, the PRC with a bachelor's degree in literature in July 1990. She obtained a master of literature from Capital Normal University（首都師範大學）, the People's Republic of China in July 1995. Ms. Hu worked in the news commentary department and sports centre of Beijing Television（北京電視台）from 1995 to 2005. She had worked as a producer and a general director（總導演）of a section in Shanghai China Business Network Co. Ltd.（上海第一財經傳媒有限公司） from January 2005 to March 2008. She has been a director and a general manager of Shanghai Shile Yongdao Culture Communication Co., Ltd.（上海世樂永道文化傳播有限公司）since March 2008. Since February 2016, Ms. Hu is the president of Fortune Media Communication Co., Ltd.（財富視點傳媒有限責任公司）.

Mr. Jiang Senlin（姜森林）("Mr. Jiang"), aged 47, is an independent non-executive Director, the chairman to the audit committee of the Company and a member of each of the nomination committee and remuneration committee of the Company. Mr. Jiang was appointed as an independent non-executive Director on 31 January 2019.

Mr. Jiang, has been the vice-president and chief financial officer in Wonderland International Financial Holdings Limited（華德國際金融控股有限公司）since January 2018. Mr. Jiang worked in Beijing Renge Technology Corp. Ltd（北京仁歌科技股份有限公司）(NEEQ Code: 837824, voluntarily delisted in December 2018) as vice general manager and chief financial officer from September 2015 to December 2017. He also worked as chief financial officer (Asia) in Morningstar, Inc. (NASDAQ: MORN) from August 2009 to September 2015. Mr. Jiang qualified as an accountant in the People's Public of China in May 1998 and as an intermediate financial officer conferred by the Ministry of Personnel People's Republic of China in November 1997. Mr. Jiang completed his research program in Art and Culture*（文藝學）at Sichuan University in July 2000 and obtained his bachelor's degree in accountancy at the Central Institute of Finance（中央財政金融學院）(now known as the Central University of Finance and Economics) in June 1993.

* *For identification purpose only*

SENIOR MANAGEMENT

Mr. Wang Jian（王劍）("Mr. Wang"), aged 50, is the director and general manager of Hongsong, responsible for the daily operation of Hongsong. Mr. Wang was graduated in 2004 from China Agricultural University（中國農業大學）majoring at economic management professional. He obtained senior operating qualification in 2005 and obtained advanced project management qualification in 2006. Mr. Wang joined Hongsong in 1999 and involved in the establishment of Hongsong. He was appointed as the director and general manager of Hongsong since 2001, and he has over 14 years working experience in wind farm operation and management.

Mr. Lo, Gordon（盧家明）("Mr. Lo"), aged 39, is an authorised representative, chief financial officer and the company secretary of the Company. Mr. Lo joined the Group since December 2018. Mr. Lo graduated from the Hong Kong University of Science and Technology with a master of science degree in investment management. Mr. Lo is a member of both the Hong Kong Institute of Certified Public Accountants and The Taxation Institute of Hong Kong, and a Certified Tax Adviser. Mr. Lo has over 18 years of experience in audit, financial and taxation advisory services. He had worked in major international accounting firms, other Hong Kong listed company and MNCs before joining the Group.

Mr. Fan Guoliang（范國亮）("Mr. Fan"), aged 38, is the secretary of the Board of Hongsong. He is mainly responsible for the Board and the administrative management of the Group. Mr. Fan graduated from Hebei University of Science and Technology majoring Business Administration in 2005 and received a bachelor's degree in Management. He received a master's degree in economics from Central University of Finance and Economics in 2014. In March 2005, he joined Hongsong and served as the head of the secretary office of the Board, deputy director, directors of certain subsidiaries of the Group in the PRC, secretary of the board and deputy general manager.

COMPANY SECRETARY

Mr. Lo, Gordon（盧家明）, personal details of Mr. Lo are included in the paragraph headed "Senior Management" above.

Directors' Report

The Directors present this report and the audited consolidated financial statements for the year ended 31 December 2018 ("**the current year**").

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and the principal activities of the Group are wind farm operation. The activities of its principal subsidiaries are set out in note 15 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 and further discussion and analysis of the matters as required by Schedule 5 to the Companies Ordinance, Chapter 622, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business are set out in the section headed "Management Discussion and Analysis" of this report. Those discussions form part of this directors' report.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 82 of this report.

PROPOSED FINAL DIVIDEND

The Directors did not recommend the payment of dividends for the year ended 31 December 2018 (2017: NIL).

CLOSURE OF THE REGISTER OF MEMBERS

For determining entitlement to attend the forthcoming annual general meeting of the Company ("**AGM**"), the register of members of the Company will be closed from 29 May 2019 (Wednesday) to 3 June 2019 (Monday), both days inclusive, during which period no transfer of Shares will be registered. The record date will be on 3 June 2019 (Monday). In order to qualify for attending the AGM, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on 28 May 2019 (Tuesday).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 176 of this report.

PROPERTY, PLANT AND EQUIPMENT

During the current year, the Group acquired property, plant and equipment in the amount of approximately RMB22,276,000 (2017: approximately RMB11,928,000). Details of movements in the property, plant and equipment of the Group during the current year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

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

DONATIONS

No charitable or other donations were made by the Group during the current year (2017: Nil).

RESERVES

Details of movements in the reserves of the Company during the current year are set out in note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the relevant rules of the Cayman Islands, the Company's reserves available for distribution to Shareholders as at 31 December 2018 amounted to approximately RMB496,717,000.

DIRECTORS

The Directors during the current year and up to the date of this report were:

Executive Directors

Mr. Zhang Zhixiang *(Chief Executive Officer)*
Mr. Ning Zhongzhi
Mr. Li Tian Hai
Mr. Peng Ziwei

Independent non-executive Directors

Ms. Wong Wai Ling (resigned on 31 January 2019)
Mr. Qu Weidong
Ms. Hu Xiaolin
Mr. Jiang Senlin (appointed on 31 January 2019)

In accordance with Article 108(a) of the Company's articles of association (the "**Articles of Association**"), Mr. Ning Zhongzhi and Mr. Qu Weidong shall retire by rotation at the forthcoming AGM.

In accordance with Article 111 of the Company's Article of Association, Mr. Jiang Senlin shall retire at the forthcoming AGM.

All the retiring Directors, being eligible, offer themselves for re-election at the AGM.

BIOGRAPHIES OF DIRECTORS AND OTHER SENIOR MANAGEMENT

The details of the biographies of the existing Directors are set out in the section headed "Biographies of Directors and Senior Management" on page 25 to page 29 of this report.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors, namely, Ms. Wong Wai Ling, Mr. Jiang Senlin, Mr. Qu Weidong and Ms. Hu Xiaolin, an annual confirmation of his or her independence pursuant to Rule 3.13 of the Listing Rules, and as at the date of this report, the Company still considers all the independent non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS OF THE RETIRING DIRECTORS

Mr. Ning Zhongzhi, being executive Director, has entered into a service agreement with the Company for a term of one year expiring on 27 January 2020, subject to the termination provisions therein.

Each of Mr. Qu Weidong and Mr. Jiang Senlin, being independent non-executive Directors, has entered into a service agreement with the Company for a term of two years, subject to the termination provisions therein.

None of the Directors being proposed for re-election at the forthcoming AGM has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors has or had interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTION, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

Save as discloses in note 33 to the consolidated financial statements, no transaction, arrangement and contract of significance in relation to the Group's business to which the Company's subsidiaries, fellow subsidiaries or its parent company was a party and in which a Director has a material interest, where directly or indirectly, subsisted at the end of the year or at any time during the current year.

SHARE OPTION SCHEME

Share Option Scheme

Pursuant to an ordinary resolution passed by the Shareholders on 1 June 2015, a share option scheme (the "**Share Option Scheme**") was adopted by the Company to provide appropriate incentives or rewards to eligible persons for their contributions or potential contributions to the Group.

Share Option Scheme shall be valid for 10 years from 1 June 2015 and the particulars of the Share Option Scheme are set out in note 27 to the consolidated financial statements.

The following table discloses movements in the Company's share options held by each of the Directors, employees of the Company and other grantees in aggregate granted under the scheme during the year ended 31 December 2018:

	Number of unlisted share options								
Name and category of participant	As at 1 January 2018	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	As at 31 December 2018	Grant date	Exercise period	Exercise price per share	Price per share at grant date
Directors									
Zhang Zhixiang	4,620,000	—	4,620,000	—	—	31 July 2015	3 years commencing from 31 July 2015	HKD1.07	HKD1
Ning Zhongzhi	4,620,000	—	4,620,000	—	—	31 July 2015	3 years commencing from 31 July 2015	HKD1.07	HKD1
Other employees									
In aggregate	31,500,000	—	31,500,000	—	—	31 July 2015	3 years commencing from 31 July 2015	HKD1.07	HKD1
Ex-director									
Zheng Xian Tao *(note i)*	4,620,000	—	4,620,000	—	—	31 July 2015	3 years commencing from 31 July 2015	HKD1.07	HKD1
Li Baosheng *(note ii)*	4,620,000	—	4,620,000	—	—	31 July 2015	3 years commencing from 31 July 2015	HKD1.07	HKD1
Other grantees									
In aggregate	74,940,000	—	74,940,000	—	—	31 July 2015	3 years commencing from 31 July 2015	HKD1.07	HKD1
TOTAL	**124,920,000**	**—**	**124,920,000**	**—**	**—**				

Note:

(i) Mr. Zheng Xian Tao resigned as an executive Director on 20 June 2016.

(ii) Mr. Li Baosheng resigned as the chairman of the Board of Directors and an executive Director on 6 November 2015.

VALUATION OF SHARE OPTIONS

The details of the model and significant assumptions used to estimate the fair value of the share options granted by the Company to the eligible participants are set out in note 27 to the consolidated financial statements of the Company.

EQUITY-LINKED AGREEMENTS

(a) Convertible notes and convertible bonds

Details of the convertible notes and convertible bonds of the Company are set out in the sub-sections headed "Extension of Convertible Notes, Issuance of Convertible Notes 2 and Issuance of Convertible Bonds" of the section headed "Management Discussion and Analysis" of this report.

(b) Share Options

Details of the Share Option Scheme of the Company are set out in the section headed "Share Option Scheme" above and note 27 to the consolidated financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Share Option Scheme as disclosed above, at no time during the current year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

MATERIAL CONTRACTS

Save as disclosed in this report, no contract of significance has been entered into during the current year between the Company or any of its subsidiaries and the controlling shareholder (if any) or any of its subsidiaries.

DISCLOSURE OF INTEREST

(a) Interests of Directors and chief executive of the Company

As at the date of this report, save as disclosed below, none of the Directors or chief executive had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571) ("**SFO**") which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Directors or chief executives of the Company is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company pursuant to section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules:

Long positions in shares and underlying shares of the Company

	Number of shares/underlying shares			Approximate
Name of Directors	**Corporate interests**	**Convertible bonds**	**Total**	**percentage of shareholdings**
Zhang Zhixiang ("**Mr. Zhang**")	539,562,325 *(Note 1)*	606,562,887 *(Note 2)*	1,146,125,212	46.85%

Notes:

1. Mr. Zhang is the beneficial owner of the entire issued shares of Diamond Era. As at 31 December 2018, Diamond Era was interested in 539,562,325 Shares of which 308,867,000 shares were pledged to a commercial bank in relation to a borrowing by the bank to the Group. Mr. Zhang is deemed, or taken to be, interested in the shares of the Company in which Diamond Era is interested for the purpose of the SFO.

2. Filled Converge Limited is wholly-owned by Mr. Zhang which holds the convertible bonds issued by the Company in the principal amounts of HK$294,183,000. Assuming the conversion right of the convertible bonds were exercised in full, the total of 606,562,887 new Shares will be issued to Filled Converge, representing approximately 24.80% total issued Shares assuming full exercise of the conversion rights attached to all convertible bonds issued by the Company on 25 March 2019.

(b) Interests of substantial Shareholders and other persons

As at the date of this report, save as disclosed below, the Directors were not aware of any person (other than the Directors or chief executives of the Company) who had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Number of Shares & Underlying Shares held/ interested	Nature of interest	Position	Approximate percentage of shareholdings
Diamond Era *(Note 1)*	539,562,325	Beneficial owner	Long	22.05%
Filled Converge Limited *(Note 2)*	606,562,887	Beneficial owner	Long	24.80%

Notes:

1. As at 31 December 2018, Diamond Era was interested in 539,562,325 Shares. Diamond Era is wholly-owned by Mr. Zhang, an executive Director.

2. Filled Converge Limited is wholly-owned by Mr. Zhang which holds the convertible bonds issued by the Company on 25 March 2019 in the principal amounts of HK$294,183,000. Assuming the conversion right of the convertible bonds were exercised in full, the total of 606,562,887 new Shares will be issued to Filled Converge, representing approximately 24.80% total issued Shares assuming full exercise of the conversion rights attached to all convertible bonds issued by the Company on 25 March 2019.

CONNECTED TRANSACTIONS

Save as otherwise disclosed in this report, all the related party transactions in 2018 as disclosed in note 33 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with the relevant reporting, announcement or independent shareholders' approval requirements. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the current year attributable to the Group's largest and five largest customers and suppliers, respectively, were as follow:

— the largest customer	100%
— five largest customers	100%
— the largest supplier	31%
— five largest suppliers	67%

To the knowledge of the Directors, none of the Directors, their associates or any Shareholders owning more than 5% of the Company's issued share capital, had any interest in any of the five largest customers or suppliers of the Group.

BANK LOANS

Particulars of bank loans are set out in note 25 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISIONS

Pursuant to the Articles of Association, the Directors, managing Directors, alternate Directors, Auditors, secretary and other officers for the time being of the Company shall be indemnified and secured harmless out of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or about the execution of their duty in their offices or in relation thereto.

The Company has arranged appropriate directors' and officers' liabilities insurance coverage for the Directors and officers of the Company throughout the current year.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the remuneration committee of the Company (the "**Remuneration Committee**") on the basis of the merit, qualifications and level of competence of the employees.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, their individual performance and comparable market statistics.

The Company has adopted share option schemes as an incentive to Directors and eligible employees. Details of the Share Option Scheme are set out in note 27 to the consolidated financial statements and the paragraph headed "Share Option Scheme" in this Directors' Report.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there was a sufficient public float of the shares as prescribed under the Listing Rules.

ACQUISITIONS AND DISPOSAL

Save as disclosed in the section headed "Material Acquisition and Disposal" in the Management and Discussion Analysis session, there are no material acquisition and disposal during the current year.

ENVIRONMENTAL POLICIES AND PERFORMANCE

Among the global community focusing increasingly on reducing the dependence on conventional fossil fuels to mitigate global warming caused by greenhouse gases, China has also identified wind power generation as a key component of national economic growth. The Company recognises that clean energy has become an indispensable part of the environment and economy for the country and even the globe. The Company is committed to developing wind farm projects to provide the state power grid with clean and renewable energy, easing the dependence on conventional fossil fuels and hence effectively avoiding greenhouse gas emissions, serving as an important direct towards the Company's sustainable development. Details of environmental policies and performance are set out in the Environmental, Social and Governance Report of this report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Board pays attention to the Company's policies and practices on compliance with legal and regulatory requirements in both the PRC and in Hong Kong. External compliance and legal advisers are engaged to ensure transactions and business performed by the Group are within the applicable legal framework. Updates on applicable laws, rules and regulations are brought to the attention of relevant employees and operation units from time to time. During the year ended 31 December 2018 and up to the date of this report, there is no material non-compliance with the relevant prevailing laws and regulation in the PRC and in Hong Kong by the Company.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Company emphasizes the protection of employees' legitimate rights and occupational health and safety, as well as observing Labour Law of the People's Republic of China and standards relating to occupational health in the wind power industry. Meanwhile, we understand that maintaining a close work relationship with the National Grid and suppliers has a far-reaching impact on the Company's sustainable development. During the current year, the Company maintains a sound relationship with the National Grid and suppliers without any major disputes.

IMPORTANT EVENTS OCCURRED SINCE THE END OF THE REPORTING PERIOD

Details of important events occurred since the end of the reporting period are set out in the section headed "Management Discussion and Analysis — Important Events Occurred Since the End of the Reporting Period" in this report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

CORPORATE GOVERNANCE

The Company is committed to maintain the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report of this report.

AUDITORS

The accounts for the years ended 31 December 2016 and 2017 were audited by HLB Hodgson Impey Cheng Limited, which has resigned as the auditor of the Company with effect from 24 December 2018. The accounts for the year ended 31 December 2018 were audited by ZHONGHUI ANDA CPA Limted whose term of office will expire upon the forthcoming AGM. A resolution for the re-appointment of ZHONGHUI ANDA CPA Limited as the auditors of the Company for the subsequent year is to be proposed at the AGM.

On behalf of the Board

Zhang Zhixiang
Executive Director & Chief Executive Officer

Hong Kong

28 March 2018

CORPORATE GOVERNANCE

The Group is committed to maintaining high standards of corporate governance in order to raise the quality of management and protect the interests of shareholders of the Company as a whole. To honor these commitments, the Group believes that good corporate governance reflects that a responsible enterprise must be credit worthy and transparent and abide by a high level of code of practice. Accordingly, the Company has adopted and applied corporate governance principles that emphasise a quality Board, effective internal controls, stringent disclosure practices, transparency and accountability. It is, in addition, committed to continuously improving these practices and inculcating an ethical corporate culture.

CORPORATE GOVERNANCE CODE

For the Reporting Period, the Company has adopted and complied with the code provisions (the "**Code Provision(s)**") set out in the Corporate Governance Code (the "**Code**") in Appendix 14 to the Listing Rules, except for the deviations from Code Provisions as described below:

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Mr. Qu Weidong and Ms. Hu Xiaolin, both of which are the independent non-executive Directors, did not attend the general meeting held during the year ended 31 December 2018 because they were out of town for other businesses.

Under Code Provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. As at the date of this report, there has been no chairman of the Board (the "**Chairman**") in the Company. Mr. Zhang Zhixiang acted as the chief executive officer of the Company, and is responsible for all day-to-day corporate management matters. The Board does not have the intention to fill the position of the Chairman at present and believes that the absence of the Chairman will not have adverse effect to the Company, as decisions of the Company will be made collectively by the Board. The Board will keep reviewing the current structure of the Board and the need of appointment of a suitable candidate to perform the role of the Chairman. Appointment will be made to fill the post to comply with Code Provision A.2.1 of the Code if necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Director's securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules. The Company had made specific enquiries with all the Directors and all the Directors confirmed that they had complied with the practice as contained in the Model Code and the aforesaid code of conduct adopted by the Company for the year ended 31 December 2018.

Senior management and those staff who are more likely to be in possession of unpublished price-sensitive information, inside information or other relevant information in relation to the Group have adopted rules based on the Model Code. These senior management and staff have been individually notified and advised about the Model Code by the Company. No incident of non-compliance of the Model Code by relevant senior management members was noted by the Company during the year ended 31 December 2018.

THE BOARD OF DIRECTORS

Board Responsibility and Delegation

The Board is collectively responsible for the formulation of all commercial policies and strategies in relation to the business operation of the Group to ensure that ample resources and effective internal controls (including financial controls) are in place. The Board has the responsibility to establish the Company's policies and overall strategy of the Group, and provides effective supervision of the management of the Group's affairs. The Board also supervises the financial performance of the Group's business operations and internal controls. All the Directors are able to obtain information on the Group's business on a timely basis and to make further inquiries if needed.

The Board oversees the Group's overall strategic plans, approves major funding and investment proposals and reviews the financial performance of the Group. The Board supervises the management of the business and affairs of the group.

The management, consisting of executive Directors along with other senior management of the Group, is delegated with the responsibilities to carry out policies set by the Board from time to time and supervises the day-to-day management of the Group. The management of the Group meet regularly to review the business performance of the Group as a whole, co-ordinate overall resources and make financial and operational decisions.

The Board has delegated some of its functions to the board committees, details of which are set out below. Matters specifically reserved for the Board include but not limited to approval of financial statements, dividend policy, significant changes in accounting policies, material contracts or transactions, significant appointments such as company secretary of the Company (the "**Company Secretary**") and external auditor, terms of reference of board committees, as well as major corporate policies such as code of conduct and whistle-blowing policy.

The Company has arranged directors and officers liability and company reimbursement insurances for its Directors and officers in accordance with Code Provision A.1.8 of the Code.

The Board is responsible for performing the corporate governance functions set out in Code Provision D.3.1 of the Code. As at the date of this report, the Board has reviewed and monitored: (a) the Company's corporate governance policies and practices, (b) training and continuous professional development of Directors and senior management, (c) the Company's policies and practices on compliance with legal and regulatory requirements, (d) the Company's code of conduct and (e) the Company's compliance with the Code disclosures requirements.

COMPOSITION AND APPOINTMENT

Composition

As at the date of this report, the Board comprises seven Directors, of whom four are executive Directors and three are independent non-executive Directors. The composition of the Board during the year ended 31 December 2018 and up to the date of this report is as follows:

Executive Directors

Mr. Zhang Zhixiang *(Chief Executive Officer)*
Mr. Ning Zhongzhi
Mr. Li Tian Hai
Mr. Peng Ziwei

Independent Non-executive Directors

Mr. Qu Weidong
Ms. Hu Xiaolin
Mr. Jiang Senlin *(appointed on 31 January 2019)*
Ms. Wong Wai Ling *(resigned on 31 January 2019)*

The term of appointment of each of the independent non-executive Directors is 2 years.

The details of the biographies of the existing Directors are set out in the section headed "Biographies of Directors and Senior Management" on page 25 to page 29 of this report.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, during the year ended 31 December 2018, there were three independent non-executive Directors in the Board and the number of independent non-executive Directors represents at least one-third of the Board, among the three independent non-executive Directors, Ms. Wong Wai Ling, possesses appropriate professional qualification in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Board considers that the independent non-executive Directors are all independent persons with appropriate qualifications or expertise and the Company has complied with the relevant requirements of the Listing Rules.

The Company has received from each of its independent non-executive Directors an annual confirmation of their independence pursuant to the requirements under the Listing Rules. The Company, based on such confirmations, considers all independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin have satisfied the independence requirement under Rule 3.13 of the Listing Rules.

As at 31 December 2018, Mr. Zhang Zhixiang is a director and holds 100% of the issued share capital of Diamond Era, which is substantial shareholder of the Company holding approximately 29.99% of the issued share capital of the Company.

Save as disclosed above, the Directors confirmed that there was no relationship (including financial, business, family or other material/relevant relationship) between the Board members or other major events or relevant matters that were required to be disclosed.

Board meetings

The Board has supervised and controlled the Company's affairs effectively, and relevant decisions were made in the Company's best interests. For the year ended 31 December 2018, the Board had held 16 Board meetings to consider (of which included) the Company's transactions, financial affairs and other matters under the Articles of Associations to carry out its duties. The Board has adopted a telephone-conference system to raise the attendance rates, the average rate of attendance was between 88% and 96%.

For the year ended 31 December 2018, the Board has complied the following statistics:

Director's name	Attendance rate for Board meetings and general meetings (Note 1) Attendance/ Number of Board meetings held	Percentage (%)	Attendance/ Number of general meetings held	Percentage (%)
Executive Directors				
Mr. Zhang Zhixiang *(Chief Executive Officer)*	22/25	88	1/1	100
Mr. Ning Zhongzhi	22/25	88	0/1	0
Mr. Li Tian Hai	22/25	88	0/1	0
Mr. Peng Ziwei	22/25	88	1/1	100
Independent non-executive Directors				
Ms. Wong Wai Ling *(Resigned on 31 January 2019)*	24/25	96	1/1	100
Mr. Qu Weidong	23/25	92	0/1	0
Ms. Hu Xiaolin	24/25	96	0/1	0

Note:

1. By reference to the number of meetings held during his/her tenure.

PROCEDURES OF BOARD MEETINGS

The Board has established meeting procedures and has complied with the provisions of the Code.

The procedures of Board meetings provide that the Board shall meet at least four times each year and can convene additional meeting when necessary. Directors can express different opinions at Board meetings. Important decisions will be made only after detailed discussions by the Board. Directors who have conflict of interest or material interests in the relevant transactions will not be counted towards the quorum of the meeting and shall abstain from voting on the relevant resolutions. Minutes of Board meetings and other committee meeting will be drafted by the Company Secretary and will be sent to all members for their comments and records respectively. Directors are entitled to inspect the minutes at any time.

INDUCTION AND PROFESSIONAL DEVELOPMENT

Each newly appointed Director is provided with necessary induction and information to ensure that he or she has a proper understanding of the Company's operations and businesses as well as his or her responsibilities under the relevant statutes, laws, rules and regulations.

During the current year, Directors are provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices. In particular, training sessions covering topics including the Code and the disclosure of inside information had been held during the year.

According to the records provided by the Directors, a summary of training received by the Directors since 1 January 2018 up to 31 December 2018 is as follows:

Director's name	**Reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements/attending briefing sessions**
Executive Directors	
Mr. Zhang Zhixiang *(Chief Executive Officer)*	✓
Mr. Ning Zhongzhi	✓
Mr. Li Tian Hai	✓
Mr. Peng Ziwei	✓
Independent non-executive Directors	
Ms. Wong Wai Ling *(Resigned on 31 January 2019)*	✓
Mr. Qu Weidong	✓
Ms. Hu Xiaolin	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under Code Provision A.2.1 of the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the current year, there have been no chairman of the Board (the "**Chairman**") in the Company. Mr. Zhang Zhixiang acted as the chief executive officer (the "**Chief Executive Officer**") of the Company, and is responsible for all day-to-day corporate management matters. The Board does not have the intention to fill the position of the Chairman at present and believes that the absence of the Chairman will not have adverse effect to the Company, as decisions of the Company will be made collectively by the executive Directors. The Board will keep reviewing the current structure of the Board and the need of appointment of a suitable candidate to perform the role of the Chairman. Appointment will be made to fill the post to comply with Code Provision A.2.1 of the Code if necessary. One meeting has been held by the Chief Executive Officer, without the presence of other Directors during the current year.

AUDITOR'S REMUNERATION

During the year ended 31 December 2018, the amount of fee paid or payable to the auditors of the Group was as follows:

Auditors	HLB Hodgson Impey Cheng Limited	ZHONGHUI ANDA CPA Limited
Type of service	Audit services	Audit services
Fee	HKD1,150,000	HK$1,200,000

No non-audit services has been provided by the auditors to the Group.

ACCOUNTABILITIES AND AUDIT

The Directors understand their responsibility to prepare the Group's financial statements according to relevant legal provisions and the Hong Kong Generally Accepted Accounting Principles to ensure that the financial reports present a true and fair view of the Group's financial conditions. In the preparation of the Group's financial reports for the year ended 31 December 2018, the Directors had adopted and implemented the appropriate accounting policies, made prudent and reasonable judgments and projections and prepared the financial statements on a going concern basis.

The Board had presented information on the Group's developments and various corporate information which aimed to be comprehensive, balanced and easily understood, including but not limited to the interim and yearly financial reports as stipulated in the Listing Rules, disclosure of and public announcement of information which influence the Shares and submitted reports to the regulatory authorities and made other disclosures pursuant to regulatory provisions.

The auditors' responsibilities are set out in the Independent Auditors' Report on pages 77 to 80 of this report.

The accounts for the year ended 31 December 2018 were audited by ZHONGHUI ANDA CPA Limited whose term of office will expire upon the AGM. The audit committee of the Board (the "**Audit Committee**") has recommended to the Board that ZHONGHUI ANDA CPA Limited be re-appointed as the auditors of the Company at the AGM.

RISK MANAGEMENT AND INTERNAL CONTROL

Effectively implementing the risk management and internal control measures is an ongoing responsibility of the Board and the management of the Company. The monitoring objectives of the Company are to provide reasonable assurance that the Company's operational management is lawful and compliant, the assets are safe, the financial statements and related information are true, fair and complete, and operational efficiency and effectiveness are enhanced, thereby the development strategy of the Company is accomplished.

The Company paid particular attention to the ongoing optimization of the internal control, including risk assessment and internal control evaluation, into its daily supervision and management of the Company. The internal control awareness and system are gradually strengthened, while the duties are clearer segregated and elaborated. Through effective assessment in accordance with the confirmative risk assessment and internal control evaluation plan, the internal control infrastructure through the said assessment and evaluation is further established. With a summary of the general defects identified in the operating system of the Company come the proposed solutions and remediations.

The Board acknowledges its responsibility to evaluate and determine the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and to ensure that the Group establishes and maintains appropriate and effective risk management and internal control systems. However, risk-taking is an unavoidable necessity and an accepted part of the Company's business, effective risk management is an integral to preserving competitive advantages and ensures the Company achieves its strategic and business objectives. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk Management

Risk management applies to all aspects of the Group's business and is a critical component in developing strategic plans, preparing operational plans and budgets, approving investment projects and managing project plans. The major procedures of risk assessment of the Company consist of: goal setting, information collection and risk identification, risk analysis, response to risk, risk monitoring and reporting.

Business units and divisions specify the risk management strategies and the solutions to risk management, and set a risk alert level and the relevant strategies pursuant to the prescribed risk tolerance corresponding to the operating objectives. Solutions to risk management are established for each significant risk based on the risk management strategy. Combining with the development stages and the business expansion needs, information relating to changes in risks is continuously collected for risk identification and risk assessment, and for prompt adjustment to the strategies in response to risks.

The management of the Group will follow up on and evaluate the management of significant risks on a regular basis.

The Group integrates the risk management and internal control system into various business processes, and adopts various measures and procedures to evaluate and prudently improve the effectiveness of the risk management and internal control system, including organizing the Group and affiliated companies to conduct self-assessment on risks on a regular basis, and to conduct independent risk assessment and internal control evaluation as well.

Risks are evaluated by the Board and management based on the severity of the impact on the Company and the probability that the risk will occur.

Based on the risk evaluation, the Group will manage the risks as follows:

- Risk elimination: management may identify and implement certain changes or controls that in effect eliminate the risk entirely.

- Risk mitigation: management may implement a risk mitigation plan designed to reduce the likelihood and/or the severity of impact to an acceptable level.

- Risk acceptance: management may decide that the risk rating is acceptable for the Company meanwhile and as such no action is required. However, the risk would continue to be monitored to ensure the level of risk does not increase to an unacceptable level.

Controls and review

Policies and procedures are in place to ensure that relevant management directives are carried out and actions that may be needed to address risks are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties.

Control activities can be divided into operations, financial reporting and compliance, although there may, on occasion, be some overlap among them. The typical control activities adopted by Group companies include:

- analytical reviews: such as conducting reviews of actual performance versus budgets, forecasts, prior periods and competitors;

- direct functional or activity management: reviews of performance reports;

- physical controls: ensuring equipment, inventories and other assets are safeguarded and subjected to periodic checks; and

- segregation of duties: dividing and segregating duties among different people, with a view to strengthening checks and minimizing the risk of errors and abuse.

Inside Information

The Board of the Company is the governing body of inside information. In order to standardize the inside information management of the Group, the Board strengthens the confidentiality of inside information, maintains the principle of fairness of information disclosure, and protects the legitimate rights and interests of the Company and its shareholders, creditors and other stakeholders. The Company formulated a control system in accordance with relevant laws, regulations and rules by taking into consideration the actual situation of the Company.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Group:

- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission;
- closely communicates and seeks advice from its legal advisor in the assessment of the likely impact of any unexpected and significant event that may impact the price of the Shares or their trading volume and to determine whether the relevant information is considered inside information that needs to be disclosed as soon as reasonably practicable pursuant to the SFO and the Listing Rules;
- has included in its Corporate Code of Conduct a strict prohibition on the unauthorized use of confidential or inside information; and
- ensures, through its own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information.

Assessing the effectiveness of Risk Management and Internal Control Systems

The Board, via the Audit Committee, is responsible for the review and assessment of the major risks the Group faces and the review, approval and monitoring of the Group's response to such risks annually.

The Audit Committee oversees the risk management process and reviews the effectiveness of the risk management and internal control systems by performing the following procedures:

- Review with management annually those reports on compliance with the risk management policy;
- Discuss with management annually on the Group's major risks and the steps management has taken since then or should take to address and deal with such risks; and
- Review the effectiveness of the Group's risk management practices.

Management is responsible for ensuring the Group's business operations are being conducted in line with our risk management policy, taking into consideration changes in external environment and the Group's risk tolerance level.

In addition to the Board's oversight, the Group has developed a risk management process to identify, evaluate and manage significant risks and to remediate material internal control deficiencies (if any). Management, through the engagement of the independent internal control and risk advisory consultant, is responsible for the annual risk reporting process. The independent internal control and risk advisory consultant meets with members of the senior management to review and assess risks and discuss remedial measures to address material internal control deficiencies (if any), including any changes relevant to a given year. Risks are compiled, ratings assigned and mitigation plans documented. The risk assessment is reviewed by management and presented to the audit committee and the Board for their review.

The Group has in place effective processes and systems for the identification, capture and reporting of operational, financial and compliance-related information in a form and timeframe intended to ensure that staff carry out their designated responsibilities.

2018 Risk Management and Internal Control Process

On behalf of the Board, the Audit Committee reviews annually the continued effectiveness of the Group's risk management and internal control systems dealing with risk and financial accounting and reporting, the effectiveness and efficiency of operations, compliance with laws and regulations, and risk management functions.

This assessment considers:

- the scope and quality of management's ongoing monitoring of risks and of the risk management and internal control systems;
- the extent and frequency with which the results of monitoring are communicated, enabling the Committee to build up a cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed;
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Group's financial performance or condition;
- the effectiveness of the Group's processes in relation to financial reporting and statutory and regulatory compliance;
- areas of risk identified by management;
- significant risks reported by the independent internal control and risk advisory consultant;

- work programs proposed by the independent internal control and risk advisory consultant and the external auditors; and

- significant issues arising from internal and external audit.

As a result of the above review, the Board consider that the Group's risk management and internal control systems are effective and adequate and have complied with the Code Provisions on risk management and internal control throughout the year and up to the date of this report.

Internal Audit

The Group has engaged an independent internal control and risk advisory team, which plays a major role in monitoring the corporate governance of the Group and providing an objective assessment to the Board that a sound internal control system is maintained and operated by the management.

The internal control and risk advisory team would conduct regular and independent reviews of the effectiveness of the Group's internal control system. The Audit Committee reviews the findings and recommendations of the internal control and risk advisory team on the effectiveness of the Group's internal control system and reports to the Board on such reviews.

AUDIT COMMITTEE

During the current year, the Audit Committee comprises three independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin, and Ms. Wong Wai Ling is the chairman of the Audit Committee.

The primary responsibilities of the Audit Committee include, inter alia, making recommendations to the Board on the appointment, reappointment and removal of external auditor, reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, developing and implementing policy on the engagement of an external auditor to supply non-audit services and monitoring integrity of financial statements of the Company and the Company's report and accounts, interim report and significant financial reporting judgments contained in them. The terms of reference of the Audit Committee are available on the website of the Stock Exchange and the Company.

The Audit Committee has held 3 meetings during the current year. The attendance rates of the members of the Audit Committee are as follows:

Name of member	Attendance rate for Audit Committee meetings Attendance/ Number of meetings	Percentage (%)	Title
Ms. Wong Wai Ling *(chairman of the Audit Committee)*	3/3	100	Independent non-executive Director
Mr. Qu Weidong	3/3	100	Independent non-executive Director
Ms. Hu Xiaolin	3/3	100	Independent non-executive Director

The Audit Committee has reviewed the audit performance, the internal controls and risk management and the interim and audited accounts for the year ended 31 December 2018. In performing its duties, the Audit Committee has overseen the Company's relationship with the auditors, the nature and scope of the audit, reviewed of the process by which the Company evaluates its control environment and risk assessment process, and the way in which business and control risks are managed. It also reported to the Board on the proceedings and deliberations of the Audit Committee. The Audit Committee has also reviewed this report and confirmed that it is complete and accurate and complies with the Listing Rules.

DIVIDEND POLICY

The Company has adopted a dividend policy on payment of dividends. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy (including but not limited to the Group's financial results, cash flow position, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans), dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

REMUNERATION COMMITTEE

The Remuneration Committee shall meet at least once a year to decide on the Director's emoluments. During the current year, the Remuneration Committee comprised one executive Director/Chief Executive Officer, namely, Mr. Zhang Zhixiang and the three independent non-executive Directors namely, Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin. Ms. Hu Xiaolin currently serves as the chairman of the Remuneration Committee.

The role and function of the Remuneration Committee include, inter alia, making recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing policy on such remuneration, reviewing and determining the remuneration packages for all executive Directors and senior management, making recommendations to the Board of the remuneration of non-executive Directors, reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time and reviewing and approving the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment. The terms of reference of the remuneration committee are available on the website of the Stock Exchange and the Company in compliance with the Code.

The Remuneration Committee held 2 meetings during the current year, at which the Remuneration Committee reviewed, discussed and determined the remuneration policy and the remuneration of the Directors and the senior management during the year. The attendances of the meetings of the Remuneration Committee are as follows:

	Attendance rate for Remuneration Committee meetings		
Name of member	**Attendance/ Number of meetings**	**Percentage (%)**	**Title**
Ms. Hu Xiaolin *(chairman of the Remuneration Committee)*	2/2	100	Independent non-executive Director
Mr. Zhang Zhixiang	2/2	100	Executive Director and Chief Executive Officer
Ms. Wong Wai Ling	1/2	50	Independent non-executive Director
Mr. Qu Weidong	2/2	100	Independent non-executive Director

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2018, there was no arrangement in which the Directors waived their remuneration.

Details of Directors' remuneration are set out in note 8 to the consolidated financial statements.

Senior management's remuneration payment of the Group in the year ended 31 December 2018 falls within the following bands:

	Number of Individuals
RMB500,000 or below	3
RMB500,001 to RMB1,000,000	1

NOMINATION COMMITTEE

During the current year, the Nomination Committee comprised one executive Director/Chief Executive Officer, namely Mr. Zhang Zhixiang and three independent non-executive Directors namely, Ms. Wong Wai Ling, Mr. Qu Weidong and Ms. Hu Xiaolin. Mr. Qu Weidong currently serves as the chairman of the Nomination Committee.

The role and function of the Nomination Committee include, inter alia, reviewing the structure, size and composition of the Board, making recommendations on any proposed changes to the Board, identifying individuals suitably qualified to become Directors, assessing the independence of the independent non-executive Directors, making recommendations to the Board on the appointment or re-appointment of Directors and succession planning of directors, determining the policy for nomination of Directors and reviewing its own performance, constitution and terms of reference. The terms of reference of the Nomination Committee are available on the website of the Stock Exchange and the Company.

The Nomination Committee held 1 meeting during the current year. The attendances of the meeting of the Nomination Committee are as follows:

	Attendance rate for Nomination Committee meetings		
Name of member	**Attendance/ Number of meetings**	**Percentage (%)**	**Title**
Mr. Qu Weidong *(chairman of the Nomination Committee)*	1/1	100	Independent non-executive Director
Mr. Zhang Zhixiang	1/1	100	Executive Director and Chief Executive Officer
Ms. Wong Wai Ling	0/1	0	Independent non-executive Director
Ms. Hu Xiaolin	1/1	100	Independent non-executive Director

During the current year, the Nomination Committee adopted a diversity policy setting out the approach to diversity of members of the Board. The Company recognises and embraces the benefits of having a diverse Board. The Nomination Committee works to ensure a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and objectives. All Board appointments would continue to be made based on meritocracy. Selection of candidates would be based on a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision would be based on merit and contribution that the selected candidates would bring to the Board as well as the needs of the Company.

COMPANY SECRETARY

Mr. Yeung Tze Long had been appointed as the Company Secretary from 2 June 2017 to 10 December 2018. With effect from 10 December 2018 and to the date of this report, Mr. Lo Gordon has been appointed as the Company Secretary in place of Mr. Yeung Tze Long. The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and responsibility of the Company Secretary is to ensure the Board meetings are properly held and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advices with respect to the Directors' obligations on securities interest disclosure, disclosure requirements of disclosable transactions, connected transactions and inside information.

The Company Secretary, Mr. Lo Gordon, had taken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

INVESTORS RELATIONSHIP

The Board recognises the importance of maintaining clear, timely and effective communication with Shareholders and investors. The Board also recognises that effective communication with investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the Shareholders receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate correspondence on the Company's website. The Board continues to maintain regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the Board committees would attend and are available to answer questions at annual general meetings of the Company. Separate resolutions would be proposed at general meetings of the Company on each substantially separate issue.

During the year ended 31 December 2018, the Company did not make any significant changes to its memorandum and Articles of Association.

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management recognise the responsibility of safeguarding the interest of Shareholders. The Company reports its financial and operating performance to Shareholders through annual reports and interim reports. Shareholders can also obtain information of the Group in time through annual reports, interim reports, announcements, circulars, press releases and the Group's company websites. Shareholders can raise questions directly to the Board in respect of the performance and future development of the Group at annual general meetings.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time put forward their proposals or inquiries to the Board in writing through the Company Secretary whose contact details are as follows:

China Ruifeng Renewable Energy Holdings Limited
Room 1801, 18/F., Great Eagle Centre,
No. 23 Harbour Road, Wanchai,
Hong Kong
Email: ir@c-ruifeng.com
Tel No.: +852 2598 5188
Fax No.: +852 2114 2358

Procedures for putting forward proposals at general meetings by Shareholders

Pursuant to Article 64 of the Articles of Association, extraordinary general meetings shall be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transactions of any business specified in such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) may do so in the same manner.

Pursuant to Article 113 of the Articles of Association, no person (other than a retiring Director), shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office of the Company. The period for lodgment of the notices required under the Articles of Association will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least 7 days.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. OUR REPORT

1.1. OVERVIEW

This report provides information on the corporate social responsibility performance of China Ruifeng Renewable Energy Holdings Limited (hereinafter referred to as the "**Company**", together with its subsidiaries, collectively the "**Group**" or "**Ruifeng**") in terms of environment, society and governance during the year from 1 January 2018 to 31 December 2018. This report follows the "comply or explain" provisions of the Environmental, Social and Governance Reporting Guide (the "**Guide**") and contains all disclosures as recommended in the Guide.

1.2. REPORTING SCOPE

This environment, society and governance report covers the wind farm operations of China Ruifeng Renewable Energy Holdings Limited (hereinafter referred to as "the Company" and its subsidiaries (collectively, the "**Group**")), including its main project, Hongsong Wind Farm, in Hebei province, the People's Republic of China (hereinafter as "**PRC**") which accounts for almost 90% of the Company's total installed operational wind farm capacity. Unless otherwise indicated, all key performance indicators in this report include only data for the Shenzhen plant.

1.3. FEEDBACK MECHANISM

We welcome comments and suggestions from readers on this report or on our corporate social responsibility reporting. Whether you are a customer, business partner, common citizen, media organization or social group, your comments and suggestions are constructive to our determining and reinforcing the Group's future sustainability strategy. Please contact us by email.

2. COMMUNICATION WITH STAKEHOLDERS

The Group recognises that effectively and continuously listening to stakeholders' opinions and responding to and addressing their concerns are indispensable for its business development and its fulfillment of corporate social responsibility. Therefore, we endeavour to develop a deep understanding of the concerns of different stakeholders, and build a relationship of mutual trust and mutual benefit with stakeholders so as to promote sustainable development.

The Group maintains communication with all stakeholders from time to time via visits, teleconferences or meetings (such as delivery and quality review meetings with suppliers), mails, emails and follow-up services by marketing staff, with a view to listening to their opinions and needs. The Company is committed to maintaining high levels of transparency and publishes reports, announcements and circulars to ensure stakeholders' access to accurate, clear, comprehensive and timely information on the Company. The Group's overall performance is also reported to all investors in its annual report.

3. ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE

3.1. ENVIRONMENTAL PROTECTION

Management guidelines and policies

Over the past decade, the awareness of environmental protection of the public has been increasing. The Company has always adhered to environmental protection in its decision-making and management process, and strived to raise standards for environmental protection of the society and to minimise the risks and impacts of the Company's operations on the environment, thereby creating a cleaner and liveable environment.

The Group strictly complies with all applicable environmental laws and regulations, and was not prosecuted due to any violation of relevant environmental laws during the Reporting Period.

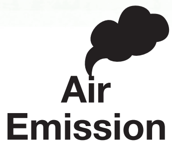
3.1.1. Pollution Control

Countermeasures to climate change

As global warming has caused many problems, such as more frequent heat waves, changing rainfall and rising sea level, the global community attaches increasingly great importance to reducing the dependence on conventional fossil fuels to mitigate global warming caused by greenhouse gases. In order to honour its promise made when signing the Paris Agreement, the PRC government has formulated clean energy policies and taken corresponding actions to reduce carbon emissions. The Company recognises that clean energy has become an indispensable part of the environment and economy for the country and even the globe. Wind power is considered an environmentally friendly way for power generation, which many countries intend to use to gradually replace fossil fuels. Therefore, we are committed to developing wind farm projects to provide the state power grid with clean and renewable energy, thereby reducing our dependence on conventional fossil fuels and hence effectively avoiding greenhouse gas emissions. The Company invests resources so as to progressively improve wind power capacity and integrates environmental management into each level of its operational strategies.

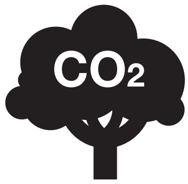
The Group is keenly aware that long-distance transportation during business trips will increase energy consumption and carbon emissions. As such, the Group reduces business trips or avoids meetings requiring long-distance travel as practical as possible to reduce carbon emissions from long-distance travel.

Total exhaust gas emissions from Hongsong Wind Farm during the Reporting Period:



Nitrogen oxide emissions:	294.92 kg
Sulfur oxide emissions:	1.45 kg
Particulate emissions:	28.26 kg

Total greenhouse gas emissions and intensity from Hongsong Wind Farm during the Reporting Period:



Greenhouse gas emissions[a]:	2,642.85 tonnes of carbon dioxide equivalent
Greenhouse gas emission intensity[b]:	3.38 tonnes of carbon dioxide equivalent/kwh

a. The calculation scope includes the consumption of electric oil and diesel oil by mobile sources, the consumption of diesel oil by fixed sources, and electricity power consumption

b. Average greenhouse gas emissions per kWh production

Greenhouse gas emissions avoided by wind power generation of Hongsong Wind Farm during the Reporting Period

Power generation:	782,760,000.00 kWh
Greenhouse gas emissions avoided:	782,760.00 tonnes of carbon dioxide equivalent

Based on our existing production capacity, we can provide approximately 780 million kWh of green energy to the society per annum. We can save approximately 320,000 tonnes of standard coal per annum, and reduce carbon dioxide emissions by more than 780,000 tonnes, sulfur dioxide emissions by 23,400 tonnes and nitrogen oxides emissions by 11,700 tonnes per annum.

Waste management

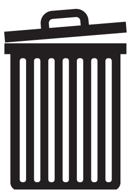
Greenhouse effect and emissions are only parts of the global pollution issues, which also include waste problems that are gradually jeopardizing our living environment. The Group has been pursuing a prudent approach to dispose of the waste generated in its operations.

Our main hazardous waste is lubricating grease used in our wind farms and wastes related thereto, such as containers used to store lubricating grease. Lubricating grease is mainly used to lubricate the turbine unit. To ensure that there is no leakage of lubricating grease, our technicians will regularly inspect, clean and repair the parts. Our technicians will also appropriately add lubricating grease according to the original maintenance requirements of relevant machine, so as to avoid unnecessary waste grease.

In accordance with the requirements of relevant laws, the Company engages suitable and qualified contractors to properly dispose of materials contaminated with lubricating grease and to recycle and dispose of grease containers, thereby effectively reducing and managing hazardous waste in a comprehensive manner.

The Group also attaches great importance to the management of non-hazardous waste. We advocate waste reduction from the source and follow the 3R waste management strategy to reduce waste generation and consider reuse and recycle before waste disposal, so as to achieve our goal of "zero harmless waste".

Total amount and density of hazardous waste from Hongsong Wind Farm during the Reporting Period:



Total amount of non-hazardous waste:	3.12 kg
Density of non-hazardous waste:	0.004 kg

Total amount of hazardous waste:	24.00 kg
Density of hazardous waste:	0.031 kg

3.1.2. Making Good Use of Resources

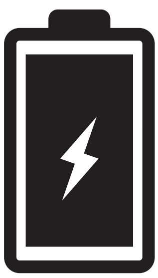
The Company recognises the value of resources, so we are committed to reducing the consumption of resources to achieve the optimal efficiency of resource utilisation throughout our operations. In order to reduce energy waste and improve the efficiency of resource utilisation, we have formulated several management systems to constantly improve the efficiency of resource utilisation from all aspects covering resource recovery, energy saving, moving towards to electronic means and water conservation.

Energy saving and consumption reduction

The Group has been striving to employ new technologies and equipment to promote environmental performance and reduce energy consumption while improving production efficiency. In the past, the Group implemented a number of targeted energy-saving renovation projects to further reduce energy consumption. For example, the Company uses high-efficiency heat pumps that could reduce more than 50 tonnes of standard coal consumption per annum. Moreover, the Company has adopted the following measures for higher efficiency of power utilisation:

- Natural lightings are encouraged in all/some of the Company offices in order to reduce power consumption for lighting during daytime
- Air conditioner temperatures in the Company's offices are set within 25°C
- Idle office equipment, such as computer displays and printers, are switched off at the end of the working day
- All equipment is inspected, repaired and maintained on a regular basis to reduce energy wastage due to mechanical ageing.

The total power consumption of the Group in the past year was approximately:



Total power consumption:	2,387,332.00 kWh
Total gasoline consumption:	48,786.00 litres
Total diesel consumption:	53,843.00 litres
Total energy consumption:	3,346,231.07 kWh
Ratio of average energy consumption to power generation:	0.0043

Water efficiency

The Group's water consumption is mainly arising from the daily use of water by plant employees. To preserve precious water resources, we proactively promote the concept of water conservation among employees and strengthen the maintenance, inspection and management of water-consuming equipment for water conservation. The Company also pays attention to the efficient utilisation of water resources, and carries out effective management from both awareness and practice perspectives. The Company promotes employee awareness of water conservation by putting up posters and signs, striving to achieve "turn off water when you leave". In addition, regular inspection on water pipes and related equipment, and handling of drips and leaks in a timely manner are proven measures to ensure efficient utilisation of water resources and reduction in wastage.

The total water consumption of the Group in the past year was approximately:

Total water consumption:	5,040.00 m^3
Total water consumption density:	6.44 ml/kWh

Paperless office

In view of the burden on forest resources from paper used in offices, the Company takes initiatives to create an efficient "paperless, information-based and systematic" working environment. Wherever feasible, all paper shall be used on both sides, electronic systems shall be employed for archiving and preparation of documents, and unnecessary documents shall be deleted or reduced. Employees are encouraged to post announcements, report on information of the latest events or collect comments and suggestions via electronic communication, and to consolidate and reduce forms, records and announcements, thus effectively reducing paper consumption in the course of day operation and make contributions to the protection of valuable forest resources.

3.1.3. Promoting green operations

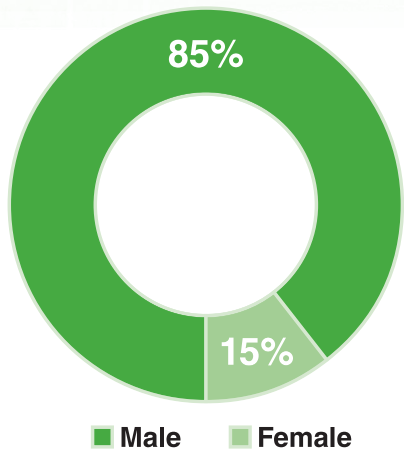
The Group places particular emphasis on the impact of business activities on biodiversity and local ecosystems. Therefore, we introduce various environmental protection measures and provide corresponding protection at the places where we operate. The Company seeks to achieve desirable environmental protection in the construction and operation stages of wind farms. The development and operation of wind farms may also have a negative impact on the ecological environment or local residents, such as the impact of low-frequency noise on residents and fish, the impact of wind farms on the use of land space and marine space, etc.. As such, in the course of site selection and construction of a wind farm, the Company will carry out practical assessment, give full consideration to the site's ecological value, impact on surrounding areas and the susceptible groups, and ensure that all constructions have environmental assessment approvals issued by regulatory authorities and conform to national environmental protection policies. The Company also abides by the operational requirements, including the handling of wastes related to lubricant oil in accordance with national laws and regulations, to minimise the potential environmental impact and maximise the benefit of clean wind power.

3.2. PEOPLE-ORIENTED

Ruifeng understands that our corporate value is created and shared by all employees. We always manage our employees under the philosophy of harmonious inclusiveness and mutual respect, striving to create a warm, harmonious and satisfying working environment. We also actively assist our employees to reach their potentials, and retain and nurture outstanding talents through various training and development programs.

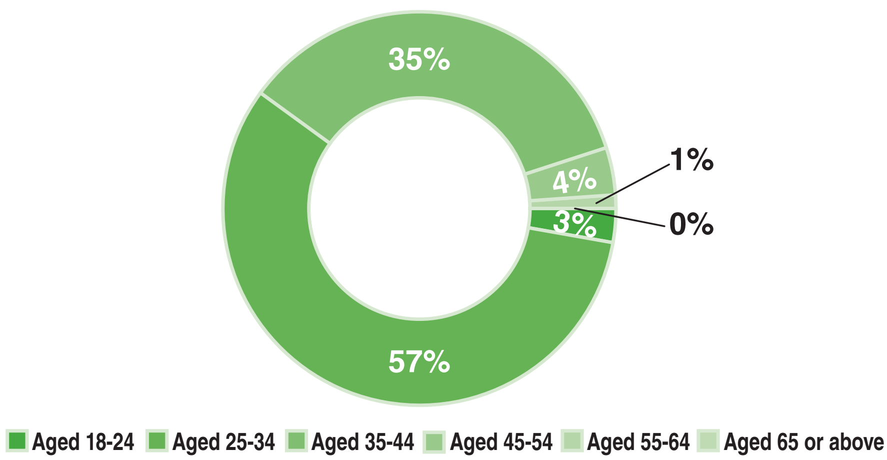
The Group strictly complies with all applicable laws and regulations relating to employment, diversity, occupational safety and health, and labour standards, and was not prosecuted due to any violation of relevant laws during the Reporting Period.

Overview of the Group's employees in the past year:



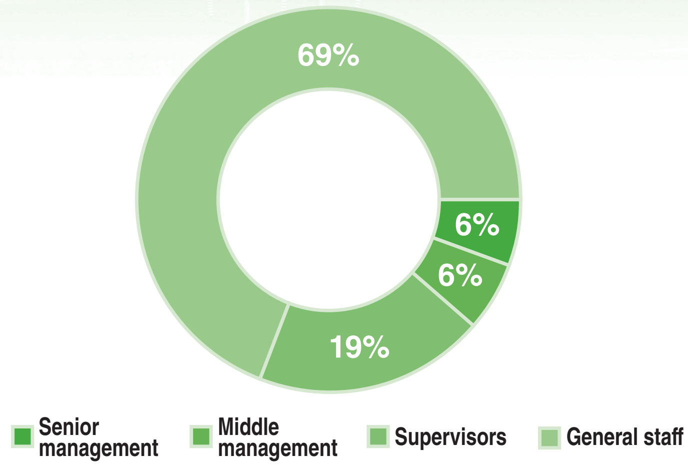
Breakdown of employees by gender

Male	88
Female	15



Breakdown of employees by age

Aged 18-24	3
Aged 25-34	59
Aged 35-44	36
Aged 45-54	4
Aged 55-64	1
Aged 65 or above	0



Breakdown of employees by rank

Senior management	6
Middle management	6
Supervisors	20
General staff	71

3.2.1. Equal employment

Management guidelines and policies

Ruifeng has been committed to creating a working environment of mutual respect, harmonious inclusiveness and safety. We have constantly standardised and promoted our employment system since the beginning of our recruitment and employment, aiming at providing employees with systematic protection of their rights and interests. We respect and equally treat each of our employees, select and recruit employees on merits, and provide them with generous benefits. We also arrange relevant training programs and provide career development opportunities, endeavouring to become the "best employer."

Equal opportunity and diversity

We adopt diversity and non-discriminatory policies to ensure that each job applicant is entitled to his/her respective rights. The Company's employee handbook clearly sets out the anti-discrimination guidelines and principles of equal opportunities, stipulating that all employees are provided with equal opportunities, regardless of their gender, marital status, family status and disability. Our process of recruitment shall be carried out in accordance with the the Labour Law of the PRC and the Labour Contract Law of the PRC, and our employees shall recruited according to the employment procedures and standards as stipulated in the Company's systems.

The Company attaches great importance to the fair and objective evaluation of its employees' performance. Therefore, we have established Administrative Measures on Employee Performance to fully assess employee contribution to the Company and provide an objective and reliable basis for remuneration decision, education and training, promotion, reward and recognition, etc..

As a responsible employer, the Company has formulated the Labour Contract Management Methods based on the Labour Law of the PRC, the Labour Contract Law of the PRC and other relevant laws and regulations in the PRC, with reference to its actual operating conditions, so as to standardise the Company's management of labour contracts and strengthen the bilateral bond with employees. We will handle retirement formalities for employees who have reached the statutory retirement age in accordance with the relevant regulations; and go through any dismissal procedures according to the Labour Law and as stipulated in the relevant labour contract. In the event of a work-related accident, the Group will make reasonable compensation and properly handle the same in accordance with relevant laws.

Employee treatment

The Company has continuously improved the employee remuneration policy and system for years. We determine the remuneration package for employees based on their respective contribution to the Company's development and their individual performance. At the same time, the starting salary range of our employees are adjusted on a regular basis according to the national social salary guidelines, with a view to safeguarding the quality of life of our employees.

The Attendance Management System has been formulated in accordance with relevant national regulations to ensure that production and working are in order. The well-established internal rules help to reinforce labour discipline, improve man-hour utilisation and labour efficiency, and protect employees' right to rest periods and vacations.

The Company participates in social insurance programmes as per national and relevant local social insurance legislation, regulations and policies by contributing to employee social insurance premiums according to law. During the employment period, each employee receives appropriate remuneration with sufficient compensation for rest periods, vacation, sickness, injury and occupational diseases, as well as childbirth benefit and death compensation. Durations and remuneration levels for periods of medical treatment, pregnancy, childbirth and lactation all comply with relevant laws and regulations.

3.2.2. Occupational health and safety

Management guidelines and policies

The Company recognises that employee safety is particularly important to our operations. We strive to create the safest and most suitable working environment and to achieve the goal of zero work accidents. Various measures are taken to prevent occupational diseases and industrial casualties. We implement the Labour Law of the PRC and standards relating to occupational health in the wind power industry, and formulate the Safety Education and Training System, the Work Safety Supervision System, the Safety Hazard Screening System, the Labour Protection System and the Occupational Health Inspection System to fully guarantee advanced levels of occupational safety through systems, education, inspection and so on.

The Group strictly complies with relevant safety laws, and was not prosecuted due to any violation of relevant laws relating to occupational safety during the period.

Management system construction

In order to achieve effective supervision on work safety, we have established the Work Safety Supervision System and arrange dedicated personnel to take charge of the occupational health and safety affairs of the Company. At the same time, we are also subject to regular supervision and guidance from the local government safety supervision department, whereby the accident risks in our workplaces and equipment are screened in accordance with the Safety Hazard Screening System, and matters regarding occupational health and safety in accordance with relevant national laws are rectified and improved in accordance with relevant national laws, striving to reduce potential risks in our business operations.

The Company has formulated the Labour Protection System to effectively protect the safety and health of our employees. Our employees are provided with protective equipment including safety helmets, insulated boots and dust masks in keeping with legislation to further safeguard occupational safety of employees.

Improvement in health and safety awareness

The Company organises various occupational health and safety training programs each year to enhance the health and safety awareness of its employees and contractors. Our Safety Education and Training System covers unified planning, unified management, graded implementation, classification guidance, safety training and other work in line with state regulations for the electrical power industry and other relevant regulations. We uphold the principle of "training before work begins" by arranging employees to regularly receive various safety education and training courses. The Company has also incorporated safety training into its annual training programme and set up safety education and training records.

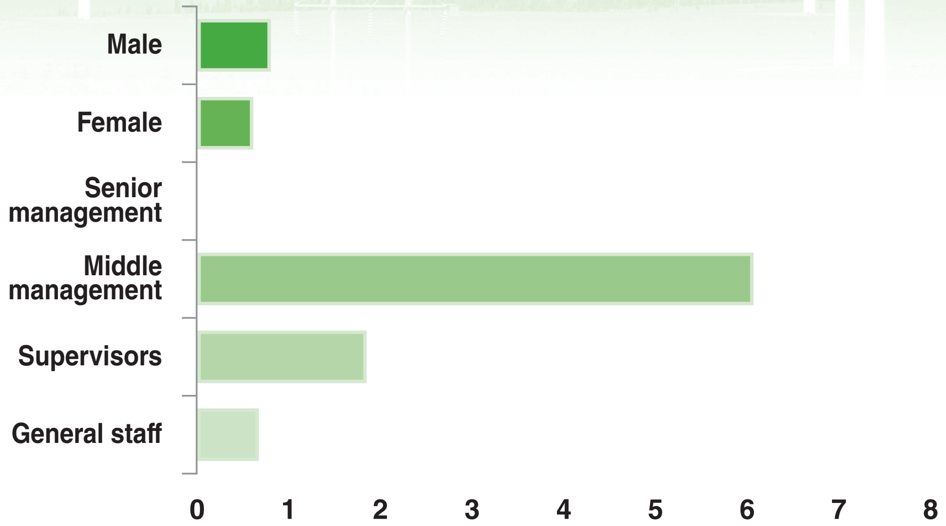
Communication with employees

The Group employs a variety of communication channels, such as WeChat, e-learning platforms and corporate social networks, to promote occupational safety among its employees. These channels can also be used to issue accident warnings to business teams, so as to facilitate our employees acquire necessary information on health, safety and environmental protection in a faster manner. In addition, the Group also welcomes and values the opinions of employees. The aforesaid channels allow our employees to express their ideas and constructive suggestions on various management systems and management methods of the Company.

3.2.3. Training and development

Management guidelines and policies

We strongly believe that continuous learning and development of our employees are constructive to enhancing the value of our team and the professionalism of our employees, and will in turn improve the productivity of the Group. To this end, the Company is committed to training talented people and undertakes to provide employees with sufficient diversified career development training and education. The Company formulates systematic annual training plans and education programmes for each position to ensure all employees possess necessary knowledge and skills, and encourages them to take part in vocational certification and professional evaluation. The Company is also committed to providing employees with various occupational skills training in order to improve their skill set.



Average training hours of staff

Male	0.76
Female	0.57
Senior management	0.00
Middle management	6.00
Supervisors	1.80
General staff	0.63

Training System

We adopt the approach of "senior employees mentoring new recruits", under which skilled and experienced employees are arranged to guide and train new recruits, so that expertise and experience can be passed on. In addition, we also provide new employees with orientation training on various aspects including the Company's background, profile, facilities, employee handbook introduction and corporate social responsibility, so that new employees can integrate and adapt to the Company's culture in a fast manner.

The Company is also committed to providing its employees with training on various occupational skills. Where employees have training development needs, they may attend external training courses after successful application to the department head and apply for reimbursements from the Company for the training expenses incurred. This will help our employees to improve their professional skills, management strength, teamwork spirit and personal efficiency, and will in turn promote the business growth of the Company.

3.2.4. Protection of rights and interests

Management guidelines and policies

The Company has always spared no effort in safeguarding human rights. We believe that ethical operation practices can ensure long-term business growth. Therefore, child labour and forced labour are strictly prohibited, and we maintain a zero tolerance attitude towards any form of child labour.

The employment contract with the Company clearly specifies working hours, deliverables, job descriptions, labour protection measures and so on, so that the employees can commence their work in full awareness and consensus. The Company prohibits all forms of forced labour and exploitation of labour and ensures all employees work under voluntary circumstances. Recruitment is also fair and voluntary, prohibiting employee recruitment by any coerced or fraudulent means.

Our employees may exercise their rights to freedom of association by joining trade unions and participating in collective negotiation, and report any suspected misconduct or abuse through the whistle-blowing mechanism of the Group.

During the Reporting Period, the Group was not aware of any employment of child labour or any violation of mandatory labour regulations.

3.3. OPERATIONAL COMMITMENT

It is important to ensure an efficient and sustainable supply chain so as to promote business growth and maintain a competitive edge. We are committed to providing our customers with the best service and stable power supply, and to creating a better and greener future in collaboration with our supply chain. The Group endeavours to comply with all laws and regulations relating to business operation. During the period, there was no case of prosecution against the Group for violation of relevant laws.

3.3.1. Supply Chain Management

Management guidelines and policies

The Company manages the supply chain in a responsible manner to ensure that the procurement process is fair and ethical, so that we can build long-term relationships with strong and reliable business partners. The Group regularly conducts performance assessments on its suppliers to monitor the performance of its suppliers and their compliance with applicable laws and regulations.

Selection criteria

The Group adopts a comprehensive set of supplier selection criteria. The Company's business department verifies suppliers' legal and regulatory compliance before engaging their services. This step includes verifying their legal entity qualification, rights and legitimacy to undertake the supply contract, the management system including quality assurance, contractual capacity and credit standing. In order to promote social responsibility in the supply chain, the supplier's reputation and track record in environmental management and social responsibility are also considered during the process, to allow the Company to review and control environmental and social risks in the supply chain.

In addition, we monitor and evaluate the quality of products and services provided by our suppliers as well as their business ethics on the basis of quality of deliverables, promptness, after-sales service and other factors, so as to ensure that they comply with the relevant requirements and continue to make improvements.

Bidding standards

The Company conforms to government regulations and relevant projects requiring open tendering (such as civil engineering projects, wind turbine orders and such like) are tendered out through commissioned agents. In non-tendering purchases, quotations from at least three suppliers or service providers are requested and evaluated by relevant departments and the management before confirmation of the bid winner and bid opening.

3.3.2. Operational Safety

Management guidelines and policies

Our primary mission is to provide stable and reliable service. In the course of operation, we strictly abide by various laws and regulations including the Work Safety Law of the PRC and the Special Equipment Safety Law of the PRC as well as relevant regulatory requirements in the places where we operate.

Quality control

As the Company's electricity power is supplied to the state power grid, its quality conforms to the standards and key indicators formulated by the National Standardisation Technical Committee on Voltages, Current Ratings and Frequencies. Electricity supplied by the Company conforms to the following national standards:

- Permissible Deviation of Supply Voltage GB12325-1990
- Permissible Deviation of Frequency for Power Systems GB/T15945-199
- Permissible Three-Phase Voltage Unbalance Factor GB/T15543-199
- Permissible Voltage Fluctuation and Flicker GB12326-1990
- Harmonics in Public Supply Network GB/T14549-1993
- Demands of Temporary and Transient Overvoltage of Electrical Equipment Used in the Power System, Insulation Level of Electrical Equipment, and Overvoltage Protection Methods GB/T18481-2001

Product safety

To ensure that our products meet industry and national safety standards, we conduct product testing in a clear and effective manner. The Company's electric power system incorporates automatic detection functionality and all power supplied meets the standards (namely permissible deviation in supply voltage, permissible deviation of frequency for power systems, permissible three-phase voltage unbalance factor, permissible voltage fluctuation and flicker, harmonics in public supply network, temporary and transient overvoltage). The Company also makes adjustments based on feedback from the power grid to correct serious problem in a timely manner, and provides adjustment reports when necessary so as to ensure that only products meeting the quality and technical requirements can be delivered to customers.

Information security

The Company attaches great importance to protecting customers' privacy and strives to maintain customer information security. The Company continuously improves its information technology infrastructure, provides encryption for all customer information and sets strict authority for access to and use of such information. As customer information represents important and confidential information of the Company, any illegal use thereof is prohibited to ensure the security of customer information.

3.3.3. Corporate Governance

Management guidelines and policies

The Company has always pursued a strict anti-corruption policy. We require our senior management to adhere to professional and ethical standards and must behave in a highly moral, upright and honest manner. We expect employees to be patriotic, law-abiding, sensible, loyal, enterprising, dedicated, self-confident, self-respecting and self-improving.

The Company's employee handbook specifies a code of conduct which prohibits employees from receiving benefits without permission. All employees shall also professionally abide by the policy formulated by the Group in respect of conflicts of interest, intellectual property, privacy, confidentiality of information, prevention of bribery and corruption, and equal opportunities. In addition, the Company requires its employees to refrain from excessively lavish or frequent hospitality with business partners to avoid deliberate enticement and future demands of inappropriate reciprocation.

The Company strictly complies with relevant anti-corruption and anti-bribery laws, and was not prosecuted due to any violation of relevant laws during the year.

Protection of intellectual property rights

The Group strives to protect intellectual property rights and customer information. The employee handbook of the Company clearly sets out intellectual property rights policy which requires our employees to strictly abide by the provisions of the Copyright Ordinance, including the prohibition of use of pirated software and illegal downloading.

3.4. GIVING BACK TO SOCIETY

The Company recognises that our responsibility lies not only in our direct contribution to the society and economy, but also in our business operations and public welfare projects which bring impact and effects on the entire society. Charitable assistance and sponsorships goes hand in hand with business operations, and those designated as recipients of support are provided with assistance in the domains of education and culture. This gains and sustains stakeholders' confidence in the Company and brings continuing benefit to community development. The Company proactively contacts community groups which share similar concepts with the Group's corporate responsibility concept, in an effort to understand the needs of the community.

SUMMARY OF PERFORMANCE DATA

	Polluting emissions	Unit	
	Exhaust emissions		
	Nitrogen oxide emissions	kg	294.92
	Sulphur oxide emissions	kg	1.45
	Particulate emissions	kg	28.26
	Solid Waste		
	Hazardous waste	tonnes	3.12
	Density of hazardous waste	g/kWh	0.004
	Non-hazardous waste	tonnes	24.00
	Density of hazardous waste	g/kWh	0.031
	Greenhouse gas emissions and density		
	Total greenhouse gas emissions	tonnes of carbon dioxide equivalent	2,642.85
	Direct emissions	tonnes of carbon dioxide equivalent	255.52
	Energy-related indirect emissions	tonnes of carbon dioxide equivalent	2,387.33
Environmental	Emission intensity	grams of carbon dioxide equivalent/kWh	3.38
	Greenhouse gas emissions avoided by wind power generation		
	Power generation	kWh	782,760,000.00
	Greenhouse gas emissions avoided	tonnes of carbon dioxide equivalent	782,760.00
	Energy use		
	Total power consumption	kWh	2,387,332.00
	Total gasoline consumption	litres	48,786.00
	Total diesel consumption	litres	53,843.00
	Total energy consumption	kWh	3,346,231.07
	Ratio of average energy consumption to power generation		0.0043
	Water consumption	m^3	5,040.00
	Water consumption density	ml/kWh	6.44
	Amount of packaging materials used		
	Paper	tonnes	0.83

	Employees	Unit	
Social	Total number of employees	persons	103
	Number of employees by age		
	Aged 18-24	persons	3
	Aged 25-34	persons	59
	Aged 35-44	persons	36
	Aged 45-54	persons	4
	Aged 55-64	persons	1
	Aged 65 or above	persons	—
	Number of employees by gender		
	Male	persons	88
	Female	persons	15
	Number of employees by employment type		
	Full time	persons	103
	Part time	persons	—
	Number of employees by rank		
	Senior management	persons	6
	Middle management	persons	6
	Supervisors	persons	20
	General staff	persons	71
	Employee turnover		
	Turnover rate	percentage	1.94%
	Number of employees by age		
	Aged 18-24	percentage	0.00%
	Aged 25-34	percentage	0.00%
	Aged 35-44	percentage	5.56%
	Aged 45-54	percentage	0.00%
	Aged 55-64	percentage	0.00%
	Aged 65 or above	percentage	0.00%
	Number of employees by gender		
	Male	percentage	2.27%
	Female	percentage	0.00%

Social	**Health and safety**		
	Work-related deaths	persons	0
	Number of work days lost due to work-related injuries	days	32
	Training and development		
	Total training hours	hours	79.00
	Average training hours		
	Male	hours	0.76
	Female	hours	0.57
	Senior management	hours	0.00
	Middle management	hours	6.00
	Supervisors	hours	1.80
	General staff	hours	0.63
	Percentage of trainees by type		
	Male	percentage	81.82%
	Female	percentage	46.67%
	Senior management	percentage	0.00%
	Middle management	percentage	66.67%
	Supervisors	percentage	55.00%
	General staff	percentage	90.14%
	Number of suppliers		
	Mainland China	suppliers	98
	Product responsibility		
	% of product recall due to Health and Safety reasons	percentage	0
	Number of related complaints received products and services	cases	0
	Anti-corruption		
	Number of concluded corruption cases brought against the issuer or its employees during the Reporting Period	cases	0

中汇 ZHONGHUI

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
CHINA RUIFENG RENEWABLE ENERGY HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Ruifeng Renewable Energy Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 81 to 175, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss of approximately RMB37,258,000 for the year ended 31 December 2018 and as at 31 December 2018 the Group had net current liabilities of approximately RMB273,559,000. These conditions indicate a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be key audit matters to be communicated in our report.

i. Property, plant and equipment

Refer to Note 13 to the consolidated financial statements

The Group tested the amount of property, plant and equipment for impairment. This impairment test is significant to our audit because the balance of property, plant and equipment of approximately RMB1,501,350,000 as at 31 December 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

— Assessing the identification of the related cash generating units;

— Assessing the arithmetical accuracy of the value-in-use calculations;

— Comparing the actual cash flows with the cash flow projections;

— Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates);

— Assessing the competence, independence and integrity of the external valuer engaged by client;

— Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and underlying key assumptions applied in the valuation model; and

— Checking input data to supporting evidence.

We consider that the Group's impairment test for property, plant and equipment is supported by the available evidence.

ii. Trade receivables, prepayments and other receivables

Refer to Notes 20 and 21 to the consolidated financial statements

The Group tested the amount of trade receivables, prepayments and other receivables for impairment. These impairment tests are significant to our audit because the balances of trade receivables, prepayments and other receivables of approximately RMB220,776,000 and RMB650,744,000 respectively as at 31 December 2018 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

— Assessing the transaction history with the customers, suppliers and borrowers;

— Evaluating the Group's impairment assessment;

— Assessing ageing of the debts;

— Assessing creditworthiness of the customers, suppliers, borrowers, guarantors and the value of collateral pledged;

— Checking subsequent settlements from the customers and borrowers; and

— Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

We consider that the Group's impairment tests for trade receivables, prepayments and other receivables are supported by the available evidence.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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. We report our opinion 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.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Audit Engagement Director
Practising Certificate Number P03614
Hong Kong, 28 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	4	**361,184**	389,996
Cost of sales		**(217,373)**	(213,133)
Gross profit		**143,811**	176,863
Interest income		**12,237**	12,783
Other revenue and net income	5	**29,645**	42,588
Administrative expenses		**(82,760)**	(56,163)
Profit from operations		**102,933**	176,071
Finance costs	6(a)	**(120,434)**	(121,541)
Share of profits less losses of associates		**6,807**	2,554
Share of losses of a joint venture		**(1,235)**	(1,240)
(Loss)/profit before taxation	6	**(11,929)**	55,844
Income tax	7	**(25,329)**	(31,719)
(Loss)/profit for the year		**(37,258)**	24,125
Attributable to:			
Equity shareholders of the Company		**(64,212)**	(7,090)
Non-controlling interests		**26,954**	31,215
(Loss)/profit for the year		**(37,258)**	24,125
Loss per share attributable to the owners of the Company during the year			
Basic and diluted (RMB)	10	**(0.036)**	(0.004)

The notes on pages 88 to 175 form part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018 *RMB'000*	2017 *RMB'000* (Restated)
(Loss)/profit for the year	**(37,258)**	24,125
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside the PRC	**(41,174)**	49,483
Net movement in the fair value change in respect of available-for-sale investments	**—**	2,481
Items that will not be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of the Company	**22,766**	(35,769)
Net movement in the fair value change in respect of financial assets at fair value through other comprehensive income	**(1,498)**	—
Other comprehensive income for the year (net of tax)	**(19,906)**	16,195
Total comprehensive income for the year	**(57,164)**	40,320
Total comprehensive income attributable to:		
Equity shareholders of the Company	**(83,683)**	8,384
Non-controlling interests	**26,519**	31,936
Total comprehensive income for the year	**(57,164)**	40,320

Details of the dividends for the year are disclosed in note 11 to the consolidated financial statements.

The notes on pages 88 to 175 form part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	13	**1,501,350**	1,638,513
Lease prepayments	14	**10,008**	10,405
Interests in associates	16	**97,965**	91,790
Interest in a joint venture	17	**6,118**	7,354
Financial assets at fair value through other comprehensive income	18	**17,212**	—
Available-for-sale investments	18	**—**	18,710
Prepayments and other receivables	21	**301,711**	128,985
		1,934,364	1,895,757
Current assets			
Financial assets at fair value through profit or loss	19	**4,667**	—
Trading securities	19	**—**	1,012
Inventories		**125**	—
Trade receivables	20	**220,776**	190,766
Prepayments and other receivables	21	**349,033**	258,446
Lease prepayments	14	**398**	398
Cash and cash equivalents	22	**62,491**	104,495
		637,490	555,117
Current liabilities			
Trade and other payables	23	**190,997**	120,157
Borrowings	24	**717,402**	509,484
Current taxation		**2,650**	8,188
		911,049	637,829
Net current liabilities		**(273,559)**	(82,712)
Total assets less current liabilities		**1,660,805**	1,813,045
Non-current liabilities			
Borrowings	24	**756,195**	847,247
Deferred tax liabilities	28	**26,091**	32,033
		782,286	879,280
Net assets		**878,519**	933,765

Consolidated Statement of Financial Position

At 31 December 2018

	Note	2018 *RMB'000*	2017 *RMB'000* (Restated)
Capital and reserves	*29*		
Share capital		**15,677**	15,677
Reserves		**610,673**	666,323
Total equity attributable to equity shareholders of the Company		**626,350**	682,000
Non-controlling interests		**252,169**	251,765
Total equity		**878,519**	933,765

Approved and authorised for issue by the board of directors on 28 March 2019.

Zhang Zhixiang
Director

Peng Ziwei
Director

The notes on pages 88 to 175 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Statutory reserves	Translation reserve	Share-based payment reserve	Convertible notes reserve	Fair value reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017	15,677	1,454,336	28,828	(1,626)	21,147	28,661	–	(895,700)	651,323	265,152	916,475
Changes in equity for 2017:											
(Loss)/profit for the year	–	–	–	–	–	–	–	(7,090)	(7,090)	31,215	24,125
Other comprehensive income	–	–	–	13,714	–	–	1,760	–	15,474	721	16,195
Total comprehensive income for the year	–	–	–	13,714	–	–	1,760	(7,090)	8,384	31,936	40,320
Transfer to statutory reserves	–	–	20,374	–	–	–	–	(20,374)	–	–	–
Acquisition of non-controlling interests	–	–	–	–	–	–	–	(2)	(2)	(98)	(100)
Extinguishment upon extension of the convertible notes	–	–	–	–	–	(28,661)	–	28,661	–	–	–
Recognition upon extension of the convertible notes	–	–	–	–	–	26,701	–	–	26,701	–	26,701
Recognition of deferred tax liabilities relating to extension of the convertible notes	–	–	–	–	–	(4,406)	–	–	(4,406)	–	(4,406)
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	(45,225)	(45,225)
Balance at 31 December 2017 and 1 January 2018	15,677	1,454,336	49,202	12,088	21,147	22,295	1,760	(894,505)	682,000	251,765	933,765
(Loss)/profit for the year	–	–	–	–	–	–	–	(64,212)	(64,212)	26,954	(37,258)
Other comprehensive income	–	–	–	(18,408)	–	–	(1,063)	–	(19,471)	(435)	(19,906)
Total comprehensive income for the year	–	–	–	(18,408)	–	–	(1,063)	(64,212)	(83,683)	26,519	(57,164)
Transfer to statutory reserves	–	–	17,380	–	–	–	–	(17,380)	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	821	821
Dividends to non-controlling interests	–	–	–	–	–	–	–	–	–	(26,936)	(26,936)
Recognition upon issuance of the convertible notes	–	–	–	–	–	28,904	–	–	28,904	–	28,904
Recognition of deferred tax liabilities relating to issuance of the convertible notes	–	–	–	–	–	(871)	–	–	(871)	–	(871)
Share options lapsed during the year	–	–	–	–	(21,147)	–	–	21,147	–	–	–
Balance at 31 December 2018	**15,677**	**1,454,336**	**66,582**	**(6,320)**	**–**	**50,328**	**697**	**(954,950)**	**626,350**	**252,169**	**878,519**

The notes on pages 88 to 175 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
Operating activities		
(Loss)/profit before taxation	**(11,929)**	55,844
Adjustment for:		
Depreciation for property, plant and equipment	**157,674**	157,887
Loss/(gain) on disposal of property, plant and equipment	**1,619**	(20)
Gain on bargain purchase of acquisition of associate	**—**	(1,719)
Impairment loss on trade and other receivables	**—**	4,269
Amortisation of lease prepayments	**398**	398
Interest income	**(12,237)**	(12,783)
Share of profits less losses of associates	**(6,807)**	(2,554)
Share of loss of joint venture	**1,235**	1,240
Impairment of goodwill	**1,277**	—
Interest expenses	**120,434**	121,541
Unrealized loss on financial assets at fair value through profit or loss/trading securities	**729**	1,121
Share-based payment arising from the issue of convertible notes	**23,624**	—
Operating cash flows before movements in working capital	**276,017**	325,224
(Increase)/decrease in financial assets at fair value through profit or loss/trading securities	**(4,384)**	5,673
Decrease in inventories	**211**	—
Increase in trade and other receivables	**(179,163)**	(79,945)
Decrease/(increase) in amount due from non-controlling interest	**4,052**	(1,530)
Increase in amount due from an associate	**(2,162)**	(1,748)
Decrease in amount due from a former subsidiary	**—**	1,613
Increase in trade and other payables	**47,949**	3,657
Increase in amount due to directors	**3,623**	322
Cash generated from operations	**146,143**	253,266
PRC Enterprise Income Tax paid	**(37,832)**	(33,086)
Net cash from operating activities	**108,311**	220,180

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
Investing activities		
Payments for purchase of property, plant and equipment	**(22,276)**	(11,928)
Payments for acquisition of the available-for-sale investments	—	(10,000)
Payments for the capital injection to an associate	—	(400)
Payment for acquisition of an associate	—	(9,811)
Payment for acquisition of non-controlling interests	—	(100)
Cash outflows for acquisition of subsidiaries	**(2,794)**	—
Interest received	**12,237**	6,583
Proceeds from disposal of property, plant and equipment	**243**	156
Decrease/(increase) in loan receivables	**4,616**	(38,044)
Net cash used in investing activities	**(7,974)**	(63,544)
Financing activities		
Proceed from new bank loans and other loans	**300,466**	467,622
Proceeds from issue of bond	**12,992**	16,411
Proceeds from issue of convertible notes	**139,041**	—
Repayments of bank loans and other loans	**(496,415)**	(651,774)
Repayment of bonds	**(6,222)**	—
Other borrowing costs paid	**(94,464)**	(93,464)
Dividends paid to non-controlling interests	**(8,553)**	(40,673)
Net cash used in financing activities	**(153,155)**	(301,878)
Net decrease in cash and cash equivalents	**(52,818)**	(145,242)
Cash and cash equivalents at 1 January	**104,495**	266,841
Effect of foreign exchange rate changes	**10,814**	(17,104)
Cash and cash equivalents at 31 December	**62,491**	104,495
Analysis of cash and cash equivalent		
Cash and bank balance	**62,491**	104,495

The notes on pages 88 to 175 form part of these consolidated financial statements.

1 GENERAL INFORMATION

China Ruifeng Renewable Energy Holdings Limited (the "Company") was incorporated in the Cayman Islands on 23 June 2005 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 June 2006. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Company information" in the annual report.

The Company acts as an investment holding company. The activities of the Company's principal subsidiaries are set out in note 15.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"), the Company's functional currency is Hong Kong dollars ("HKD"). The functional currency of the Group's major subsidiaries is Renminbi ("RMB"). The consolidated financial statements are presented in RMB. All financial information in RMB has been rounded to the nearest thousand.

2 GOING CONCERN BASIS

The Group incurred a loss of approximately RMB37,258,000 for the year ended 31 December 2018 and as at 31 December 2018 the Group had net current liabilities of approximately RMB273,559,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These consolidated financial statements have been prepared on a going concern basis. The validity of which are based on the ability of the Group to maintain profitable and positive cash flow from the operation in foreseeable future. In additions, the directors consider the successful in the issuance of convertible bonds of approximately HK$312,375,000 in March 2019 will enhance the cash flow position of the Group. Accordingly, the directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), that are relevant to its operations and effective for its accounting year beginning on 1 January 2018 which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value:

— financial instruments classified as financial assets at fair value through other comprehensive income or as financial assets at fair value through profit or loss (see note 3(g)); and

— derivative financial instruments (see note 3(q)).

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 37.

(c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impacts on the accounting policies of the Group except as stated below:

HKFRS 9 (2014) "Financial Instruments"

Available-for-sale investments and trading securities are now classified as financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss respectively.

The Group has taken advantage of the exemption in paragraph 7.2.15 of HKFRS 9 from restating prior periods in respect of HKFRS 9's classification and measurement (including impairment) requirements. Therefore, comparative information has not been restated. The changes in the consolidated amounts reported in the financial statements as at 1 January 2018 are as follows:

	1 January 2018 ***RMB'000***
Decrease in trading securities	**(1,012)**
Increase in financial assets at fair value through profit or loss	**1,012**
Decrease in available-for-sale investments	**(18,710)**
Increase in financial assets at fair value through other comprehensive income	**18,710**

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries and non-controlling interests

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries and non-controlling interests *(continued)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 3(n), 3(o) or 3(p) depending on the nature of the liability.

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 3(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 3(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates and a joint venture

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Associates and a joint venture *(continued)*

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 3(l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associates or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 3(g)).

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 3(l)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial instruments

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

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

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

(g) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

— Financial assets at amortised cost;

— Financial assets at fair value through other comprehensive income; and

— Financial assets at fair value through profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Financial assets *(continued)*

(i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

— the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

— the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) Financial assets at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognised in other comprehensive income and accumulated in the fair value reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the fair value reserve are not reclassified to profit or loss.

Dividends on these investments are recognised in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

(iii) Financial assets at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Financial assets at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Loss allowance for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

(i) Property, plant and equipment

The following items of property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 3(l)).

— buildings held for own use which are situated on leasehold land classified as held under operating leases (see note 3(j)); and

— other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 3(y)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

	Useful lives	Residual value
— Buildings	18-25 years	5%
— Generators and related equipment	5-25 years	5%
— Plant and machinery	5-10 years	5% to 10%
— Equipment, furniture and fixtures	3-10 years	5% to 10%
— Motor vehicles	5-8 years	5% to 10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Lease prepayments

Lease prepayments represent cost of land use rights paid to the People's Republic of China (the "PRC") Land Bureau. Land use rights are carried at cost less amortisation and impairment losses (see note 3(l)). Amortisation is charged to profit or loss on a straight line basis over the term of the respective leases.

(k) Leased assets

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

(i) Classification of assets leased to the group

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Leased assets *(continued)*

(ii) Assets acquired under finance leases

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(l). Finance charges implicit the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

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

(l) Impairment of assets

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

— property, plant and equipment;

— lease prepayments;

— intangible assets; and

— investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Impairment of assets *(continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— ***Calculation of recoverable amount***

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

— ***Recognition of impairment losses***

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(n) Convertible notes

(i) Convertible notes that contain an equity component

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured at fair value based on the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. The equity component is initially recognised at the differences between the fair value of the convertible notes as a whole and the fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Convertible notes *(continued)*

(ii) Other convertible notes

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

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see note 3(q)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 3(q). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

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

(o) Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(p) Trade and other payables

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Derivative financial instruments

Derivatives (including contingent considerations under business combinations) are initially recognised and subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(s) Employee benefits

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

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

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised in profit or loss as incurred. Employees of the subsidiaries established in the PRC participate in defined contribution retirement plans managed by the local government authorities whereby the subsidiaries are required to contribute to the plans at fixed rates of the relevant employees' salary costs.

The Group's contributions to these plans are charged to profit or loss when incurred. The Group has no obligation for the payment of retirement and other post-retirement benefits of staff other than the contributions described above.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Employee benefits *(continued)*

ii) Share-based payments

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

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

iii) Termination benefits

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax

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

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax *(continued)*

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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

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

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

  — the same taxable entity; or

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

(u) Provisions and contingent liabilities

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance;

— the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

(w) Other revenue

i) Interest income

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

ii) Dividends

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

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Other revenue *(continued)*

iii) Government grants

Subsidies from the relevant PRC government authorities, in the form of return of income tax, value added tax not associating with the purchase of property, plant and equipment and various taxes, as an incentive for the investments in various cities in the PRC are recognised in the consolidated statement of profit or loss when relevant approval has been obtained.

iv) Rental income from operating leases

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

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the statement of financial position are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the translation reserve.

On disposal of a foreign operation outside the PRC, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(y) Borrowing costs

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

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

(z) Related parties

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

i. has control or joint control over the Group;

ii. has significant influence over the Group; or

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

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

i. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Related parties *(continued)*

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

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 to the Group's parent.

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

(aa) Segment reporting

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

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

(ab) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

4 REVENUE

The principal activity of the Group is wind power generation.

Revenue represents the sales value of electricity generated from the wind farm supplied to a power grid company (net of value added tax). The amount of revenue is as follows:

	2018	2017
	RMB'000	*RMB'000*
Wind power generation revenue	**269,508**	286,617
Wind power generation subsidies	**97,886**	110,291
Business tax and surcharges	**(6,210)**	(6,912)
Total	**361,184**	389,996

Electricity revenue is recognised over time as the electricity is supplied to the provincial grid companies periodically.

The Group's revenue are mainly wind power electricity sales receivable from local grid companies. Generally, the receivable are due within 30 days from the date of billing, except for the tariff premium. The collection of such tariff premium is subject to the allocation of funds by relevant government authorities to local grid companies.

5 OTHER REVENUE AND NET INCOME

	2018	2017
	RMB'000	*RMB'000*
Government subsidy income related to value added tax refund	**29,545**	24,064
Gain on bargain purchase for the acquisition of an associate	**—**	1,719
(Loss)/gain on disposal of property, plant and equipment	**(1,619)**	20
Net realised and unrealised loss on financial assets at fair value through profit or loss/trading securities	**(729)**	(1,121)
Foreign exchange gains	**—**	12,461
Rental income from operating leases	**2,227**	2,474
Others	**221**	2,971
	29,645	42,588

6 (LOSS)/PROFIT BEFORE TAXATION

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

		2018	2017
		RMB'000	*RMB'000*
(a)	**Finance costs:**		
	Interest expenses on bank loans and other loans	**58,043**	68,764
	Interest expenses on bonds *(note 24(b)(i))*	**14,173**	13,837
	Interest expenses on convertible notes *(note 24(b)(ii) and (iii))*	**39,305**	38,931
	Finance charges on obligations under finance lease *(note 24(c))*	**8,913**	9
	Total interest expenses	**120,434**	121,541
(b)	**Staff costs (including directors' remuneration):**		
	Contributions to defined contribution retirement plans	**4,021**	3,578
	Salaries, wages and other benefits	**36,339**	35,830
		40,360	39,408
(c)	**Other items:**		
	Amortisation of lease prepayments	**398**	398
	Impairment losses:		
	— trade receivables (included in administrative expenses) *(note 20)*	**—**	2,030
	— prepayments and other receivables (including in administrative expenses) *(note 21)*	**—**	2,239
	— goodwill	**1,277**	—
	Depreciation for property, plant and equipment		
	— owned assets	**157,674**	157,796
	— assets held for own use under finance lease	**—**	91
	Net foreign exchange losses/(gains)	**7,515**	(12,461)
	Auditors' remuneration		
	— audit services	**1,067**	973
	Operating lease charges		
	— minimum lease payments in respect of property rentals	**3,220**	4,225
	— minimum lease payments in respect of rentals of motor vehicle	**1,205**	2,182
	Loss/(gain) on disposal of property, plant and equipment	**1,619**	(20)
	Share-based payment arising form the issue of convertible notes	**23,624**	—

7 INCOME TAX

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

	2018	2017
	RMB'000	*RMB'000*
Current tax — PRC Enterprise Income Tax		
Provision for the year	**27,461**	34,359
Under-provision in respect of prior years	**1,050**	29
Withholding tax		
Provision for the year	**3,783**	4,298
Deferred tax		
Origination and reversal of temporary differences *(note 28(i))*	**(6,965)**	(6,967)
	25,329	31,719

No provision of Hong Kong Profits Tax had been made as the Group's profit neither arises in, nor is derived from Hong Kong during the year (2017: Nil).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands.

Pursuant to Caishui 2008 No. 46 Notice on the Execution of the Catalogue of Public Infrastructure Projects Entitled for Preferential Tax Treatment, Hongsong, is engaged in public infrastructure projects which are set up after 1 January 2008, is entitled to a tax holiday of a 3-year full exemption followed by a 3-year 50% exemption commencing from its respective first operating income ("3+3 tax holiday"). Accordingly, Hongsong's certain profit, derived from public infrastructure projects which are set up after 1 January 2008, was exempted from the PRC Enterprise Income Tax ("EIT").

Except for mentioned as above, the applicable income tax rate to the Group's PRC subsidiaries is 25% in 2018 and 2017.

The Law of the PRC Enterprise Income Tax and the Implementation Regulations also impose a withholding tax at 10%, unless reduced by a tax treaty or agreement, for dividends distributed by a PRC resident enterprise to its immediate holding company outside the PRC for earnings accumulated beginning on 1 January 2008.

7 INCOME TAX *(continued)*

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

	2018	2017
	RMB'000	*RMB'000*
(Loss)/profit before taxation	**(11,929)**	55,844
Notional tax on profit before taxation, calculated at the rates applicable to profits in PRC of 25%	**(2,982)**	13,961
Difference in tax rate	**10,397**	—
Tax effect on share of results of associates and joint venture	**(1,278)**	—
Tax effect of non-deductible expenses	**21,190**	28,572
Tax effect of non-taxable income	**(2,289)**	(3,495)
Tax effect of tax loss not recognised	**1,546**	2,252
Tax effect of tax concessions in the PRC	**(6,038)**	(6,931)
Under-provision in prior years	**1,050**	29
Utilisation of tax loss not recognised in prior year	**(50)**	—
Withholding tax	**3,783**	4,298
Deferred tax	**—**	(6,967)
Actual tax expense	**25,329**	31,719

8 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

Year ended 31 December 2018

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	2018 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Zhang Zhixiang *(Chief Executive Officer)*	—	2,338	660	15	3,013
Ning Zhongzhi	—	768	52	—	820
Li Tian Hai	—	1,039	—	15	1,054
Peng Ziwei	—	607	—	15	622
Independent non-executive directors					
Wong Wai Ling (resigned on 31 January 2019)	152	1	—	—	153
Qu Weidong	126	1	—	—	127
Hu Xiaolin	126	1	—	—	127
	404	4,755	712	45	5,916

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

Year ended 31 December 2017

	Directors' fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Retirement scheme contributions *RMB'000*	2017 Total *RMB'000*
Executive directors					
Zhang Zhixiang *(Chief Executive Officer)*	—	2,338	254	16	3,013
Ning Zhongzhi	—	820	152	112	1,084
Li Tian Hai	—	1,039	—	16	1,054
Peng Ziwei	—	626	—	10	636
Independent non-executive directors					
Wong Wai Ling	157	1	—	—	158
Qu Weidong	130	1	—	—	131
Hu Xiaolin	130	1	—	—	131
	417	4,755	406	154	5,916

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2018 (2017: Nil).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2017: three) were directors of the Company whose emoluments are disclosed in note 8 above. The aggregate of the emoluments in respect of the remaining three (2017: two) individuals are as follows:

	2018	2017
	RMB'000	*RMB'000*
Salaries and other benefits	**3,084**	1,465
Retirement scheme contributions	**41**	129
	3,125	1,594

The emoluments of the three (2017: two) individuals with the highest emolument are within the following bands:

	2018	2017
	Number of Individuals	*Number of Individuals*
HKD		
Nil – 1,000,000	**2**	2
1,000,001 – 1,500,000	**—**	—
1,500,001 – 2,000,000	**1**	—

During the year, no emolument or incentive payments were paid to the directors, the chief executive and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil).

10 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of approximately RMB64,212,000 (2017: approximately RMB7,090,000).

The weighted average number of approximately 1,799,141,000 ordinary shares (2017: approximately 1,799,141,000 ordinary shares) are in issue during the year.

(b) Diluted loss per share

Diluted loss per share for the years ended 31 December 2018 and 2017 are equal to basic loss per share because (i) the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as the exercise price of those share options are higher than the average market prices of the Company's shares during the year; and (ii) the impact of the convertible notes outstanding has an anti-dilutive effect on the basic loss per share amounts presented.

11 DIVIDENDS

No dividend has been declared or paid by the Company for the year ended 31 December 2018 (2017: Nil).

12 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of business lines (products and services). In a manner consistent with the way in which information is reported internally to the Group's chief executive management for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segment. No operating segments have been aggregated to form the following reportable segment.

For the years ended 31 December 2018 and 2017, the Group has one segment of using wind turbine blades to generate electricity power in the PRC.

12 SEGMENT REPORTING *(continued)*

(a) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of certain interests in associates and a joint venture. Segment liabilities include trade and other payables and income tax payable attributable to the individual segments and borrowings managed directly by the segment.

Revenue and expenses are allocated to the reportable segment with reference to sales generated by this segment and the expenses incurred by this segment or which otherwise arise from the depreciation or amortisation of assets attributable to this segment.

The measure used for reporting segment profit is "adjusted EBT" i.e. "adjusted earnings before taxes". To arrive at adjusted EBT, the Group's earnings are further adjusted for items not specifically attributed to the individual segment, such as share of profits less losses of associates, share of losses of a joint venture, directors' and auditors' remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBT, management is provided with segment information concerning revenue, interest income and expense from cash balances and borrowings managed directly by the segment, depreciation, amortisation, impairment losses and additions to non-current segment assets used by the segment in its operations.

Information regarding the Group's reportable segment as provided to the Group's chief executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

12 SEGMENT REPORTING *(continued)*

(a) Segment results, assets and liabilities *(continued)*

For the year ended 31 December 2018:

	Wind farm Operations *RMB'000*	Un-allocated *RMB'000*	Total *RMB'000*
Reportable segment revenue	**361,184**	**—**	**361,184**
Reportable segment profit	**107,576**	**12,279**	**119,855**
Central administrative costs	**—**	**(60,351)**	**(60,351)**
Central finance costs	**—**	**(71,433)**	**(71,433)**
Loss before taxation			**(11,929)**
Income tax			**(25,329)**
Loss for the year			**(37,258)**

For the year ended 31 December 2017:

	Wind farm operations *RMB'000*	Un-allocated *RMB'000*	Total *RMB'000*
Reportable segment revenue	389,996	—	389,996
Reportable segment profit	136,087	23,077	159,164
Central administrative costs	—	(30,589)	(30,589)
Central finance costs	—	(72,731)	(72,731)
Profit before taxation			55,844
Income tax			(31,719)
Profit for the year			24,125

12 SEGMENT REPORTING *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Other segment items included in the consolidated statement of profit or loss are as follows:

For the year ended 31 December 2018:

	Wind farm operations *RMB'000*	Un-allocated *RMB'000*	Total *RMB'000*
Depreciation and amortisation for the year	**(157,347)**	**(725)**	**(158,072)**
Impairment losses on trade and other receivables	**—**	**—**	**—**
Interest income	**5,062**	**7,175**	**12,237**
Share of losses of a joint venture	**—**	**(1,235)**	**(1,235)**
Share of profits less losses of associates	**(71)**	**6,878**	**6,807**
Additions to non-current segment assets during the year	**22,195**	**81**	**22,276**

As at 31 December 2018:

	Wind farm operations *RMB'000*	Un-allocated *RMB'000*	Total *RMB'000*
Assets	**2,247,820**	**219,951**	**2,467,771**
Associates	**—**	**97,965**	**97,965**
Joint venture	**—**	**6,118**	**6,118**
Reportable segment assets	**2,247,820**	**324,034**	**2,571,854**
Reportable segment liabilities	**(948,508)**	**(744,827)**	**(1,693,335)**

12 SEGMENT REPORTING *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Other segment items included in the consolidated statement of profit or loss are as follows:

For the year ended 31 December 2017:

	Wind farm operations *RMB'000*	Un-allocated *RMB'000*	Total *RMB'000*
Depreciation and amortisation for the year	(157,412)	(873)	(158,285)
Impairment losses on trade and other receivables	(1,753)	(2,516)	(4,269)
Interest income	5,854	6,929	12,783
Share of losses of a joint venture	—	(1,240)	(1,240)
Share of profits less losses of associates	(297)	2,851	2,554
Additions to non-current segment assets during the year	11,782	146	11,928

As at 31 December 2017:

	Wind farm operations *RMB'000*	Un-allocated *RMB'000*	Total *RMB'000*
Assets	2,179,802	171,928	2,351,730
Associates	702	91,088	91,790
Joint venture	—	7,354	7,354
Reportable segment assets	2,180,504	270,370	2,450,874
Reportable segment liabilities	(962,466)	(554,643)	(1,517,109)

12 SEGMENT REPORTING *(continued)*

(b) Geographic information

In determining the Group's geographical segments, revenues and results are attributed to the segment based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The Group's major operations and markets are located in the PRC, no further geographic segment information is provided.

(c) Information about a major customer

For the year ended 31 December 2018, revenue of approximately RMB361,184,000 (2017: approximately RMB389,996,000) was made to a single customer attributable to the wind farm operation segment comprising 100% (2017: 100%) of the total revenue of the Group.

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Generators and related equipment	Plant and machinery	Equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2017	52,180	2,312,452	5,125	8,518	3,723	19,136	2,401,134
Additions	—	876	—	2,605	724	7,723	11,928
Exchange realignment	—	—	—	(80)	(33)	—	(113)
Disposals	—	(107)	—	—	(356)	—	(463)
At 31 December 2017 and 1 January 2018	52,180	2,313,221	5,125	11,043	4,058	26,859	2,412,486
Acquisition of subsidiary	—	—	—	93	—	—	93
Additions	—	1,289	—	352	245	20,390	22,276
Exchange realignment	—	—	—	58	24	—	82
Disposals	—	(2,720)	—	—	(576)	—	(3,296)
At 31 December 2018	52,180	2,311,790	5,125	11,546	3,751	47,249	2,431,641
Accumulated depreciation and impairment:							
At 1 January 2017	10,282	596,229	3,627	4,613	1,756	—	616,507
Charge for the year	2,555	153,512	557	848	415	—	157,887
Exchange realignment	—	—	—	(72)	(22)	—	(94)
Written back on disposal	—	(87)	—	—	(240)	—	(327)
At 31 December 2017 and 1 January 2018	12,837	749,654	4,184	5,389	1,909	—	773,973
Charge for the year	2,555	153,358	414	904	443	—	157,674
Exchange realignment	—	—	—	57	21	—	78
Written back on disposal	—	(1,073)	—	—	(361)	—	(1,434)
At 31 December 2018	15,392	901,939	4,598	6,350	2,012	—	930,291
Net book value:							
At 31 December 2018	**36,788**	**1,409,851**	**527**	**5,196**	**1,739**	**47,249**	**1,501,350**
At 31 December 2017	39,343	1,563,567	941	5,654	2,149	26,859	1,638,513

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2018, the Group has pledged its certain property, plant and equipment with carrying values of approximately RMB875,242,000 (2017: approximately RMB1,033,045,000) to secure its bank and other loans (notes 24 and 25).

At 31 December 2017, the net book value of the Group's motor vehicle held under the finance lease was approximately RMB109,000.

The Group's buildings held for own use are located in the PRC.

14 LEASE PREPAYMENTS

The Group's lease prepayments comprise:

	2018	2017
	RMB'000	*RMB'000*
Land in PRC:		
Medium term lease	**10,406**	10,803
Analysed for reporting purpose as:		
Current assets	**398**	398
Non-current assets	**10,008**	10,405
	10,406	10,803

The Group's lease prepayments represents land use right in the PRC. The amortisation charge for the year is included in administrative expenses in the consolidated statement of profit or loss.

At 31 December 2018, the Group has pledged its lease prepayments with a carrying value of approximately RMB2,029,000 (2017: approximately RMB2,143,000) to secure its bank loans (note 25).

15 INVESTMENTS IN SUBSIDIARIES

Details of subsidiaries at 31 December 2018 are as follows. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of issued/registered capital held by the Company Directly	Proportion of issued/registered capital held by the Company Indirectly	Principal activities
City Alliance Management Limited	BVI	HK	Ordinary share USD1	100%	—	Investment holding
Power Full Group Holdings Limited 富力集團控股有限公司	BVI	HK	Ordinary shares USD2	100%	—	Investment holding
Ferson Limited 緯建有限公司	HK	HK	Ordinary share HKD1	—	100%	Management and administration services
Conway Holdings Limited 康威集團有限公司	HK	HK	Ordinary share HKD1	—	100%	Investment holding
Beijing Chengrui Xianghai Renewable Energy Technology Co., Ltd.[1] 北京承瑞翔海新能源科技有限公司	PRC	PRC	Registered capital RMB100,000	—	100%	Investment holding
Chengde Ruifeng Renewable Energy Windpower Equipment Co. Ltd.[2^] 承德瑞風新能源風電設備有限公司	PRC	PRC	Registered capital RMB30,000,000	—	100%	Production of wind turbine blades and components
Chengde Beichen High New Technology Co., Ltd.[2^] 承德北辰高新科技有限公司	PRC	PRC	Registered capital RMB46,900,000	—	100%	Investment holding
Leading Win Resources Limited 領達資源有限公司	BVI	HK	Ordinary share USD1	100%	—	Investment holding
Fortune View Alliance Limited	BVI	HK	Ordinary share USD1	100%	—	Investment holding
Team Mega Limited 集泓有限公司	HK	HK	Ordinary share HKD1	—	100%	Inactive

15 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of issued/registered capital held by the Company Directly	Indirectly	Principal activities
On Win Corporation Limited 進盈有限公司^	HK	HK	Ordinary share HKD1	—	100%	Investment holding
Hebei Hongsong Renewable Energy Investment Co., Ltd.[2]^ 河北紅松新能源投資有限公司	PRC	PRC	Registered capital RMB171,720,000	—	79.06%	Investment holding
Hebei Hongsong Wind Power Co., Ltd. ("Hongsong")[3]^ 河北紅松風力發電股份有限公司	PRC	PRC	Registered capital RMB910,000,000	—	86.55%	Wind farm operation
Chengde Hongsong Yun Wei Electrical and Equipment Installation Co., Ltd[2] 承德紅松運維機電設備安裝有限公司	PRC	PRC	Registered capital RMB3,000,000	—	79.06%	Electrical and mechanical equipment maintenance
Hong Song Holdings Limited	BVI	HK	Ordinary share USD1	100%	—	Investment holding
Sino Renewable Energy Holdings Company Limited	BVI	HK	Ordinary share USD1	100%	—	Investment holding
Redwood Group Limited 紅松集團有限公司	HK	HK	Ordinary share HKD1	—	100%	Investment holding
Asia Renewable Energy Company Limited 亞洲新生能源有限公司	HK	HK	Ordinary share HKD1	—	100%	Investment holding
World Business Limited 環宇國际商務有限公司	HK	HK	Ordinary shares HKD10,000	—	100%	Investment holding
Zhuhai Dong Fang Renewable Energy Limited[1] 珠海東方新生能源有限公司	PRC	PRC	Registered capital RMB100,000	—	100%	Investment holding

15 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Place of operations	Particulars of issued and fully paid share capital/ registered capital	Proportion of issued/registered capital held by the Company Directly	Indirectly	Principal activities
承德紅松風力發電資詢服務有限公司[2]	PRC	PRC	Registered capital USD20,000	—	100%	Investment holding
承德紅松新能源技術服務有限公司[1]	PRC	PRC	Registered capital RMB30,000	—	100%	Investment holding
Tycoon Gold Limited 享金有限公司	BVI	HK	Ordinary share USD1	100%	—	Inactive
北京銀風滙利投資有限公司[2]	PRC	PRC	Registered capital RMB360,000,000	—	100%	Investment holding
包頭市銀風滙利新能源投資有限公司[2]	PRC	PRC	Registered capital RMB123,000,000	—	100%	Wind farm operation
北京紅松創投科技發展有限公司[2]	PRC	PRC	Registered capital RMB9,000,000	—	100%	Investment holding
泰安捷盈融資租賃有限公司[2]	PRC	PRC	Registered capital USD50,000,000	—	100%	Financing and leasing
Well Ming International Limited 樺銘國際有限公司	HK	HK	Registered capital HKD10,000	—	100%	Investment holding
Leading Win Credit Limited 領達信貸有限公司	HK	HK	Registered capital HKD10,000	—	100%	Money lending business
紅松河北生物科技股份有限公司[2]	PRC	PRC	Registered capital RMB10,000,000	—	80%	Production of healthy products

1 wholly-owned foreign enterprise
2 private limited liability company
3 sino-foreign equity joint venture company
^ At 31 December 2018 and 2017, the issued shares/registered capital of these companies were pledged under shares charges to secured certain bank and other loans of the Group (note 24 and 25)

15 INVESTMENTS IN SUBSIDIARIES *(continued)*

The following table lists out the information relating to Hongsong, a subsidiary of the Group which has a material non-controlling interests ("NCI"). The summarised financial information for the years ended 31 December 2018 and 2017 presented below represents the post-acquisition amounts before any inter-company elimination:

	At 31 December 2018	At 31 December 2017
Proportion of registered capital held by the Group	**86.55%**	86.55%
Proportion of ownership interests held by the Group	**70.97%**	70.97%
Proportion of registered capital held by NCI	**13.45%**	13.45%
Proportion of ownership interests held by NCI	**29.03%**	29.03%

	2018	2017
	RMB'000	*RMB'000*
Current assets	**408,088**	408,223
Non-current assets	**1,477,996**	1,636,895
Current liabilities	**313,377**	342,349
Non-current liabilities	**553,268**	633,467
Net assets	**1,019,439**	1,069,302
Carrying amount of NCI	**270,799**	285,276
Revenue	**361,184**	389,996
Profit for the year	**95,064**	111,904
Total comprehensive income	**96,047**	114,385
Total comprehensive income allocated to NCI	**27,882**	33,206
Dividend paid to NCI	**26,936**	45,225
Cash flows generated from operating activities	**203,935**	193,136
Cash flows generated from/(used in) investing activities	**1,308**	(4,304)
Cash flows used in financing activities	**(246,542)**	(277,848)

16 INTERESTS IN ASSOCIATES

	2018	2017
	RMB'000	*RMB'000*
Unlisted investments:		
Share of net assets	**97,965**	91,790

On 30 March 2018, 23,933 new shares of Candice Group Limited were issued to a new investor. The equity interest held by the Group was diluted from 20% to 17%. Although the Group holds less than 20% of the voting power of Candice Group Limited, the Group exercises significant influence over Candice Group Limited because the Group has nominated one director out of the five directors of Candice Group Limited.

16 INTERESTS IN ASSOCIATES *(continued)*

The following table shows information of associate that are material to the Group. This associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associates.

Name	Shenzhen Qianhai Jiefeng and Leasing Limited
Principal place of business	PRC
Principal activities	Financial leasing, purchase of leased assets, lease advisory and guarantees

	2018	2017
% of ownership interests	**45.13%**	45.13%
% of voting rights held by the Group	**49.00%**	49.00%

	2018	2017
	RMB'000	*RMB'000*
At 31 December:		
Non-current assets	**66,680**	83,058
Current assets	**164,604**	130,621
Non-current liabilities	**—**	(6,378)
Current liabilities	**(46,825)**	(40,005)
Net assets	**184,459**	167,296
Group's share of carrying amount of interests	**83,246**	75,500
Year ended 31 December:		
Revenue	**24,333**	10,714
Profit from continuing operations	**17,162**	6,429
Other comprehensive income	**—**	—
Total comprehensive income	**17,162**	6,429
Dividends received from associates	**—**	—

16 INTERESTS IN ASSOCIATES *(continued)*

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2018	2017
	RMB'000	*RMB'000*
At 31 December:		
Carrying amounts of interests	**9,486**	11,923
Year ended 31 December:		
Loss from continuing operations	**(938)**	(347)
Other comprehensive income	**—**	—
Total comprehensive income	**(938)**	(347)

17 INTEREST IN A JOINT VENTURE

	2018	2017
	RMB'000	*RMB'000*
Unlisted investments:		
Share of net assets	**6,118**	7,354

The following table shows, the Group's share of the amounts of individually immaterial joint venture that are accounted for using the equity method.

	2018	2017
	RMB'000	*RMB'000*
At 31 December:		
Carrying amounts of interests	**6,229**	7,124
Year ended 31 December:		
Loss from continuing operations	**(1,235)**	(1,240)
Other comprehensive expense	**—**	—
Total comprehensive expense	**(1,235)**	(1,240)

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018	2017
	RMB'000	*RMB'000*
Unlisted equity securities, at fair value	**17,212**	18,710

This represents the Group's investments in unlisted equity securities of PRC companies.

Investments in unlisted securities are held for an identified long term strategic purpose so the Group does not intend to dispose them in the foreseeable future. Designation of these investments as equity investments at fair value through other comprehensive income can avoid the volatility of the fair value changes of these investments to the profit or loss.

Notes:

(i) On 21 March 2017, an indirect wholly-owned subsidiary of the Company, 北京紅松創投科技發展有限公司, made a cash capital contribution of RMB10,000,000, approximately 6.45% of total capital contribution in a limited partnership established in the PRC.

The investee engaged in provision of assets management services in PRC.

Due to the insufficient more recent information is available to measure fair value, the directors are in the view that the cost of RMB10,000,000 represents the best estimate of fair value within that range.

(ii) Included in unlisted equity security represents a 13% interest in an investee engaged in solar farm operations in PRC of RMB7,212,000 (2017: RMB8,710,000).

An decrease in fair value of the unlisted equity securities of approximately RMB1,498,000 (2017: increase in fair value of approximately RMB2,481,000) was recognised in other comprehensive income under fair value reserve.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/TRADING SECURITIES

	2018	2017
	RMB'000	*RMB'000*
Listed equity securities, at fair value		
— in PRC	**731**	986
— in HK	**3,936**	26
	4,667	1,012

20 TRADE RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables *(note (i))*	**222,806**	192,796
Less: allowance for doubtful debts	**(2,030)**	(2,030)
	220,776	190,766

Note:

(i) As at 31 December 2018, the Group has pledged certain of its trade receivables with carrying values of approximately RMB220,776,000 (2017: approximately RMB190,766,000) to secure its bank loans.

(a) Ageing analysis

Trade receivables are net of allowance for doubtful debts of approximately RMB2,030,000 (2017: approximately RMB2,030,000) with the following ageing analysis as of the end of the reporting period:

	2018	2017
	RMB'000	*RMB'000*
Within three months	**75,819**	100,698
More than three months but within one year	**79,124**	82,238
More than one year	**65,833**	7,830
	220,776	190,766

The Group's trade receivables are mainly wind power electricity sales receivable from local grid companies. Generally, the receivable are due within 30 days from the date of billing, except for the tariff premium. The collection of such tariff premium is subject to the allocation of funds by relevant government authorities to local grid companies, which therefore takes a relative long time for settlement.

20 TRADE RECEIVABLES *(continued)*

(b) Impairment of trade receivables

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

The movement in the allowance for doubtful debts during the year is as follow:

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**2,030**	—
Impairment loss recognised	**—**	2,030
At 31 December	**2,030**	2,030

At 31 December 2018, trade receivables of the Group amounting to approximately RMB2,030,000 (2017: approximately RMB2,030,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding for over 90 days as at the end of the reporting period or related to customers that were in financial difficulties. The Group does not hold any collateral over these balances.

20 TRADE RECEIVABLES *(continued)*

(c) Expected credit loss

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	Over 30 days past due	Over 60 days past due	Over 120 days past due	Total
At 31 December 2018					
Weighted average expected loss rate	**0%**	**0%**	**0%**	**3%**	
Receivable amount *(RMB'000)*	**75,819**	**13,216**	**65,908**	**67,863**	**222,806**
Loss allowance *(RMB'000)*	**—**	**—**	**—**	**(2,030)**	**(2,030)**
	75,819	**13,216**	**65,908**	**65,833**	**220,776**
At 31 December 2017					
Weighted average expected loss rate	0%	0%	0%	21%	
Receivable amount *(RMB'000)*	100,698	15,064	67,174	9,860	192,796
Loss allowance *(RMB'000)*	—	—	—	(2,030)	(2,030)
	100,698	15,064	67,174	7,830	190,766

The directors of the Company are of the opinion that the tariff premium receivables are fully recoverable considering that there are no bad debt experiences with the grid companies in the past and the tariff premium is funded by the PRC authorities.

21 PREPAYMENTS AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Other receivables	**146,164**	71,588
Less: allowance for doubtful debts *(note (v))*	**(8,265)**	(8,239)
	137,899	63,349
Loan receivables *(note (iii))*	**119,437**	124,053
Less: allowance for doubtful debts	**(9,000)**	(9,000)
	110,437	115,053
Amount due from an associate *(note (i))*	**26,933**	24,771
Amount due from non-controlling interest *(note (ii))*	**2,498**	6,550
Loan and receivables	**277,767**	209,723
Deposit for loans *(note (iv))*	**22,220**	10,220
Prepayments and other deposits	**350,757**	167,488
	650,744	387,431
Less: Non-current portion of		
— Prepayments for acquisition of property, plant and equipment	**(301,711)**	(128,985)
Total current portion of prepayments and other receivables	**349,033**	258,446

21 PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

Notes:

(i) As at 31 December 2018, the amount due from an associate with principal amount of RMB21,700,000 (2017: RMB23,000,000) was unsecured, bore interest at 10% per annum and repayable within nine months, the remaining balance was unsecured, interest-free and repayable on demand.

(ii) As at 31 December 2018 and 2017, the amount due from non-controlling interest were unsecured, interest-free and repayable on demand.

(iii) As at 31 December 2018 and 2017, the loan receivables from independent third parties were unsecured, bore interest at rates ranging from 5%-18% (2017: 7%-20%) per annum and repayable within one year.

(iv) As at 31 December 2018 and 2017, the Group has pledged certain of its deposit with carrying values of RMB22,220,000 (2017: RMB10,220,000) to secure its other loan.

(v) As at 31 December 2018, other receivables of approximately RMB8,265,000 (2017: approximately RMB8,239,000) were individually determined to be impaired. The individually impaired receivables related to debtors that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of approximately RMB8,265,000 (2017: approximately RMB8,239,000) were recognised.

22 CASH AND CASH EQUIVALENTS

As at 31 December 2018, the bank and cash balances of the Group amounted to approximately RMB62,491,000, comprised of approximately RMB60,520,000, USD22,000 and HKD2,075,000 (2017: approximately RMB104,495,000, comprised of approximately RMB101,463,000, USD158,000 and HKD2,406,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

23 TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**14,938**	25,980
Accrual and other payables	**77,860**	22,882
Interest payables	**8,456**	8,268
Payables on acquisition of property, plant and equipment	**12,031**	7,258
Payables on acquisition of subsidiary and joint venture *(note (i))*	**29,784**	30,683
Other tax payables	**19,918**	20,027
Amount due to an associate	**943**	—
Amounts due to directors *(note (ii))*	**4,132**	507
Amounts due to non-controlling interest *(note (ii))*	**22,935**	4,552
	190,997	120,157

Notes:

(i) As at 31 December 2018, the balance mainly included the outstanding payable to the vendors for the acquisition of equity interest in Hebei Hongsong Renewable Energy Investment Co., Ltd. to, in aggregate, approximately 76.98% by the Group in 2014 of approximately RMB27,148,000 (2017: approximately RMB27,353,000).

(ii) As at 31 December 2018 and 2017, the amounts were unsecured, interest-free and repayable on demand.

Included in trade and other payables are trade creditors with the following ageing analysis as of the end of the reporting period:

	2018	2017
	RMB'000	*RMB'000*
Within three months	**9,759**	6,293
More than three months but within one year	**705**	14,375
More than one year	**4,474**	5,312
	14,938	25,980

24 BORROWINGS

(a) The analysis of the carrying amount of borrowings is as follows:

	2018	2017
	RMB'000	*RMB'000*
Bank loans *(note 25)*	**684,701**	947,082
Bonds *(note (b)(i))*	**145,892**	128,308
Convertible notes *(note (b)(ii)&(iii))*	**293,357**	117,674
Other loans *(note (b)(iv))*	**254,600**	163,600
Obligation under finance lease *(note (c))*	**95,047**	67
	1,473,597	1,356,731
Analysis as:		
Current	**717,402**	509,484
Non-current	**756,195**	847,247
	1,473,597	1,356,731

All of the non-current borrowings are carried at amortised cost. None of borrowings is expected to be settled within one year.

(b) Significant terms and repayment schedule of non-bank borrowings:

(i) Bonds issued since July 2014

As at 31 December 2018, the Company issued unsecured bonds in an aggregated principle amount of approximately HKD181,236,000 (2017: approximately HKD173,736,000) with maturity in one to six years (2017: one to seven years). The bonds carry fixed interest rate at 6%-7% (2017: 6%-7%) per annum and interest is payable in arrears yearly. As at 31 December 2018, the bonds are classified as current liabilities of approximately RMB3,606,000 (2017: approximately RMB6,235,000) and non-current liabilities of approximately RMB142,286,000 (2017: approximately RMB122,073,000).

24 BORROWINGS *(continued)*

(b) Significant terms and repayment schedule of non-bank borrowings: *(continued)*

(ii) Convertible Notes

On 15 June 2016, the Company issued convertible notes at an aggregate principal amount of HKD171,600,000 and a maturity date of 15 December 2017. The net proceeds from the issue of convertible notes, after deducting the placing agent's commission and other related expenses payable by the Company, amounted to approximately HKD167,900,000. The convertible notes are interest bearing at 8% p.a., payable quarterly. For those convertible notes being redeemed or being converted, interest accrued and unpaid on those convertible notes up to the date of redemption or on the date of conversion, as the case may be, will be payable on those dates.

The Company may demand early redemption of part or whole of the outstanding principal amounts of the convertible notes at any time after six months from issue by giving a notice to the noteholder of not less than five business days. Early redemption of the convertible notes will be made at par value of the convertible notes plus accrued interest up to the date of redemption.

Noteholders have the right on any business day during the conversion period to convert in whole or in part the outstanding principal amount of the convertible notes in whole or in integral multiples of HKD1,300,000 into conversion shares at an initial conversion price of HKD0.65 per conversion share (subject to adjustments), subject to and upon compliance with the term and conditions of the convertible notes.

On 12 December 2017, the Company and the noteholders entered into a deed of amendment (the "Amendment Deed") to extend the maturity date from 15 December 2017 to 15 June 2019. Save for the extension of the maturity date, all other terms and conditions of the convertible notes remained unchanged. The Amendment Deed has become unconditional on 15 December 2017 upon approval being received from the Stock Exchange.

The extension resulted in substantial modification of the terms of the convertible notes. On 15 December 2017, the liability component of the convertible notes before extension was extinguished with the corresponding original convertible notes reserve while the liability component of the convertible notes after extension was newly recognised with the fair value which has been ascertained by RHL Appraisal Limited.

Interest expenses on the convertible notes before and after extension was calculated using the effective interest method by applying the effective interest rate of approximately 33.43% and 25% to the respective liability component.

24 BORROWINGS *(continued)*

(b) Significant terms and repayment schedule of non-bank borrowings: *(continued)*

(ii) Convertible Notes *(continued)*

The net proceeds received from the issuance of the convertible notes have been split between the liability and equity components, as follows:

	Liability component *RMB'000*	Equity component *RMB'000*	Total *RMB'000*
At 1 January 2017	127,075	28,661	155,736
Interest expenses *(note 6(a))*	38,931	—	38,931
Settlement of interests	(11,832)	—	(11,832)
Extinguishment upon extension of the convertible notes	(145,165)	(28,661)	(173,826)
Recognition upon extension of the convertible notes	118,464	26,701	145,165
Recognition of deferred tax liabilities in respect of extension of the convertible notes	—	(4,406)	(4,406)
Exchange realignment	(9,799)	—	(9,799)
At 31 December 2017 and 1 January 2018	**117,674**	**22,295**	**139,969**
Interest expenses *(note 6(a))*	**28,553**	**—**	**28,553**
Settlement of interests	**(11,621)**	**—**	**(11,621)**
Exchange realignment	**7,217**	**—**	**7,217**
At 31 December 2018	**141,823**	**22,295**	**164,118**

24 BORROWINGS *(continued)*

(b) Significant terms and repayment schedule of non-bank borrowings: *(continued)*

(iii) Convertible Notes 2

On 11 May 2018, the Company issued convertible notes at an aggregate principal amount of HKD174,115,000 and a maturity date of 11 May 2019 with a renewal period of another twelve months subject to mutual consent of the Company and the notesholders. The net proceeds from the issue of convertible notes, after deducting the placing agent's commission and other related expenses payable by the Company, amounted to approximately HKD172,293,000. The convertible notes are interest bearing at 6.5% p.a. payable quarterly. For those convertible notes being redeemed or being converted, interest accrued and unpaid on those convertible notes up to the date of redemption or on the date of conversion, as the case may be, will be payable on those dates.

The Company may demand early redemption of part or whole of the outstanding principal amounts of the convertible notes at any time after six months from issue by giving a notice to the noteholder of not less than five business days. Early redemption of the convertible notes will be made at par value of the convertible notes plus accrued interest up to the date of redemption.

Noteholders have the right on any business day during the conversion period to convert in whole or in part the outstanding principal amount of the convertible notes in whole or in integral multiples of HKD485,000 into conversion shares at an initial conversion price of HKD0.485 per conversion share (subject to adjustments), subject to and upon compliance with the term and conditions of the convertible notes.

	Liability component *RMB'000*	**Equity component** *RMB'000*	**Total** *RMB'000*
At 1 January 2018	—	—	—
Issued during the year	**133,761**	**28,904**	**162,665**
Interest expenses *(note 6(a))*	**10,752**	—	**10,752**
Settlement of interests	**(5,045)**	—	**(5,045)**
Recognition of deferred tax liabilities in respect of issuance of the convertible notes	—	**(871)**	**(871)**
Exchange realignment	**12,066**	—	**12,066**
At 31 December 2018	**151,534**	**28,033**	**179,567**

24 BORROWINGS *(continued)*

(b) Significant terms and repayment schedule of non-bank borrowings: *(continued)*

(iv) Other loans

As 31 December 2018, the other loans were guaranteed as follows:

	2018	2017
	RMB'000	*RMB'000*
Secured *(note (a))*	**194,600**	100,800
Unsecured *(note (b))*	**50,000**	50,000
Guaranteed *(note (c))*	**10,000**	12,800
	254,600	163,600

Notes:

(a) At 31 December 2018, the Group had secured other loan of approximately RMB194,600,000 (2017: approximately 100,800,000) was secured by certain property, plant and equipment with the carrying value of approximately RMB284,464,000 (2017: approximately RMB147,173,000), a deposit with carrying values of RMB22,220,000 (2017: RMB10,220,000), and was guaranteed by Mr. Zhang Zhixiang, an Executive Director, and his wife and a wholly owned subsidiary of the Company.

(b) At 31 December 2018, the Group had unsecured other loan of RMB50,000,000 (2017: RMB50,000,000), bore interest at 7% per annum and repayable at 2019.

(c) At 31 December 2018, the Group had the other loan of RMB10,000,000 (2017: RMB 10,000,000) which was guaranteed by Mr. Li Baosheng, a former executive director, bore interest at 10% per annum and repayable in 2021.

At 31 December 2017 the other loan of RMB2,800,000 which was guaranteed by Mr. Li Tian Hai, an Executive Director, bore interest at 36% per annum and was repaid in 2018.

24 BORROWINGS *(continued)*

(c) Obligation under finance lease

At 31 December 2018, the Group had obligations under finance leases repayable as follows:

	2018		2017	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within 1 year	**21,838**	**30,617**	67	73
After 1 year but within 2 years	**21,883**	**28,450**	—	—
2 to 5 years	**51,326**	**57,637**	—	—
	95,047	**116,704**	67	73
Less: total future interest expenses		**(21,657)**		(6)
Present value of lease obligations		**95,047**		67

Note:

During year ended 31 December 2018, the Group entered into a finance lease to acquire equipment for amount of RMB117,237,000. The lease term is sixty months. At 31 December 2018, the average effective borrowing rate was approximately 10.77%. Interest rate is floating with reference to the Benchmark Interest Rates for Deposits and Loans of Financial Institutions issued by People's Bank of China and thus expose the Group to cash flow interest rate risk. No arrangements have been entered into for contingent rental payments. At the end of the lease term, the Group has the option to purchase the plant and machinery at nominal prices.

All finance lease payables are denominated in Renminbi.

25 BANK LOANS

At 31 December 2018 and 2017, the bank loans were repayable as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 year or on demand	**299,201**	423,582
After 1 year but within 2 years	**130,500**	138,000
After 2 years but within 5 years	**175,000**	265,500
More than 5 years	**80,000**	120,000
	684,701	947,082

As 31 December 2018 and 2017, the bank loans were secured and guaranteed as follows:

	2018	2017
	RMB'000	*RMB'000*
Bank loans		
— secured *(note (a))*	**684,701**	947,082

Notes:

(a) At 31 December 2018, the Group's secured bank loans were secured by the following:

— the Group's certain property, plant and equipment with carrying values of approximately RMB590,778,000 (2017: approximately RMB885,872,000);

— the Group's certain lease prepayments with carrying values of approximately RMB2,029,000 (2017: approximately RMB2,143,000);

— the Group's certain trade receivables with carrying values of approximately RMB220,776,000 (2017: approximately RMB190,766,000);

— 308,867,000 ordinary shares (2017: 308,867,000 ordinary shares) of the Company owned by Diamond Era;

— the shares charges over the issued shares capital of certain subsidiaries of the Company; and

— personal guarantee provided by Mr. Zhang to the extent of the indebtedness of certain bank loans.

The average effective interest rate on secured bank loans approximated 5.42% (2017: approximated 5.82%) per annum.

(b) At 31 December 2018, except for the bank loans of approximately RMB103,752,000 (2017: approximately RMB185,840,000) which is denominated in United States dollars ("USD"), all other bank loans are denominated in RMB.

26 EMPLOYEE RETIREMENT BENEFITS

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HKD30,000. Contributions to the plan vest immediately.

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

The total expenses recognised in the consolidated statement of profit or loss for the year of approximately RMB4,021,000 (2017: approximately RMB3,578,000) represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

27 SHARE OPTION SCHEME

A share option scheme (the "Share Option Scheme") was adopted pursuant to an ordinary resolution passed by the shareholders of the Company on 1 June 2015.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participant as incentives or rewards for their contributions to the Group. All full time or part time employees, directors, consultants, advisers, substantial shareholders, distributors, contractors, suppliers, agents, customers, business partners or service providers of any member of the Group, to be determined absolutely by the Board are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years after the date on which Share Option Scheme is adopted.

The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Share Option Scheme ("General Scheme Limit"). The Company may renew the General Scheme Limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in the Company in issue as at the date of the shareholders' approval.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of shares issued and to be issued upon exercise of the share option granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding share option) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

27 SHARE OPTION SCHEME *(continued)*

Any grant of options under the Share Option Scheme and any other share option scheme adopted by the Group to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors (excluding any independent non-executive director who is the grantee of the options). Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HKD5,000,000, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

An offer for the grant of options shall remain open for acceptance for a period of 7 days from the date of offer. An offer shall be deemed to have been accepted and an option to which the offer relates shall be deemed to have been granted and accepted and to have taken effect when a letter in such form as the Board may from time to time determine signifying acceptance of the option duly signed by the grantee together with a remittance in favour of the Company of HKD1.00 by way of consideration for the grant thereof is received by the Company within 28 days from the date of offer. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Directors may determine which shall not exceed ten years from the date of grant subject to the provision of early termination thereof.

The subscription price of a Share under the Share Option Scheme will be a price solely determined by the Board and shall be at least the higher of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option. And each option gives the holder the right to subscribe for one share of the Company.

On 31 July 2015, 124,920,000 share options were granted to the Company's selected employees, consultants and executive directors. The exercise price was HKD1.07 per share, which were vested immediately and exercisable for 3 years from the date of grant.

No option has been granted under the Share Option Scheme during the years ended 31 December 2018 and 2017.

As at 31 December 2018, no option were outstanding.

As at 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme Option Scheme was 124,920,000 representing approximately 6.94% of the shares of the Company in issue as at that dates.

As at the date of this report, the total number of outstanding options available for grant under the Share Option Scheme was 179,934,480 (2017: 179,934,480) shares, which represented 10% (2017: 10%) of the shares of the Company in issue as at that date.

27 SHARE OPTION SCHEME *(continued)*

(a) The terms and conditions of the grants are as follows:

Name and Category of participant	Grant date	Exercise period	Exercise price per share	As at 1 January 2018	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	As at 31 December 2018
Directors								
Zhang Zhixiang	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	4,620,000	—	(4,620,000)	—	—
Ning Zhongzhi	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	4,620,000	—	(4,620,000)	—	—
Other Employees								
In aggregate	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	31,500,000	—	(31,500,000)	—	—
Ex-director								
Zheng Xian Tao *note (i))*	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	4,620,000	—	(4,620,000)	—	—
Li Baosheng *(note (ii))*	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	4,620,000	—	(4,620,000)	—	—
Other grantees								
In aggregate	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	74,940,000	—	(74,940,000)	—	—
Total				124,920,000	—	(124,920,000)	—	—

27 SHARE OPTION SCHEME (continued)

(a) The terms and conditions of the grants are as follows: (continued)

Name and category of participant	Grant date	Exercise period	Exercise price per share	As at 1 January 2017	Granted during the year	Cancelled/ lapsed during the year	Exercised during the year	As at 31 December 2017
Directors								
Zhang Zhixiang	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	4,620,000	—	—	—	4,620,000
Ning Zhongzhi	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	4,620,000	—	—	—	4,620,000
Zheng Xian Tao *(note (i))*	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	4,620,000	—	—	—	4,620,000
Other employees								
In aggregate	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	31,500,000	—	—	—	31,500,000
Ex-director								
Li Baosheng *(note (ii))*	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	4,620,000	—	—	—	4,620,000
Other grantees								
In aggregate	31 July 2015	3 years commencing from 31 July 2015	HK$1.07	74,940,000	—	—	—	74,940,000
Total				124,920,000	—	—	—	124,920,000

Notes:

(i) Mr. Zheng Xian Tao resigned as an executive Director of the Company on 20 June 2016.

(ii) Mr. Li Baosheng resigned as the Chairman of the Board of Directors and an executive Director on 6 November 2015.

27 SHARE OPTION SCHEME *(continued)*

(b) The number and weighted average exercise price of share options are as follows:

As at 31 December 2018	**Weighted average exercise price**	**Number of options**
Outstanding at the beginning of the year	HKD1.07	124,920,000
Lapse during the year	HKD1.07	(124,920,000)
Outstanding at the end of the year	—	—
As at 31 December 2017		
Outstanding at the beginning of the year and at the end of the year	HKD1.07	124,920,000

The options outstanding at the year ended 31 December 2017 had an exercise price of HKD1.07 and a weighted remaining contractual life of 0.6 years.

28 DEFERRED TAXATION

i. Movement of each component of deferred tax liabilities

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

	Revaluation of property	Convertible notes	Withholding tax on future dividend income	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax arising from:				
At 1 January 2017	(29,366)	(4,025)	(1,372)	(34,763)
Credited/(charged) to profit or loss	3,399	4,117	(549)	6,967
Charged to reserves	—	(4,406)	—	(4,406)
Exchange realignment	—	169	—	169
At 31 December 2017 and at 1 January 2018	(25,967)	(4,145)	(1,921)	(32,033)
Charged to reserves	—	(871)	—	(871)
Credited/(charged) to profit or loss	3,399	3,566	—	6,965
Exchange realignment	—	(152)	—	(152)
At 31 December 2018	**(22,568)**	**(1,602)**	**(1,921)**	**(26,091)**

ii. Reconciliation to the consolidated statement of financial position

	2018	2017
	RMB'000	*RMB'000*
Net deferred tax asset recognised in the consolidated statement of financial position	**—**	—
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(26,091)**	(32,033)
	(26,091)	(32,033)

28 DEFERRED TAXATION *(continued)*

iii. Deferred tax assets not recognised

At the end of the reporting period, the Group has unused tax losses of approximately RMB10,313,000 (2017: approximately RMB8,047,000) available for offset against future profits that may be carried forward five years after they are incurred. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profits streams. The tax losses do not expire under current tax legislation.

iv. Deferred tax liabilities not recognised

Under the New Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

At 31 December 2018, deferred tax liabilities of approximately RMB1,921,000 (2017: approximately RMB1,921,000) have been provided for in the consolidated financial statements in respect of the temporary differences attributable to the undistributed profits of a PRC subsidiary.

At 31 December 2018, deferred tax liabilities of approximately RMB12,457,000 (2017: approximately RMB3,919,000) have not been provided for in the consolidated financial statements in respect of the temporary difference attributable to the undistributed profits of other PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

29 CAPITAL AND RESERVES

(a) Movements in reserve

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

Company

	Share premium *RMB'000*	Translation reserve *RMB'000*	Share-based payment reserve *RMB'000*	Convertible notes reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2017	1,454,336	20,941	22,651	28,661	(837,223)	689,366
Loss for the year	—	—	—	—	(73,800)	(73,800)
Other comprehensive income	—	(35,769)	—	—	—	(35,769)
Total comprehensive income for the year	—	(35,769)	—	—	(73,800)	(109,569)
Extinguishment upon extension of the convertible notes	—	—	—	(28,661)	28,661	—
Recognition upon extension of the convertible notes	—	—	—	26,701	—	26,701
Recognition of deferred tax liabilities in respect of extension of the convertible notes	—	—	—	(4,406)	—	(4,406)
At 31 December 2017 and at 1 January 2018	1,454,336	(14,828)	22,651	22,295	(882,362)	602,092
Loss for the year	—	—	—	—	(97,908)	(97,908)
Other comprehensive income	—	22,766	—	—	—	22,766
Total comprehensive income for the year	—	22,766	—	—	(97,908)	(75,142)
Recognition upon issuance of the convertible notes	—	—	—	28,904	—	28,904
Recognition of deferred tax liabilities in respect of issuance of the convertible notes	—	—	—	(871)	—	(871)
Share option lapsed during the year	—	—	(22,651)	—	22,651	—
At 31 December 2018	**1,454,336**	**7,938**	**—**	**50,328**	**(957,619)**	**554,983**

29 CAPITAL AND RESERVES *(continued)*

(b) Share capital

	2018		2017	
	No. of shares	**Amount**	No. of shares	Amount
	'000	***RMB'000***	*'000*	*RMB'000*
Authorised:				
Ordinary shares of HKD0.01 each	**10,000,000**	**87,912**	10,000,000	87,912
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**1,799,141**	**15,677**	1,799,141	15,677

Note:

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(c) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. The Companies Law of the Cayman Islands, permits, subject to a solvency test and the provision, if any, of the Company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account.

29 CAPITAL AND RESERVES *(continued)*

(c) Nature and purpose of reserves *(continued)*

(ii) Capital reserve

(a) Share-based payment reserve

The share-based payment reserve comprises the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 3(s)(ii).

(b) Convertible notes reserve

The convertible notes reserve comprises the amount allocated to the unexercised equity component of convertible notes issued by the Company recognised in accordance with the accounting policy adopted for convertible notes in note 3(n).

(iii) Statutory reserves

As stipulated by the relevant PRC laws and regulations, the PRC subsidiaries shall set aside 10% of their net profit after taxation for the PRC statutory reserves (except where the reserve balance has reached 50% of the paid-up capital of the respective enterprises). The reserve can only be utilised, upon approval by the Board of Directors of respective enterprises and by relevant authority, to offset accumulated losses or increase registered capital, provide that the balance after such issue is not less than 25% of its registered capital.

(iv) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC. The reserve is dealt with in accordance with the accounting policy set out in note 3(x).

(v) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of financial assets at fair value through other comprehensive income held at the end of the reporting period and is dealt with in accordance with the accounting polices in note 3(g).

29 CAPITAL AND RESERVES *(continued)*

(d) Distributability of reserves

As at 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB496,717,000 (2017: approximately RMB571,974,000).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management regularly reviews and manages the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate. During the year ended 31 December 2018, the Group's strategy remained unchanged from 2017.

The Group monitors its capital structure by reviewing its net debt-to-equity ratio and cash flow requirements, taking into account its future financial obligations and commitments. The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 ***RMB'000***	2017 *RMB'000*
Borrowings:		
Current portion	**717,402**	509,484
Non-current portion	**756,195**	847,247
Total borrowings *(note 24)*	**1,473,597**	1,356,731
Less: Cash and cash equivalents	**(62,491)**	(104,495)
Net debt	**1,411,106**	1,252,236
Total equity	**878,519**	933,765
Gearing ratio	**161%**	134%

30 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans and other loans (Note 24) RMB'000	Bonds (Note 24) RMB'000	Convertible notes (Note 24) RMB'000	Obligation under finance lease (Note 24) RMB'000	Total RMB'000
At 1 January 2018	1,110,682	128,308	117,674	67	1,356,731
Changes from financing cash flows:	—	—	—	—	—
Proceeds from new bank loans and other loans	300,466	—	—	—	300,466
Repayment of bank loans and other loans	(474,158)	—	—	—	(474,158)
Proceeds from issue of bonds	—	12,992	—	—	12,992
Repayment of bonds	—	(6,222)	—	—	(6,222)
Proceeds from issue of convertible notes	—	—	133,761	—	133,761
Proceeds from new finance lease	—	—	—	117,237	117,237
Capital elements of finance lease rentals paid	—	—	—	(22,257)	(22,257)
Interest elements of finance lease rentals paid	—	—	—	(8,913)	(8,913)
Other borrowing cost paid	(58,189)	(10,696)	(16,666)	—	(85,551)
Total changes from financing cash flows	(231,881)	(3,926)	117,095	86,067	(32,645)
Exchange realignment	2,457	7,337	19,283	—	29,077
Other Charges:					
Finance charges on obligation under finance leases	—	—	—	8,913	8,913
Interest expenses	58,043	14,173	39,305	—	111,521
Total other changes	58,043	14,173	39,305	8,913	120,434
At 31 December 2018	**939,301**	**145,892**	**293,357**	**95,047**	**1,473,597**

30 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(a) Reconciliation of liabilities arising from financing activities *(continued)*

	Bank loans and other loans *(Note 24)* *RMB'000*	Bonds *(Note 24)* *RMB'000*	Convertible notes *(Note 24)* *RMB'000*	Obligation under finance lease *(Note 24)* *RMB'000*	Total *RMB'000*
At 1 January 2017	1,306,139	120,311	127,075	164	1,553,689
Changes from financing cash flows:					
Proceeds from new bank loans and other loans	467,622	—	—	—	467,622
Repayment of bank loans and other loans	(651,686)	—	—	—	(651,686)
Proceeds from issue of bonds	—	16,411	—	—	16,411
Capital elements of finance lease rentals paid	—	—	—	(88)	(88)
Interest elements of finance lease rentals paid	—	—	—	(9)	(9)
Other borrowing costs paid	(69,106)	(12,517)	(11,832)	—	(93,455)
Total changes from financing cash flows	(253,170)	3,894	(11,832)	(97)	(261,205)
Exchange realignment	(11,051)	(9,734)	(9,799)	(9)	(30,593)
Other changes:					
Finance charges on obligation under finance leases	—	—	—	9	9
Interest expenses					
Recognition upon extension of the	68,764	13,837	38,931	—	121,532
convertible notes	—	—	(26,701)	—	(26,701)
Total other changes	68,764	13,837	12,230	9	94,840
At 31 December 2017	1,110,682	128,308	117,674	67	1,356,731

Note: Bank loans and other borrowings consist of bank loans, loans from independent third parties as disclosed in note 24(b)(iv).

30 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(b) Acquisition of subsidiary

On 30 March 2018, the Group acquired additional 60% of the issued share capital of 紅松河北生物科技股份有限公司 for a cash consideration of RMB3,000,000. 紅松河北生物科技股份有限公司 was engaged in Bio-technology promotion and food processing during the year. The acquisition is for the purpose of business diversification.

紅松河北生物科技股份有限公司 contributed approximately RMBNil and RMB1,258,000 to the Group's revenue and loss for the year respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2018, total Group revenue for the year would have been approximately RMB361,184,000 and loss for the year would have been approximately RMB13,987,000. The proforma information is for illustrative purposes only and its not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is intended to be a projection of future results.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity prices.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

i. The Group's credit risk is primarily attributable to trade and other receivables.

ii. The receivables from sales of electricity mainly represent receivables from the provincial power grid companies. The Group have no significant credit risk with any of these power grid companies as the Group and its subsidiaries maintain long-term and stable business relationships with these companies. The receivables from the provincial power grid companies accounted for approximately 99% (2017: 99%) of the Group's total trade debtors as at 31 December 2018.

iii. In respect of other receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition are performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 5-90 days from the date of billing.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

iv. In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the end of the reporting period, the Group had a certain concentration of credit risk as 99% (2017: 99%) of the total trade receivables were due from the Group's largest debtor as at 31 December 2018. The Group does not hold any collateral over these balances.

v. The credit risk on liquid funds is limited because the counter parties are financial institutions with established high credit ratings.

vi. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade is set out in note 20.

vii. The Group considers whether there has been a significant increase in credit risk of other financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

— actual or expected significant changes in the operating results of the borrower;

— significant increases in credit risk on other financial instruments of the same borrower;

A significant increase in credit risk is presumed if a debtor is more than 60 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 1 year of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a receivable for write off when the Group determine that the debtor does not have assets or source of income that could generate sufficient cash flow to repay the amounts subject to write-off. Where receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

The Group uses two categories for non-trade loan receivables, amount due from associate, other receivables and amount due from an associate and amount due from a former subsidiary which reflect their credit risk and how the loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

	Loan receivables *RMB'000*	**Other receivables** *RMB'000*	**Amount due from an associate** *RMB'000*	**Amount due from non-controlling interesting** *RMB'000*	**Total** *RMB'000*
Balance at 31 December 2018	**119,437**	**146,164**	**26,933**	**2,498**	**295,032**
Loss allowance	**(9,000)**	**(8,265)**	**—**	**—**	**(17,265)**
Carrying amount	**110,437**	**137,899**	**26,933**	**2,498**	**277,767**

	Loan receivables *RMB'000*	Other receivables *RMB'000*	Amount due from an associate *RMB'000*	Amount due from non-controlling interest *RMB'000*	Total *RMB'000*
Balance at 31 December 2017	124,053	71,588	24,771	6,550	226,962
Loss allowance	(9,000)	(8,239)	—	—	(17,239)
Carrying amount	115,053	63,349	24,771	6,550	209,723

All of these loans are considered to have low risk and under the 'Performing' category because they have a low risk of default and have strong ability to meet their obligations.

Expected credit loss rate					
2018	**8%**	**6%**	**—**	**—**	**6%**
2017	7%	12%	—	—	8%

The decrease in loss allowance is due to decrease in expected credit loss rates.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

2018

	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but Less than 5 years	More than 5 years	Total contractual undiscounted cash flow	Carrying Amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	332,501	147,601	198,088	84,478	762,668	684,701
Bonds	19,010	28,997	137,011	11,610	196,628	145,892
Convertible notes	314,592	—	—	—	314,592	293,357
Obligation under finance lease	30,617	28,450	57,637	—	116,704	95,047
Other loans	110,669	72,811	96,655	—	280,135	254,600
Trade and other payables (excluding rental deposit from customers)	187,924	—	—	—	187,924	187,924
	995,313	277,859	489,391	96,088	1,858,651	1,661,521

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(b) Liquidity risk *(continued)*

2017

	Within 1 year or on demand *RMB'000*	More than 1 year but less than 2 years *RMB'000*	More than 2 years but less than 5 years *RMB'000*	More than 5 years *RMB'000*	Total contractual undiscounted cash flow *RMB'000*	Carrying amount *RMB'000*
Bank loans	472,239	165,142	309,829	132,197	1,079,407	947,082
Bonds	16,116	12,810	124,062	18,344	171,332	128,308
Convertible notes	11,428	148,556	—	—	159,984	117,674
Obligation under finance lease	73	—	—	—	73	67
Other loans	38,894	71,820	58,183	17,353	186,250	163,600
Trade and other payables (excluding rental deposit from customers)	117,157	—	—	—	117,157	117,157
	655,907	398,328	492,074	167,894	1,714,203	1,473,888

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from the Group's cash and cash equivalents, bank deposits, bank and other borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

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

	2018 Effective interest rates %	**2018** *RMB'000*	2017 Effective interest rates %	2017 *RMB'000*
Fixed rate borrowings:				
Bonds	**11.14**	**145,892**	11.14	128,308
Convertible notes	**16.69**	**293,357**	24.91	117,674
Other loans	**8.62**	**60,000**	15.69	62,800
Obligation under finance lease	**—**	**—**	4.84	67
		499,249		308,849
Variable rate borrowings:				
Bank loans				
Long term loans	**4.68**	**299,201**	6.27	733,000
Short term loans	**6.60**	**385,500**	4.27	214,082
Obligation under finance lease	**10.77**	**95,047**	—	—
Other loan	**6.11**	**194,600**	6.08	100,800
		974,348		1,047,882
Total net borrowings		**1,473,597**		1,356,731
Net fixed rate borrowings as a percentage of total net borrowings		**34%**		23%

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increase/decrease the Group's loss after taxation by approximately RMB7,880,000 (2017: decrease/increase the Group's profit after taxation by approximately RMB8,324,000).

The sensitivity analysis above indicates the instantaneous change in the Group's loss after taxation that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's loss after taxation is estimated as an annualised impact on interest expense of such a change in interest rates. The analysis is performed on the same basis of year 2017.

(d) Currency risk

The Group has certain exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(e) Categories of financial instruments at 31 December 2018

	2018	2017
	RMB'000	*RMB'000*
Financial assets:		
Investments at fair value through profit or loss/ Held for trading:		
Mandatorily measured	**4,667**	1,012
Financial assets at fair value through other comprehensive income/available-for-sale investments	**17,212**	18,710
Financial assets at amortised cost (including cash and cash equivalents)	**573,177**	512,997
Financial liabilities:		
Financial liabilities at amortised cost	**1,546,556**	1,453,794

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

Fair value measurement has been categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified and determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

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

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(f) Fair value measurement *(continued)*

(i) Financial assets and liabilities measured at fair value *(continued)*

Fair value hierarchy (continued)

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

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

Recurring fair value measurement

2018

	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Assets				
Financial assets at fair value through profit or loss	**4,667**	**—**	**—**	**4,667**
Financial assets at fair value through other comprehensive income	**—**	**—**	**7,212**	**7,212**

2017

	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Trading securities	1,012	—	—	1,012
Available-for-sale investments	—	—	8,710	8,710

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(f) Fair value measurement *(continued)*

(i) Financial assets and liabilities measured at fair value *(continued)*

During the year there were no significant transfer between instruments in Level 1 and Level 2 and no transfer into or out of Level 3 (2017: Nil).

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2018	2017
	RMB'000	*RMB'000*
Financial assets at fair value through other comprehenive income/Unlisted available-for-sale equity securities:		
At 1 January	**8,710**	—
Transfer from available-for-sale investments previously measured at cost	**—**	6,229
Net unrealised gains or losses recognised in other comprehensive income during the year	**(1,498)**	2,481
At 31 December	**7,212**	8,710

The net unrealised gains arising from the remeasurement of the unlisted financial assets at fair value through other comprehensive income are recognised in fair value reserve in other comprehensive income.

(ii) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(f) Fair value measurement *(continued)*

(ii) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018: *(continued)*

Description	Valuation technique	Unobservable Inputs	Effect on fair value for increase of inputs	*RMB'000*
Financial assets at fair value through other comprehensive income	Asset approach	Net assets	Increase	7,212

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

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2018 and 2017 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

			Fair value measurements as at 31 December 2018 categorised into			
	Carrying amounts *RMB'000*	**Fair value** *RMB'000*	**Level 1** *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
— Non-current borrowings	**756,195**	**596,011**	**—**	**596,011**	**—**	**596,011**

			Fair value measurements as at 31 December 2017 categorised into			
	Carrying amounts *RMB'000*	Fair value *RMB'000*	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
— Non-current borrowings	847,247	738,270	—	738,270	—	738,270

Valuation techniques and inputs used in level 2 fair value measurements

The fair values of the non-current borrowings are estimated as being the present values of future cash flows, discounted at interest rates based on observable yield curves as at 31 December 2018 and 2017 taking into account the credit spread of the Group as appropriate.

32 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018	2017
	RMB'000	*RMB'000*
Capital injection in subsidiaries		
— Contracted for	**950,469**	927,820
Capital injection in an associate		
— Contracted for	**42,212**	39,977
Acquisition of property, plant and equipment		
— Contracted for	**183,091**	205,891
	1,175,772	1,173,688

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**3,807**	1,818
After 1 year but within 5 years	**2,455**	—
	6,262	1,818

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to two years. None of the leases includes contingent rentals.

33 MATERIAL RELATED PARTY TRANSACTIONS

Save as the transactions and balances disclosed elsewhere in the financial statements and the followings, the Group did not enter into any other material related party transaction.

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid to employees as disclosed in note 9, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**8,955**	6,799
Post-employment benefits	**86**	283
Salaries and other emoluments	**9,041**	7,082

Total remuneration is included in "staff costs" (see note 6(b)).

34 ACCOUNTING ESTIMATES

Key sources of estimation uncertainty

In the process of applying the Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

(i) Impairment of property, plant and equipment and lease prepayments

The recoverable amount of an asset is the greater of its fair value less costs of disposal and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

34 ACCOUNTING ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(ii) Impairment of receivables

The Group maintains impairment allowance for doubtful accounts based upon evaluation of the recoverability of the trade and other receivables, where applicable, at the end of each reporting period. The estimates are based on the ageing of the trade and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

(iii) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(iv) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and tax credit carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the Directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

(v) Recognition of deferred tax liabilities

As at 31 December 2018, deferred tax liabilities of approximately RMB12,457,000 (2017: approximately RMB3,919,000) have not been recognised on the distributable profits of certain group companies in the PRC as the Group plans to retain those profits in the respective entities for their daily operations and future developments. In case there is distribution of profits, additional tax liabilities will arise, which will be recognised in the profit or loss for the period in which such profits are declared or the future development plan of the Group amends, whichever is earlier.

35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2018	2017
	RMB'000	*RMB'000*
Non-current assets		
Investments in subsidiaries	**159,543**	159,543
Current assets		
Other receivables	**111,577**	143,281
Amounts due from subsidiaries	**869,590**	773,065
Cash and cash equivalents	**1,218**	2,282
	982,385	918,628
Current liabilities		
Other payables	**5,222**	4,110
Amounts due to subsidiaries	**21,442**	20,325
Borrowings	**400,715**	192,075
	427,379	216,510
Net current assets	**555,006**	702,118
Total assets less current liabilities	**714,549**	861,661
Non-current liabilities		
Borrowings	**142,286**	239,747
Deferred tax liabilities	**1,603**	4,145
	143,889	243,892
Net assets	**570,660**	617,769
Capital and reserves		
Share capital	**15,677**	15,677
Reserves	**554,983**	602,092
Total equity	**570,660**	617,769

Approved and authorised for issue by the Board of Directors on 28 March 2019.

Zhang Zhixiang
Director

Peng Ziwei
Director

36 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time on 2018.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretation is expected to be in the period of initial application. So far the group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(continued)*

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group's leased premises are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and amortisaton on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 32(b), the Group's future minimum lease payments under non-cancellable operating leases for its leased premises amounted to approximately RMB6,262,000 as at 31 December 2018. Based on a preliminary assessment, the Group anticipates that the initial adoption of HKFRS 16 in the future will result in an increase in right-of-use assets and lease liabilities, which is unlikely to have material impact on the Group's financial position. The Group also anticipates that the net impact (as a result of the combination of the interest expenses arising from the lease liabilities and the amortization of the right-of-use assets as compared to the rental expense under existing standard) on the Group's financial performance will not be material.

38 EVENTS AFTER THE REPORTING PERIOD

On 31 December 2018, the Company, Filled Converge Limited ("Filled Converge") and Well Foundation Company Limited entered into a subscription agreement, pursuant to which the Company conditionally agreed to issue and (i) Filled Converge conditionally agreed to subscribe for the convertible bonds (the "Convertible Bonds") in the principal amount of HK$294,183,000 and (ii) Well Foundation conditionally agreed to subscribe for the Convertible Bonds in the principal amount of HK$19,612,000. The Convertible Bonds are in aggregation in the amount of HK$313,795,000 due at 2021 and extendable to 2022 at an interest rate of 8 per cent per annum, with the conversion rights to convert the outstanding principal amount of the Convertible Bonds into the Shares at an initial conversion price of HK$0.485 per conversion share. Completion took place on 25 March 2019, the net proceeds from the issue of the Convertible Bonds are approximately HK$312,375,000.

Further details of the issuance of Convertible Bonds are set out in the announcements of the Company dated 31 December 2018, 1 February 2019 and 25 March 2019, and the circular of the Company dated 30 January 2019.

Five Years' Financial Summary

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Revenue	**361,184**	389,996	369,150	355,614	530,959
Profit from operations	**102,933**	176,071	126,644	56,034	69,711
(Loss)/profit before taxation	**(11,929)**	55,844	10,837	(60,368)	(68,131)
(Loss)/profit for the year	**(37,258)**	24,125	(11,205)	(72,428)	(88,749)
Attributable to:					
Equity shareholders of the Company	**(64,212)**	(7,090)	(38,217)	(84,449)	(150,827)
Non-controlling interests	**26,954**	31,215	27,012	12,021	62,078
	(37,258)	24,125	(11,205)	(72,428)	(88,749)
Assets and liabilities					
Total assets	**2,571,854**	2,450,874	2,623,978	2,804,519	2,898,564
Total liabilities	**(1,693,335)**	(1,517,109)	(1,707,503)	(2,092,488)	(2,258,183)
Net assets	**878,519**	933,765	916,475	712,031	640,381
Equity					
Share capital	**15,677**	15,677	15,677	13,182	11,180
Reserves	**610,673**	666,323	635,646	454,111	381,915
Total equity attributable to equity shareholders of the Company	**626,350**	682,000	651,323	467,293	393,095
Non-controlling interests	**252,169**	251,765	265,152	244,738	247,286
Total equity	**878,519**	933,765	916,475	712,031	640,381

Note:

1 The results for the year ended 31 December 2018, and the assets and liabilities as at 31 December 2018 have been extracted from the consolidated statement of profit or loss and consolidated statement of financial position as set out on pages 81 to 84 respectively, of the consolidated financial statements.